

Aqua America Inc (WTR) –

WATER SUPPLY

MARKET VALUE (\$MIL) \$2,316
SHARES OUTS (MIL): 137
AVG DAILY VOL (000): 804

Interest-Sensitive

YIELD: 3.4%
P/E: 19.2X
BETA: 0.21X

May 23, 2010

Price:
\$16.91

OVERALL RATING

Aqua America has a current Overall Rating of C (Neutral). With this rating, PTR's two proprietary measures of a stock's attractiveness are providing consistent signals. Aqua America has a poor Appreciation Score of 35 and a poor Power Rating of 38. The result is that the Power Rating supports the Appreciation Score, producing the stronger Neutral rating. (See PTR RatingMap™ and comments below). (For more on PriceTarget Research's Stock Ratings, see: <http://pricetargetresearch.com/backtest.jsp>.)

APPRECIATION SCORE (POTENTIAL PRICE CHANGE TO TARGET)

Aqua America's Price Target of \$19 represents a 10% change from its current price of \$16.91. This low appreciation potential results in an appreciation score of 35 (65% of the universe has greater appreciation potential).

POWER RATING (LIKELIHOOD OF FAVORABLE PERFORMANCE)

Aqua America has a Power Rating of 38. (This poor Power Rating indicates that WTR's chances of enjoying favorable investment performance over the near to intermediate term are only average.) Factors contributing to this poor Power Rating include: the Water Supply comparison group is currently in an unfavorable position; earnings estimate behavior for WTR has been slightly negative recently; and recent price action has been neutral.

(The Appreciation Score and Power Rating are percentile rankings relative to a universe of 8,000 companies. 0=lowest score; 100=highest. See last page for details.)

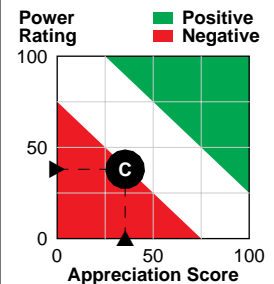
NEUTRAL RATING



Appreciation Score
35

Power Rating
38

PTR RatingMap™



The Overall Rating is derived from a combination of the Appreciation Score and Power Rating.



Investment Profile

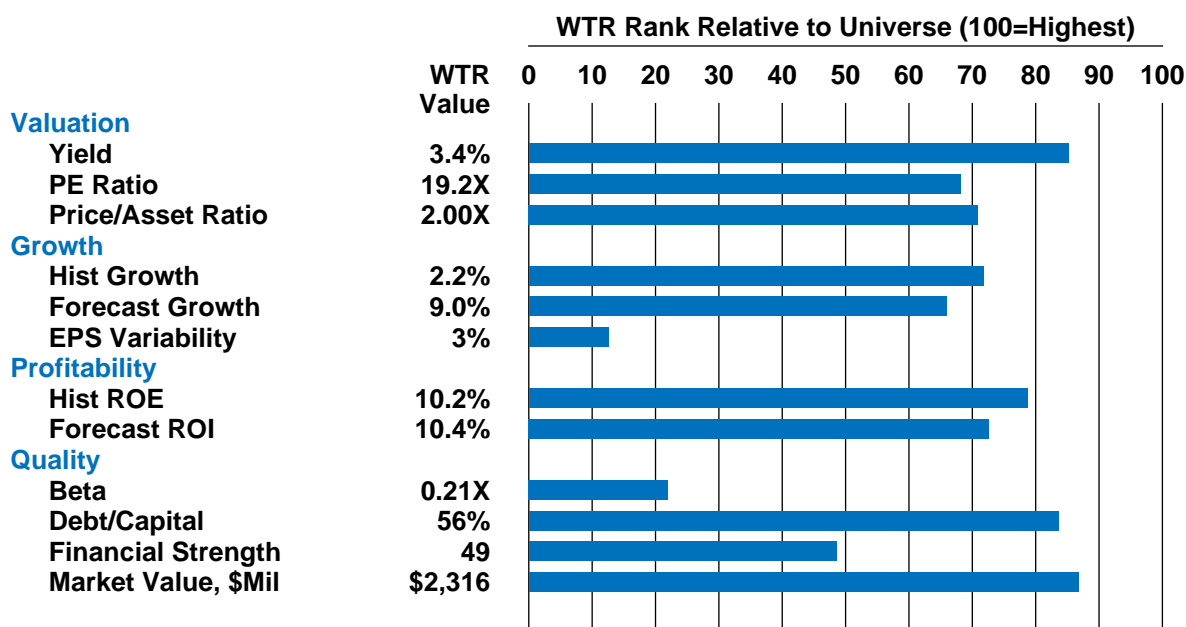
BUSINESS DESCRIPTION

Aqua America, Inc., through its subsidiaries, operates regulated utilities that provide water or wastewater services in the United States. It serves residential, commercial, fire protection, industrial, and other water and wastewater customers in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Florida, Indiana, Virginia, Maine, Missouri, South Carolina, and Georgia. The company also provides water and wastewater services through operating and maintenance contracts with municipal authorities and other parties, as well as sludge hauling, septage and grease services, and backflow prevention services. As of December 31, 2009, it served approximately 3 million customers. The company was formerly known as Philadelphia Suburban Corporation and changed its name to Aqua America, Inc. in 2004.

SUITABILITY

Aqua America's "suitability" for an investor's specific investment objectives is reflected in twelve investment variables that together define its investment profile relative to an 8,000 company universe. These variables measure how well Aqua America aligns with an investor's income orientation, risk tolerance, and need for marketability/liquidity.

Relative to the S&P 500 Composite, Aqua America Inc has moderate Value characteristics -- its appeal is likely to be to investors neutral towards Income. WTR is of low investment quality. WTR's valuation is moderate (moderate dividend yield, moderate P/E ratio, and moderate price/book ratio) reflecting neutral investor expectations. Relative strengths include: low stock price volatility, and low earnings variability. Relative weaknesses include: low historical profitability, low financial strength, and high financial leverage. WTR has unusually low market capitalization.



(Universe Rank is Aqua America's percentile rank relative to 8,000 company universe)

Forecast Growth

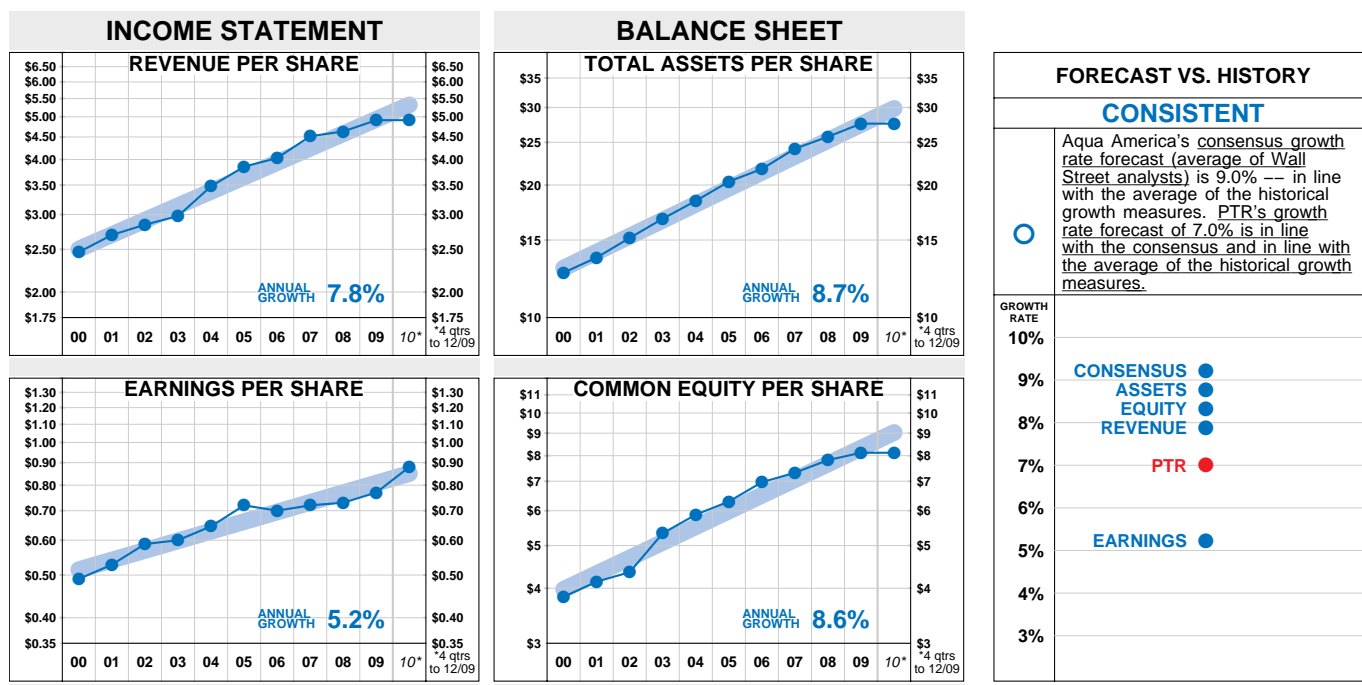
PTR's growth forecast for Aqua America begins with consideration of historical growth rates. Four historical growth measures are examined for up to the last ten years. Each growth measure is derived on a per share basis so that dilution from acquisitions or financing is reflected. "Balance Sheet" growth (growth in assets or equity per share) is typically the best measure of a company's basic -- or intrinsic -- growth rate.

HISTORICAL GROWTH AND CONSENSUS FORECAST

There are no significant differences between Aqua America's longer term growth and growth in recent years. Annual revenue growth has been 7.8% per year. Total asset growth has been 8.7% per year. Annual E.P.S. growth has been 5.2% per year. Equity growth has been 8.6% per year.

Aqua America's historical income statement growth has been in line with balance sheet growth. Revenue growth has paralleled asset growth; earnings growth has paralleled equity growth.

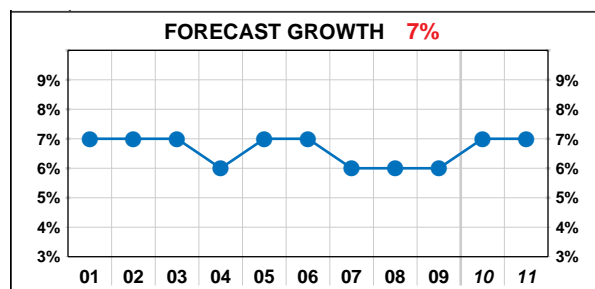
Aqua America's consensus growth rate forecast (average of Wall Street analysts) is 9.0% -- in line with the average of the historical growth measures.



PTR GROWTH FORECAST

PTR's growth forecast is the company's longer term intrinsic growth rate. Consequently, it gives more weight to balance sheet growth than income statement growth and is importantly influenced by recent experience.

PTR's growth forecast is 7.0% -- in line with our recent forecasts. Forecasted growth suffered a dramatic, erratic decline between 2001 and 2009. The current forecast is steady at the 2001 peak of 7%. PTR's growth rate forecast of 7.0% is in line with the consensus and in line with the average of the historical growth measures.



Forecast Profitability

HISTORICAL PROFITABILITY

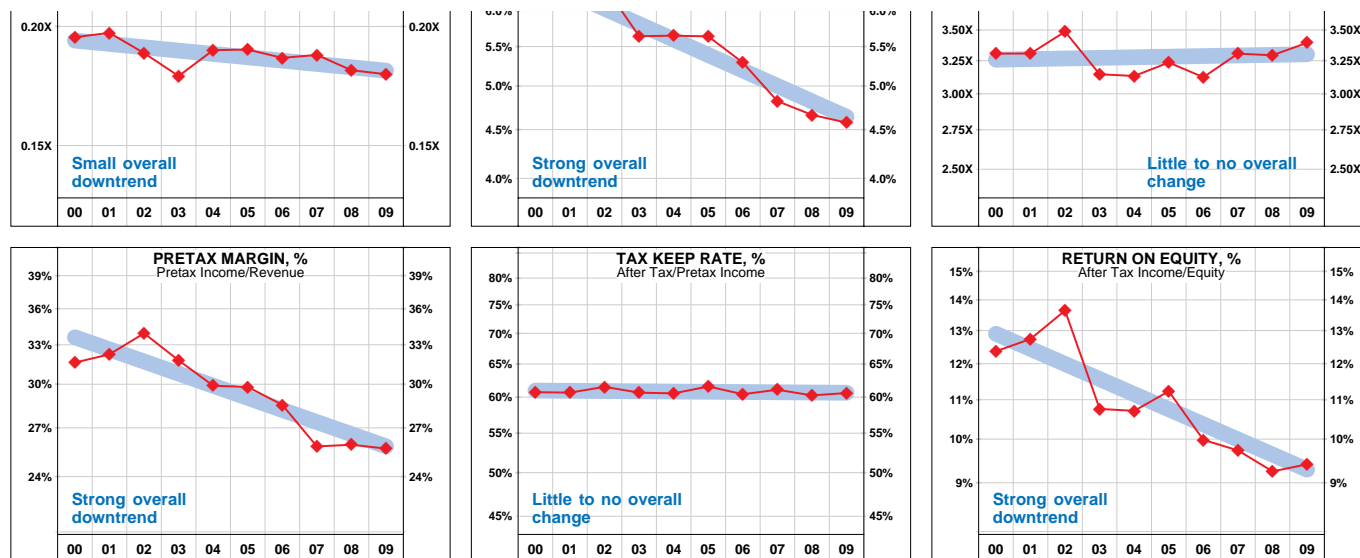
Businesses create wealth for shareholders by investing capital at a rate of return that is greater than the cost of capital. Return on equity is an extremely important measure of corporate operating performance and is of particular importance in understanding the wealth Aqua America's investments generate for investors.

PTR's return on equity forecast for Aqua America begins with consideration of trends in historical profitability and its components. Return on assets is a function of asset turnover, profit margin, and the tax keep rate. Return on equity depends on return on assets as well as leverage effects.

Aqua America's return on equity has eroded significantly since 2000. This significant erosion was due to a strong negative trend in operations (pretax return) and little change in non-operating factors.

The unfavorable trend in operating performance was driven by lower asset turnover and lower pretax margin. The productivity of Aqua America's assets declined over the full period: asset turnover has experienced a minor downtrend.

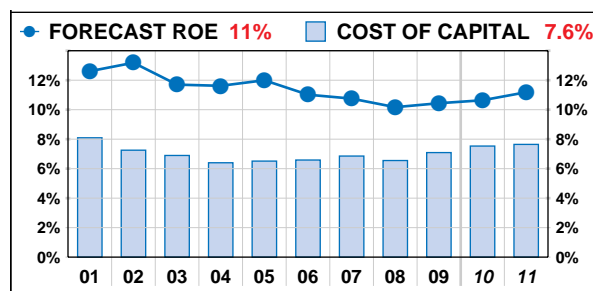
Non-operating factors (income taxes and financial leverage) had little influence on return on equity.



PTR PROFITABILITY FORECAST

PTR's return on equity forecast reflects current forecasts for earnings and common equity per share. These forecasts take recent trends in operating performance into account.

PTR's return on equity forecast is 11.2% -- in line with our recent forecasts. Forecasted return on equity suffered a dramatic, steady decline between 2001 and 2009. The current forecast is below the 2002 peak of 13%.



Price Target

Aqua America's current Price Target of \$19 represents a 10% change from the current price of \$16.91.

This low appreciation potential results in an appreciation score of 35 (65% of the universe has greater appreciation potential.) Reinforcing this low Appreciation Score of 35, the low Power Rating of 38 contributes to an Overall Rating of C.

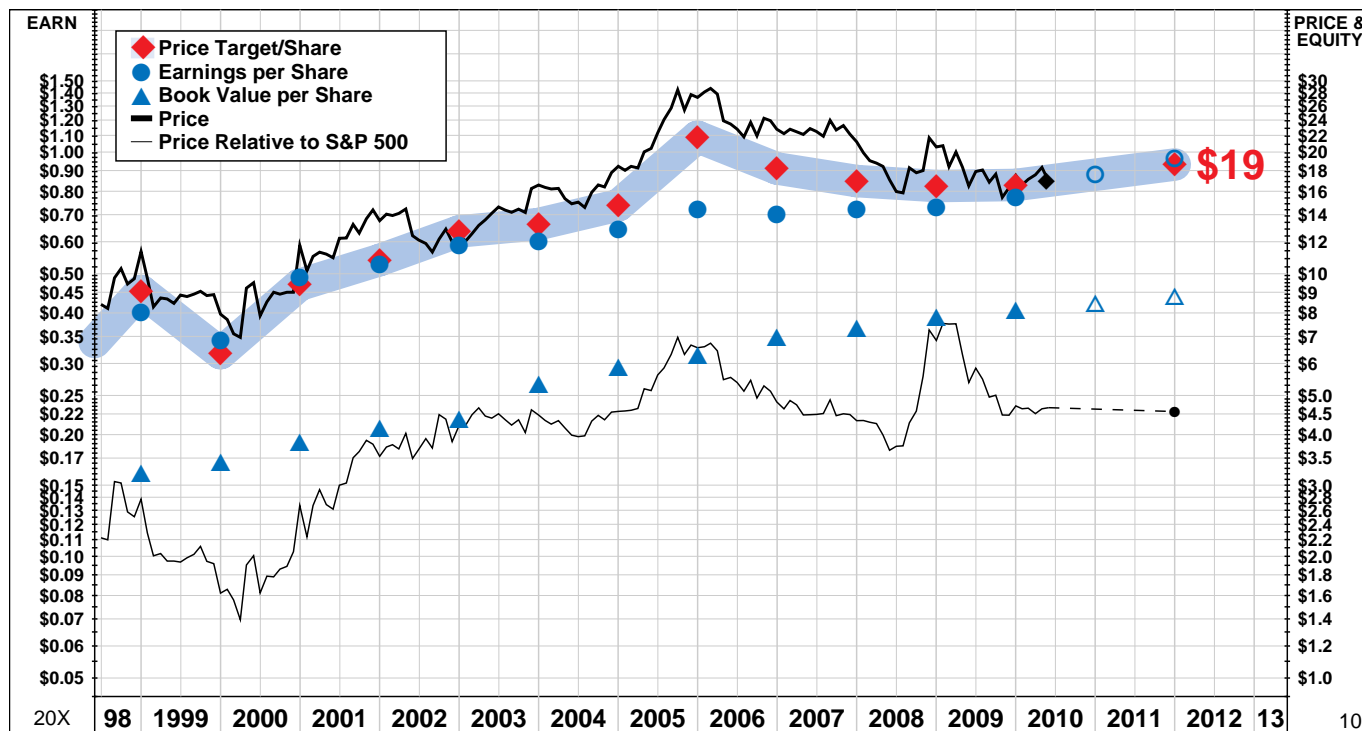
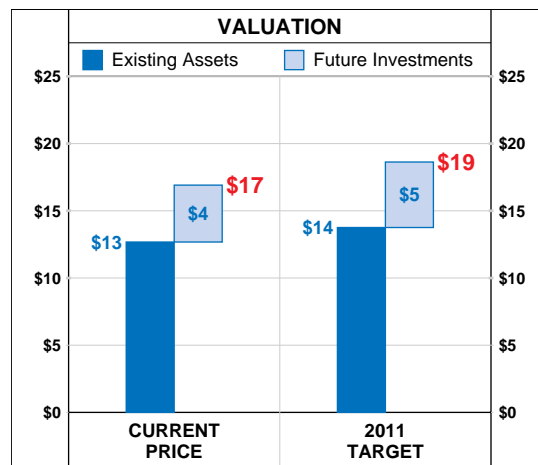
Aqua America's Price Target is based on forecasts of the three key Value Drivers discussed above -- return on equity, growth in investment, and an appropriate cost of equity capital for each period. When expected return on equity exceeds the cost of equity capital, new investments create value for shareholders. Conversely, when returns fall below the cost of equity capital, shareholder value is reduced.

With future returns forecasted to be above the cost of capital, WTR is expected to continue to be a modest Value Builder.

Aqua America's return on equity has eroded significantly since 2000.

At Aqua America's current price of \$16.91, investors are placing a positive value of \$4 on its future investments. This view is consistent with the company's most recent performance that reflected a growth rate of 6.0% per year, and a return on equity of 10.4% versus a cost of equity of 7.1%. In addition, this view is consistent with PTR's forecasts. As explained previously, PTR expects WTR to grow at a rate of 7.0% per year and to earn a return on equity of 11.2% versus a cost of equity of 7.6%.

PTR's 2011 Price Target of \$19 is based on these forecasts and reflects an estimated value of existing assets of \$14 and a value of future investments of \$5.



Aqua America's Price Target is a proprietary estimate of warranted stock price at the end of the next fiscal year(s) based on proprietary discounted cash flow analysis. The red diamonds show annual targets while the blue channel shows prior year values as well as current forecast. (The Price Target is the result of a mathematical calculation performed on publicly available information. It may or may not be reached within the time period indicated or ever. It is not a recommendation to buy or sell the stock.)

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Rating Methodology

PriceTarget Research's **Overall Ratings** -- quantitative ratings of relative attraction -- for 8,000 stocks are updated weekly. These Overall Ratings combine a stock's current appreciation potential as reflected in its **Appreciation Score** and current market dynamics as measured by its **Power Rating**.

Our rating methodology recognizes two realities. First, as fundamentally based and meaningful as the Price Target and resulting Appreciation Score are, the underlying forecasts can be "off the mark" in some cases. Second, as important as technical measures and the Power Rating can be for a company, they can sometimes carry too far, "overshooting" warranted value, and resulting in an unusually speculative investment.

By combining deep fundamentals and market factors, the Appreciation Score acts as a "governor" on the Power Rating during periods of high investor enthusiasm and the Power Rating can signal caution when market attitudes are out of line with forecasts and the Appreciation Score.

In cases where the Power Rating and Appreciation Score don't agree (Cells 2 and 4), the forecasts that support the Price Target and Appreciation Score need to be reviewed for reasonableness:

- Cell 2 stocks may well have forecasts that are too optimistic.
- Forecasts for Cell 4 stocks may be too pessimistic.

		Power Rating	
		Low	High
Appreciation Score	High	2 Forecasts too High?	1 Confirm Attractive
	Low	3 Confirm Unattractive	4 Forecasts too Low?

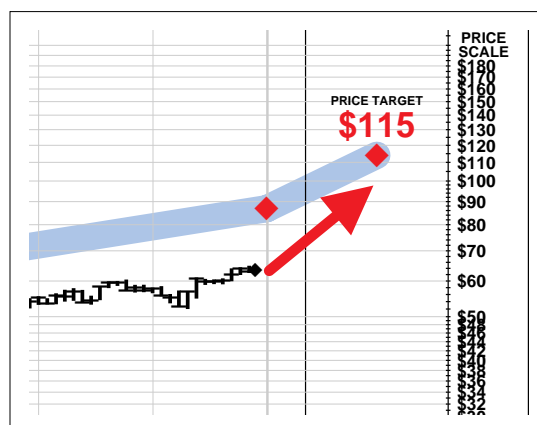
The Overall Rating separates stocks selling below warranted value into those with the potential to get "less cheap" sooner (Cell 1) versus those with little likelihood of a significant price move over the near to intermediate term (Cell 2). PTR's proprietary research clearly demonstrates that when a stock's high Appreciation Score is corroborated by a high Power Rating (a Cell 1 company), investment results are superior to results from companies where only the Appreciation Score or Power Rating is high (Cells 2 and 4). Integration of a disciplined stock valuation framework and consideration of current market dynamics yields important performance benefits.

Overall Rating. PTR's Overall Rating is a letter grade derived from the combination of the Appreciation Score and Power Rating. Stocks rated as A (Highest Rating) and B (Positive Rating) -- 15% of the universe in each case -- generally have high Appreciation Scores and high Power Ratings and are expected to outperform the general market over the following 12-24 months. Those rated F (Lowest Rating) and D (Negative Rating) (15% each) are expected to under perform the general market and generally have lower Appreciation Scores and Power Ratings. Stocks rated C (Neutral Rating and 40% of the universe) are anticipated to perform in line with the general market.

Rating	% of Univ	Anticipated Future Performance
A (Highest Rating)	15%	Strongly Outperform
B (Positive)	15%	Outperform
C (Neutral)	40%	Neutral
D (Negative)	15%	Underperform
F (Lowest Rating)	15%	Strongly Underperform

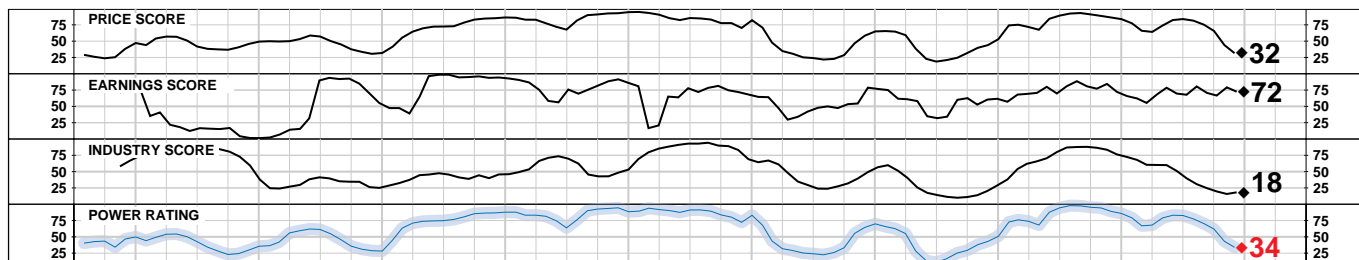
Appreciation Score. The Appreciation Score represents the degree to which a stock is attractively priced relative to the universe. Each company's warranted market value -- or Price Target -- is derived from PTR forecasts of return on equity, long term growth, and cost of capital. The percentage change from the stock's current price to the Price Target is calculated and percentiled relative to the universe (0=the lowest appreciation potential; 100=highest). In the example:

- Price Target is \$115
- Current Price is \$63.50
- Appreciation Potential = $\$115 / \$63.50 = +81.1\%$
- Resulting Appreciation Score = 84 (%ile rank when compared to the universe)



Rating Methodology (Continued)

Power Rating. The Power Rating measures the "timeliness" of a stock for purchase. Because the Price Target, appreciation potential, and Appreciation Score are forecasts, other information is used to serve either as confirmation of the Price Target or to highlight cases in which the forecasts are not credible. (It includes the stock's price performance, behavior of other companies in the same industry group, and the trend in earnings' expectations. Percentiled relative to a universe of 8,000 companies. 0=the lowest power rating; 100=highest.) In the case below the weak Price and Industry Scores offset the higher Earnings' Score resulting in a mediocre Power Rating of 34.



Rating Results. In addition to the regular publication of its stock ratings, PriceTarget Research constantly assesses how well the Overall Ratings perform over prior periods. Performance for each rating category and the overall universe is measured over longer historical periods as well as for shorter intermediate periods with the focus on three key aspects of performance. The first is how well the ratings **discriminate** between outperforming and underperforming stocks -- i.e., whether high rated stocks outperform the universe and low rated stocks underperform. The second consideration is how **well-ordered** this performance data is. Well-ordered performance occurs when A-rated stocks outperform B-rated stocks that, in turn, outperform C-rated stocks, and so on. Clearly, the most desirable outcome is for performance data to be well-ordered over the full period as well as for each individual year. Finally, **persistence** of ratings is measured. At each month end over the full historical periods, each stock's rating is recorded and the number of subsequent months in which this initial rating was maintained calculated. From this information, the likelihood that a specific rating (A, B, C, D, or F) is sustained over future periods is derived.

While past performance is no guarantee of future results, the evidence continues to indicate that PTR's Overall Rating discriminates well between stocks that outperformed and stocks that underperformed over historical time periods. Moreover, this performance was well-ordered and consistently superior from period to period: in most years, A-rated stocks outperformed Cs and C-rated stocks outperformed Fs. Finally, the Overall Rating provided an exploitable, persistent appraisal of relative attractiveness: the average duration of individual ratings exceeded 12 months. (For a PDF report on the Investment Performance of PriceTarget Research's Stock Ratings, please see: <http://pricetargetresearch.com/backtest.jsp> .)

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