Aqua America, Inc. (WTR)

On Track to Meet or Exceed Growth Expectations; Maintain Rating

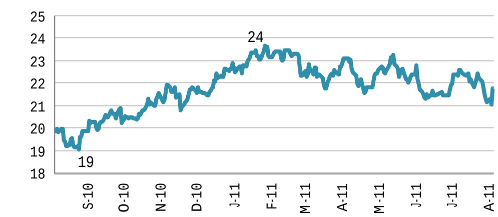
A strong first half positions WTR well to achieve or beat our 8-10% YOY EPS growth expectations. WTR's focus on operational excellence, effective cost control strategies, and infrastructure investment opportunities is expected to generate above-average EPS growth (8-10%/year), helping to fuel attractive returns over the long term. We maintain our Neutral rating, however, as we believe our positive outlook is reflected in WTR's current stock price. We would likely be buyers under $21. We consider WTR a core long-term holding.

- 2Q EPS beats expectations. WTR reported 2Q11 EPS of $0.27, well above our $0.25 estimate and the consensus estimate of $0.24. Results include a $0.02 benefit from bonus depreciation..
  - While bonus deprecation helped boost 1H11 EPS by $0.05 per share, earnings from WTR's core business, was up over 17% YOY absent that benefit. Tight cost control, enhanced regulatory cost/investment recovery mechanisms and timely rate relief have all combined to reduce regulatory lag and improve earned ROEs.
- Modest estimate revisions. Our estimates include the benefit of bonus depreciation (similar to our treatment of other utilities), however, have excluded the impact of accounting recognition associated with the Maine divestiture.
- Portfolio Optimization. WTR announced the purchase of American Water's (AWK) Ohio operations (57,000 customers) in exchange for Aqua's New York assets (50,500 customers). Most recently WTR announced the sale of its small Maine operations to Connecticut Water (CTWS). The previously announced Missouri divestiture and Texas acquisition were completed during 2Q.
- Regulatory update. Currently the company has $25 million of pending rate cases in seven states and expects to file additional requests of ~$50 million in seven more jurisdictions including Pennsylvania, its largest operating subsidiary, by year-end.
- Capex spending. Aqua has spent $134 million on capital investment in 2Q11 and remains on track to spend over $325 million in 2011.
- Dividend increase. Earlier this week, WTR announced a 6.5% dividend increase, effective 11/11, the company's 21st dividend increase in 20 years and reiterates its commitment to its shareholder base.
- Maintain Neutral rating and $24 price target. Despite WTR's best-in-class business model and successful cost mitigation strategy, we believe WTR trades close to full value; however, we consider WTR a core long-term holding.

Aqua America is a holding company for numerous regulated water/wastewater utilities operating in the eastern half of the U.S, serving over 2.8 million people.

ESTIMATE CHANGE

1-Year Price Chart



Stock Data

Rating:	Neutral
Suitability:	Lower Risk
Price Target:	$24
Price (8/3/11):	$21.78
Market Cap (mil):	$2,984
Shares Out (mil):	137.0
Average Daily Vol (mil):	0.57
Dividend Yield:	2.7%

Estimates

FY Dec	2010A	2011E	2012E
Q1	0.16 A	0.22 A	
Q2	0.22 A	0.27 A	
Q3	0.32 A	0.35 E	
Q4	0.21 A	0.24 E	
Fiscal EPS	0.90 A	1.08 E	1.09 E
Previous (FY)		1.06 E	
Fiscal P/E	24.2x	20.2x	20.0x

Chart/Table Sources: Bloomberg and Baird Data

Please refer to Appendix - Important Disclosures and Analyst Certification

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Details

WTR reported 2Q11 EPS of $0.27, well above our $0.25 estimate and the consensus estimate of $0.24. Results include a $0.02 benefit from bonus depreciation. The company earned $0.22 per share in 2Q10.

Figure 1: 2Q11 Results Variance

Aqua America (WTR - NYSE) Quarterly Results Variance								
	Quarterly Results					Percent of Revenue		
	2Q11	2Q10	% Chg	Baird	Variance	2Q11	2Q10	Baird
Revenue	188.2	178	*5.5%*	$190.1	*(1.0%)*			
Operating Expenses	113.4	112	*0.9%*	$118.3	*(4.2%)*	60.2%	63.0%	62.3%
Operating Income	74.8	66	*13.3%*	$71.7	*4.3%*	39.8%	37.0%	37.7%
Pretax Income	56.8	49	*15.6%*	$51.8	*9.7%*	30.2%	27.5%	27.3%
Taxes	19.2	19		$17.7		10.2%	10.8%	9.3%
Net Income	37.6	30	*25.9%*	$34.1	*10.2%*	20.0%	16.7%	17.9%
EPS	**$0.27**	**$0.22**	*24.3%*	**$0.25**	*9.9%*			
Diluted Shares	139	137		138				

Source: Company reports; RW Baird estimates

Outlook

A strong first half positions WTR well to achieve or beat our 8-10% YOY EPS growth expectations. While bonus depreciation helped boost 1H11 EPS by $0.05 per share, earnings from the core business, was up over 17% YOY absent that benefit. Tight cost control, enhanced regulatory cost/investment recovery mechanisms and timely rate relief have all combined to reduce regulatory lag and improve earned ROEs.

Capex outlook. Aqua spent $134 million on capital investment year-to-date and intends to spend $325 million in 2011. Over 90% of 2011 capital will be invested in similar system upgrades (main, pipes, hydrants, etc.), which provide direct value to customers; while <10% will be invested in mandatory compliance upgrades. These discretionary system upgrade investments are targeted for states with enhanced recovery mechanisms, which improve margin and earnings consistency.

Regulatory update: Year-to-date the company has completed rate cases that will add $18 million of annualized revenue. It is important to note that approximately 2/3 of this increase has been generated from infrastructure surcharge mechanisms, which smooth revenue and earnings growth. The remaining ~$6 million of rate relief came from small rate cases in Pennsylvania (wastewater), Indiana, and Ohio.

> Currently, the company has $26 million of pending rate cases outstanding across seven states including North Carolina, Florida, Texas, and Illinois. Aqua expects to file for an additional $45-$50 million before year end in another seven jurisdictions. We anticipate the highest rate filing to be in Pennsylvania, the company's largest operating territory. Based on the company's historical ability to get rate cases settled in about nine months, we assume rates take effect in the second half of 2012.

Portfolio Optimization. It has been a busy summer for Aqua America. The company announced the purchase of American Water's Ohio operations (57,000) customers in exchange for Aqua's New York customer base (50,500) in June. Last week, the company announced the sale of its small Maine operations to Connecticut Water. The previously announced Missouri divestiture and Texas acquisition (another swap with American Water) were completed during 2Q. Once completed, Aqua will be left with regulated operations in nine states (from 14 prior) with a largely unchanged customer count. *Refer to our section on pages 4-5 for additional details on these transactions.*

> We do not expect Aqua America to actively pursue the divestiture of its remain nine jurisdictions. The company continues to target tuck-in acquisitions in the states where it is focused.

Earnings Guidance. While management has not historically provided an EPS guidance range, Nick DeBenedictis did provide some directional guidance during the company's earnings call. WTR expects revenue growth of ~6%, experienced in the 1H11 to continue throughout 2011, and operating expenses to rise slightly higher than the 1% growth in 2Q11. Aqua boasts a TTM efficiency ratio of 37.6% and expects to keep it below 38% this year. The company also expects the continuation of a 10% EBITDA growth rate into the 2H11. On an operating basis, management is comfortable with the current 3Q consensus (non-GAAP) EPS estimate of $0.33 per share excluding the positive impact of bonus depreciation (+$0.02/share), which is more than offset by the accounting reconciliation of deferred taxes vs. book value of the Maine system (-$0.05/share) that is being sold to Connecticut Water. If the transaction closes in early 2012, WTR would book an +$0.08 gain on sale, more than offsetting this deferred tax charge.

> Our 3Q EPS estimate of $0.35, includes the $0.02 per share impact from bonus depreciation, but excludes any accounting treatment related to the pending Maine divestiture. We believe upside to our estimate exists, should summer weather continue to be favorable.

Portfolio Optimization Analysis

With recent multiple asset swap announcements, we thought it might be useful to provide additional color on the individual transactions, including some background on the systems changing hands and our impressions on the catalyst driving these asset swaps.

State	Acquire/ Divest	Counterparty	Date Announced	Closing Date	Cost ($ mil)	Rate Base ($ mil.)	Customer/system details
Missouri	Divest	American Water (AWK)	12/30/10	5/17/11	$3.2	N/A	60 small water & wastewater systems, which serve ~3,700 customers
Texas	Acquire	American Water (AWK)	12/30/10	6/16/11	$6.0	$5.5	51 water systems (4,200 customers) & 5 wastewater systems (1,100 customers)
Ohio	Acquire	American Water (AWK)	6/11/11	expected 1Q12	$120.0	$98.0	8 water systems (50,730 customers) & 1 wastewater system (6,550 customers)
New York	Divest	American Water (AWK)	6/11/11	expected 1Q12	$71.0	$50.0	7 regulated water systems serving 50,520 customers
Maine	Divest	Connecticut Water (CTWS)	7/27/11	expected 2Q12	$53.5	$33.7	11 water systems serving ~18,000 customers in 17 communities

Texas: We believe this transaction has been mulled over by WTR for some time, with American's recent focus on portfolio optimization the potential catalyst that drove an agreement. This transaction increases Aqua's customer count in the state by 8%. Since Aqua entered the state in 2003 through the AquaSource transaction, it has found the growth prospects to be attractive and the regulatory environment to be receptive. In 2010, Aqua completed 10 acquisitions in Texas, which drove 5% customer growth.

Missouri: Similar to Texas, Aqua's Missouri customer base is spread across a large geographic territory, but lacking the customer count to make it worthwhile. American, on the other hand, serves over 1.5 million customers in over 100 communities. While we do not have exact figures, we believe this transaction was also completed near book value.

Ohio: We believe Aqua's interest in increasing its presence to improve economies of scale was the driving force in this transaction. This transaction will allow Aqua to spread its fixed costs over more customers, which should provide more cost efficiencies. Ohio allows single-ratemaking so over time we would expect Aqua to consolidate the American systems. Jeff Sterba, American Water's new CEO, has expressed a willingness to divest assets in less attractive states, and we believe that was the case here, as indicated by the transaction being completed close to book value. Given the difference in recent regulatory treatment (WTR received an ROE of 10.0% in April 2011, compared to the 9.4% American Water was awarded in May 2010), we believe American Water was a willing seller in exchange for assets elsewhere.

New York: Similar to the game of Monopoly, where often a player must trade a property to get a coveted property, we think Aqua America's sale of New York assets to American Water was done in the interest of finalizing the Ohio transaction, which was simultaneously announced. Aqua acquired the majority of its New York assets through two large acquisitions in 2007 and has always said it liked the growth prospects in the state. In the company's last rate case, completed in February 2010, the company received a 10.5% return on equity. While it is true that Aqua has faced some political headwinds in New York with Senator Shumer, we do not believe this was a catalyst for the sale. On July 14, 2011 Senator Shumer publicly asked American Water to halt Aqua's plans to build a 150 ft water tower that was opposed by local customers, so it seems American will inherit the heightened political exposure that comes with these assets.

Maine: We do not believe that Aqua was actively pursuing an exit strategy in Maine. The company acquired this system in 1999 as part of the Consumers acquisition. While the Maine system did not possess robust customer growth, and the state was independently managed from the Aqua system (including its own customer call center), it required little management oversight to settle most of its rate cases in less than six months while earning close to its 10.0% ROE. Connecticut Water was willing to pay a premium to get these assets, as a means of diversifying its customer base out of Connecticut, a considerably more trying regulatory environment. Aqua will likely use these proceeds to fund the gap between the Ohio/New York transactions.

Investment Thesis

We rate Aqua America Neutral with a 12-month price target of $24. Our price target is 22x our 2012 EPS estimate, we believe in line with its peers when fully valued due to its relative earnings consistency, longer-term growth opportunities and wider potential shareholder base reflecting its relative size and liquidity.

Key investment considerations include the following:

- Attractive total return potential. We expect 8-10% long-term annual EPS growth with a 60-70% dividend payout ratio, providing a current dividend yield of 2.6% to add up to attractive total returns in the long term. Upside exists if WTR is able to accelerate its acquisition program of water and wastewater systems.
- Constructive regulatory mechanisms. The majority of WTR's regulatory operations are located in states that maintain enhanced regulatory recovery mechanisms that enable stable earned returns, including infrastructure investment riders, statewide rates and incentive mechanisms for acquisitions of troubled water systems. We believe such mechanisms provide a constructive regulatory environment in which to make capital investments, enabling improved and more consistent earned returns, which should lead to a premium peer valuation.
- Acquisition growth. Aqua has successfully acquired hundreds of water and wastewater systems in the past decade to supplement its internal growth. Acquisitions also provide significant follow-on investment opportunities as WTR improves the quality of an acquired water system. We believe such acquisitions are a key value driver for the company and the stock, as it continue to be a key player in consolidating some of the 53,000 water systems outstanding in the U.S. and rehabilitating those systems to improve water quality and drive investment growth.
- Investment shifting to pipe replacement. Following significant investment into water treatment systems to meet advancements in water quality standards, Aqua's investment mix is shifting toward pipe replacement. While substantial capital investments will still be required to fund pipe replacement, the level of rate base growth could decline versus historical levels.
- Strong leadership team. We believe Aqua has a strong leadership team that has demonstrated a keen focus on developing strong regulatory relationships and engineering innovative solutions to improve water system quality while providing investors with appropriate recovery. We believe

management has executed regulatory and investment plans that provide stable and consistent value creation for investors.

- Water utility valuation. We expect solid earned ROEs, 8-10% longer-term EPS growth potential and constructive regulatory investment recovery mechanisms should support a 20-22x forward P/E. The valuation is a premium to its regulated electric and gas utility peers reflecting significant industry consolidation and rate base growth opportunities with lowered regulatory risk, and generally more constructive regulatory mechanisms that enable earnings consistency.

Risks & Caveats

Our suitability rating on Aqua America is Lower Risk. Key risks include, but are not limited to, the following:

- Regulation. Regulated operations are subject to local, state and federal regulations. Changes in the regulatory environment can affect WTR's near-term and long-term performance.
- Weather. WTR's businesses are sensitive to fluctuations in the weather. Particularly wet or dry weather can impact near-term financial results.
- Acquisition risk. WTR may have the opportunity to purchase assets or companies in the near future. Acquisitions carry risks related to personnel, expected-versus-actual growth and a myriad of unforeseen hurdles, all of which can negatively affect earnings.
- Product quality. Unique among its sister regulated utility sectors, water utilities provide a product that is ingested. Despite robust mandated service quality standards that lower risk, a quality failure could materially impact the earnings and stock of WTR.
- Dividend legislation. Congress has extended tax legislation that reduced the tax rate on dividends received. However, the extensions only last through 2011 and there can be no assurance that further extensions of the tax relief will occur or that a future Congress would not repeal the current legislation, which could have an adverse impact on the after-tax value of dividends and the stock.

Company Description

Aqua America is a holding company for numerous regulated water and wastewater utilities operating in the eastern half of the U.S. that serve over 2.8 million people. Known as Philadelphia Suburban Corporation until 2004, Aqua America is headquartered in the Philadelphia suburbs where its corporate roots date back to 1886 for providing water and/or wastewater service.

Aqua America
(WTR - NYSE)

Income Statement ($millions) **Robert W. Baird & Co., Inc.**

	2003	2004	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E	2013E
Operating Revenue	367.2	442.0	496.8	533	602	627	670.5	160.5	178.4	207.8	179.3	726.1	171.3	188.2	220.1	191.5	771.1	825.0	875.1
Growth (%)	*14%*	*20%*	*12%*	*0*	*0*	*0*	*7%*	*3.9%*	*6.6%*	*14.9%*	*6.8%*	*8%*	*6.7%*	*5.5%*	*5.9%*	*6.8%*	*6.2%*	*7.0%*	*6.1%*
Expenses																			
O&M	141	181	203	220	253	262	270	68	69	73	70	280	67	70	77	73	288	301	316
Depreciation	49	55	61	71	83	89	103	26	27	27	28	108	27	28	29	29	113	123	130
Amortization	3	4	5	4	5	6	12	3	3	4	3	13	2	2	4	3	11	11	12
Taxes other than income tax	22	28	32	33	45	45	48	13	13	14	13	53	14	13	15	14	56	60	63
Total Expense	214	267	300	328	386	401	433	110	112	118	114	454	110	113	125	120	469	496	521
Operating Ratio	***58.2%***	***60.4%***	***60.4%***	***1***	***1***	***1***	***64.6%***	***68.4%***	***63.0%***	***56.9%***	***63.3%***	***62.5%***	***64.4%***	***60.2%***	***56.9%***	***62.5%***	***60.8%***	***60.1%***	***59.5%***
Expense Growth (%)	*18%*	*25%*	*12%*	*0*	*0*	*0*	*8%*	*2%*	*4%*	*8%*	*6%*	*5%*	*0.5%*	*1%*	*6%*	*5%*	*3%*	*6%*	*5%*
EBITDA	205	234	262	281	304	320	352	80	96	121	96	393	90	104	128	104	426	464	496
EBIT	**154**	**175**	**197**	**206**	**216**	**226**	**237**	**51**	**66**	**90**	**66**	**272.1**	**61**	**75**	**95**	**72**	**302.5**	**329.2**	**355**
EBIT Margin	*41.8%*	*39.6%*	*39.6%*	*0*	*0*	*0*	*35.4%*	*31.6%*	*37.0%*	*43.1%*	*36.7%*	*37.5%*	*35.6%*	*39.8%*	*43.1%*	*37.5%*	*39.2%*	*39.9%*	*40.5%*
Growth (%)	*9%*	*14%*	*12%*	*0*	*0*	*0*	*5%*	*8%*	*12%*	*25%*	*9%*	*15%*	*20.3%*	*13%*	*6%*	*9%*	*11%*	*9%*	*8%*
Other expense (income)	38	43	48	53	60	63	65	15	17	18	18	68	18	18	21	21	78	87	90
Pretax Income	115	132	148	152	156	163	172	36	49	72	47	204	43	57	74	51	225	243	265
PT Margin	*31.4%*	*29.9%*	*29.8%*	*0*	*0*	*0*	*25.7%*	*22.3%*	*27.5%*	*34.6%*	*26.4%*	*28.1%*	*25.2%*	*30.2%*	*33.7%*	*26.5%*	*29.1%*	*29.4%*	*30.3%*
Tax Rate (%)	*39.8%*	*39.4%*	*38.4%*	*0*	*0*	*0*	*39.4%*	*39.8%*	*39.2%*	*39.1%*	*39.1%*	*39.2%*	*29.6%*	*33.8%*	*34.0%*	*35.0%*	*33.3%*	*37.5%*	*38.0%*
Net Income	**70**	**80**	**91**	**92**	**95**	**98**	**104**	**22**	**30**	**44**	**29**	**124**	**30**	**38**	**49**	**33**	**150**	**152**	**164**
Shares Outstanding, Diluted	119	126	130	132	134	135	136	137	137	137	137	137	138	139	139	139	139	140	140
Continuing Ops EPS	**$0.59**	**$0.64**	**$0.70**	**$0.70**	**$0.71**	**$0.73**	**$0.77**	**$0.16**	**$0.22**	**$0.32**	**$0.21**	**$0.90**	**$0.22**	**$0.27**	**$0.35**	**$0.24**	**$1.08**	**$1.09**	**$1.17**
Growth (%)	*3%*	*9%*	*11%*	*-1%*	*2%*	*2%*	*5%*	*16%*	*15%*	*30%*	*8%*	*18%*	*39.5%*	*24%*	*11%*	*12%*	*19%*	*0.6%*	*7.8%*
GAAP EPS	$0.59	$0.64	$0.70	$0.70	$0.71	$0.73	$0.77	$0.16	$0.22	$0.32	$0.21	$0.90	$0.22	$0.27	$0.35	$0.24	$1.08	$1.09	$1.17
Dividend	$0.34	$0.37	$0.40	$0.44	$0.48	$0.51	$0.55	$0.15	$0.15	$0.15	$0.16	$0.59	$0.16	$0.16	$0.16	$0.17	$0.63	$0.67	$0.71
Payout Ratio (%)	*58%*	*58%*	*57%*	*64%*	*68%*	*70%*	*72%*	*92%*	*67%*	*46%*	*74%*	*65%*	*71%*	*57%*	*44%*	*70%*	*58%*	*62%*	*61%*

Expense Ratios (% Total Rev)

	2003	2004	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E	2013E
O&M	38.3%	40.9%	40.9%	41.2%	42.0%	41.8%	40.3%	42.1%	38.8%	35.1%	39.1%	38.6%	39.3%	37.4%	35.1%	38.4%	37.4%	36.5%	36.2%
Depreciation	13.2%	12.3%	12.2%	13.3%	13.8%	14.2%	15.4%	16.3%	15.0%	13.2%	15.4%	14.9%	15.9%	14.7%	13.2%	15.3%	14.7%	15.0%	14.8%
Amortization	0.8%	1.0%	1.0%	0.8%	0.8%	0.9%	1.8%	2.0%	1.9%	1.7%	1.6%	1.8%	1.1%	1.0%	1.7%	1.6%	1.4%	1.4%	1.4%
Taxes other than income tax	5.9%	6.2%	6.4%	6.2%	7.5%	7.1%	7.2%	8.0%	7.3%	6.8%	7.2%	7.3%	8.0%	7.1%	6.9%	7.3%	7.3%	7.2%	7.2%

Source: Company Reports & Baird estimates

Please refer to Appendix - Important Disclosures and Analyst Certification.

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Aqua America
(WTR - NYSE)

BAIRD

Balance Sheet ($mln)

	2007	2008	2009	2010	1Q11	2011	2012	2013
ASSETS								
Cash and Cash Equivalents	15	15	22	6	7	(53)	(106)	(127)
Accounts Receivable, net	83	85	79	86	79			
Materials and Supplies	9	10	10	34	11	35	10	11
Other Current Assets	9	12	11	20	60	20	11	11
Total Current	**116**	**121**	**122**	**145**	**157**	**1**	**(85)**	**(106)**
Net Property & Equipment	2,793	2,997	3,227	3,469	3,497	3,581	3,267	3,363
Regulatory Assets	164	222	226	217	223	217	217	217
Funds Restricted for Construction	77	53	59	135	134	135	82	82
Goodwill	37	41	85	40	41	40	43	43
Other Assets	41	51	43	65	60	67	63	64
Total Assets	**3,227**	**3,485**	**3,763**	**4,072**	**4,112**	**4,042**	**3,587**	**3,664**
LIABILITIES & EQUITIES								
Accounts Payable	46	50	58	45	29	46	46	46
Short-term Borrowing	57	81	27	90	92	100	85	75
Long-term Debt Due Within One Year	24	7	60	28	28			
Accrued Liabilities	57	55	56	60	59	60	60	60
Total Current	**183**	**193**	**201**	**224**	**209**	**206**	**191**	**181**
Long-term Debt & Commercial Paper	1,215	1,248	1,387	1,532	1,530	1,605	1,678	1,751
Deferred Income Taxes & Inv. Tax Credits	308	355	409	479	514	479	479	479
Regulatory Liabilities	12	15	29	36	38	36	36	36
Customers' Advances for Construction	86	73	77	67	67	68	68	69
Contributions in Aid of Construction	376	420	437	444	449	444	444	444
Other Liabilities	69	120	114	116	112	116	116	116
Shareholder's Equity	976	1,058	1,109	1,175	1,193	1,243	1,319	1,397
Total Liabilities and Equity	**3,227**	**3,485**	**3,763**	**4,072**	**4,112**	**4,196**	**4,331**	**4,473**

Balance Sheet Analysis	**2007**	**2008**	**2009**	**2010**	**1Q11**	**2011**	**2012**	**2013**
Rate Base	2,024	2,150	2,305	2,479	2,466	2,694	2,902	3,191
Current Ratio	0.6	0.6	0.6	0.7	0.7	0.0	(0.4)	(0.6)
Days Sales Outstanding (DSO)	5.2	5.4	5.3	6.5	5.2	10.4	4.5	#DIV/0!
EBIT/ Interest Expense	3.2	3.3	3.5	3.5	3.7	3.7	3.8	#DIV/0!
Debt / Total Cap	56%	54%	57%	57%	56.6%	56%	56%	56%
Debt / Total Cap (incl Op Leases)	56%	55%	57%	57%	56.6%	56%	56%	56%
Book Value/Share	$7.31	$7.86	$8.14	$8.58	$8.68	$8.95	$9.45	#DIV/0!

Cash Flow Statement	**2007**	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**
Net Income	$95	$98	$104	$124	$119	$152	$33
Depreciation and Amortization	88	94	115	121	95	135	33
Other	27	51	55	80	34	34	9
NWC Changes	(16)	(21)	(16)	(53)	(5)	(5)	(1)
Cash Flow from Ops (CFO)	**194**	**222**	**259**	**272**	**244**	**315**	**73**
Capital Expenditures	(238)	(267)	(284)	(327)	(325)	(340)	(88)
Free Cash Flow (FCF)	**(44)**	**(46)**	**(25)**	**(54)**	**(81)**	**(25)**	**(14)**
Acquisitions	(51)	(15)	(3)	(9)	(15)	(4)	(4)
Dividends	(64)	(69)	(75)	(81)	(65)	(22)	(22)
Net Cash Flow (NCF)	**(159)**	**(129)**	**(103)**	**(144)**	**(161)**	**(51)**	**(40)**
Capex/ Depreciation	2.71	2.84	2.47	2.70	3.43	2.52	2.62
FCF/Share	(0.33)	(0.34)	(0.18)	(0.40)	(0.60)	(0.18)	(0.10)
NCF/Share	(1.19)	(0.96)	(0.76)	(1.06)	(1.18)	(0.37)	(0.29)

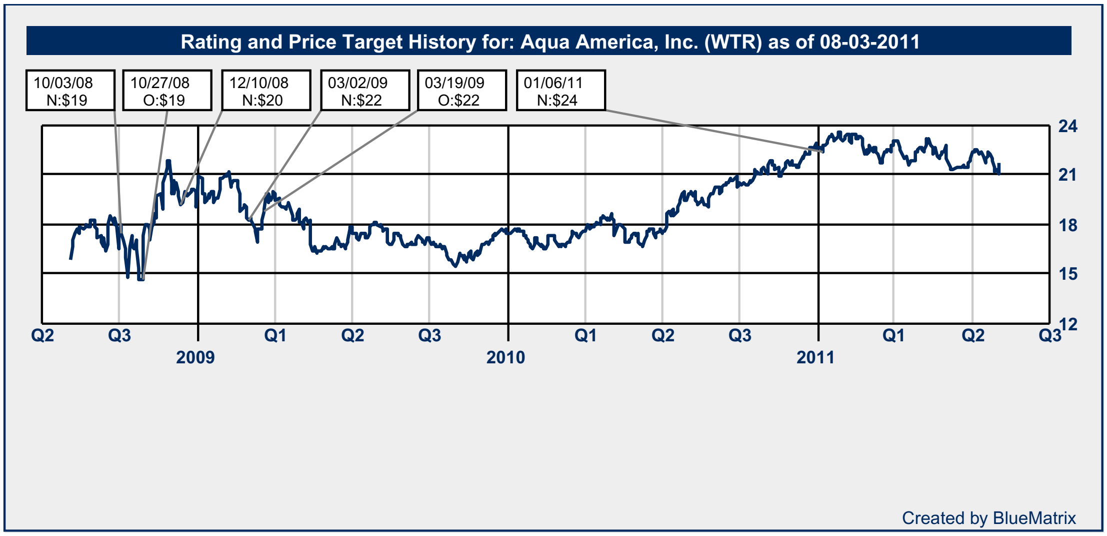
Du Pont Formula	**2007**	**2008**	**2009**	**2010**
Net Margins (NI/S)	15.8%	15.6%	15.6%	15.9%
Assets Turnover (S/A)	0.20	0.19	0.19	0.19
Leverage (A/E)	3.22	3.30	3.34	3.32
ROE (Du Pont)	10.0%	9.6%	9.6%	9.9%
ROE (Rate Base)	10.7%	10.0%	10.4%	10.8%
Return on Assets	3.1%	2.9%	2.9%	3.0%
ROC (after-tax)	6.1%	5.8%	5.7%	5.8%

Valuation Measures	**2007**	**2008**	**2009**	**2010**
Historical P/E High	37	30	28	29
Historical P/E Low	27	17	20	21
Historical P/FCF High - current yr	-81	-65	-117	-125
Historical P/FCF Low - current yr	-57	-36	-84	-90
			Recent Price:	$22.48
Enterprise Value (EV)	2,833	2,774	2,384	3,080
ST+LT Debt	1,296	1,336	1,474	1,352
Cash & Equivalents	15	15	22	14
Total EV	4,115	4,095	3,836	4,418
EBITDA	304	320	352	357
EV / EBITDA	13.5	12.8	10.9	12.4
EV / EBITDA with Op Leases	13.5	12.8	10.9	12.4

Source: Company Reports & Baird estimates

Please refer to Appendix - Important Disclosures and Analyst Certification.

Appendix - Important Disclosures and Analyst Certification



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