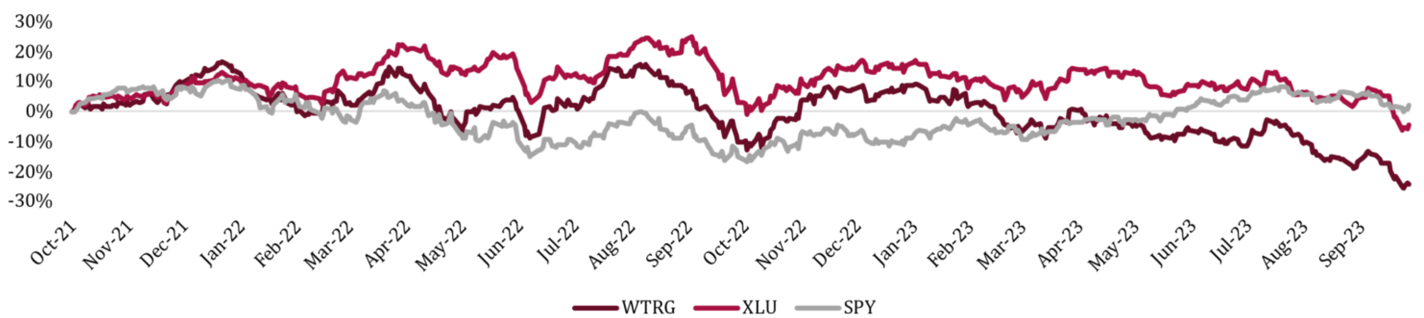
Essential Utilities Inc
NYSE: WTRG
Recommendation: BUY

Company Data	
Price	$34.23
Market Cap	$8.54B
P/E	18.39x
Dividend Yield	3.80%
Price Target	$63.81
Upside	86.39%

Investment Thesis

We recommend a buy of Essential Utilities Inc (NYSE: WTRG or “the Company”), with an implied upside of 86.4%. Essential Utilities is a leader in supplying water and wastewater utilities in the United States, and has additional competitive market share in natural gas distribution and servives. Given the negative market implications in the utilities sector, we sustain that WTRG’s core business will surpass current macroeconomic headwinds and short-term issues. Also, superior M&A experience and a secured / visible pipeline into inorganic growth presents opportunity for long-term sustained growth within the 3–5-year investment horizon. Finally, the differentiated capital allocation and financing decisions of the Company’s management underpins our support of a buy.

Two-Year Relative Performance



Business Overview

Essential Utilities Inc, previously known as Aqua America Inc, is a holding company headquartered in Bryn Marr, Pennsylvania with operations in water, wastewater, and natural gas distribution. Alongside its distribution services, the Company supplies maintenance and unmatched infrastructure support in the United States. WTRG’s segments of water, wastewater, and natural gas generated $0.906M, $0.185M, and $1,142M respectively in 2022 (refer to figure 1 for further information on the revenue breakdown). With over 130 years in service, WTRG is the second largest regulated water utility company nationally. The Company performs and continues its century plus of success through two business arms: Aqua and Peoples. Holistically, Essential Utilities provides utility services to approximately 5 million people across 9 states.

More specifically, WTRG operates across the east, Midwest and southern United States. Its water and wastewater service areas include 8 different states, Texas, Ohio, Indiana, Pennsylvania, Illinois, New Jersey, North Carolina, and Virginia. The natural gas distribution arm (Peoples) supports customers in 2 states, Kentucky and Pennsylvania. In both the water / wastewater and

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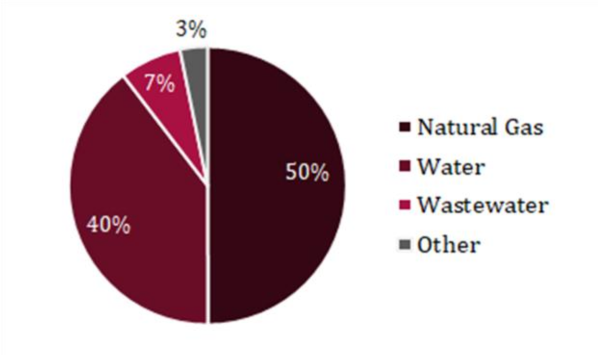
Figure 1. Revenue

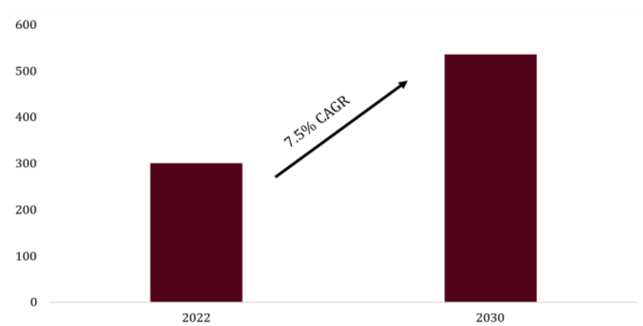


natural gas segments, the Company serves a diverse customer base, in residential, commercial, industrial, and other. WTRG additionally supports municipal authorities with operations and maintenance.

The Company leads in the water utility industry and succeeds in natural gas services by actively renewing and improving infrastructure through thoughtful and continuous capital investment. Inorganic and organic growth as well as geographic and revenue diversification assist WTRG in providing essential services while following its values of enhancing economic development, delivering excellent services, acting as stewards of the environment, and committing to nurturing its workforce. In its totality, WTRG aims to "provide natural resources for life."

Industry Overview

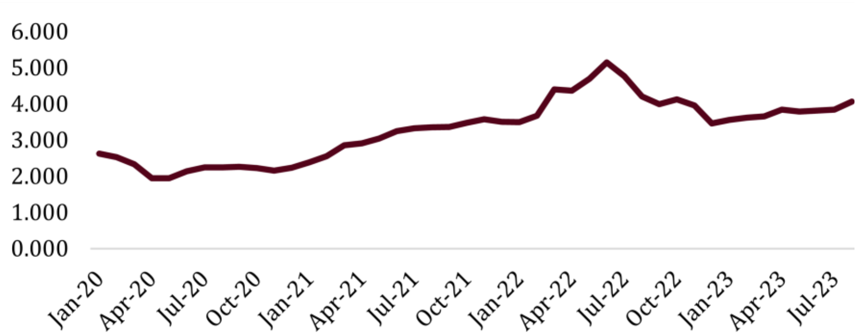
Figure 2. Global Water & Waste Water Growth (B)



The three main end markets that the Company falls in are water, wastewater, and natural gas. These end markets are closely linked to infrastructure development and the effects of climate change.

The water and wastewater utility market deals with the plant and system operations that help transfer and treat water through adding chemicals, monitoring water samples, and following US EPA regulations. As of 2022, the global water and wastewater treatment market was valued at $301.77B and is projected to grow at a CAGR of 7.5%. It is anticipated to reach $536.41B by 2030, as shown in Figure 2. Looking specifically within North America, the water and wastewater market was valued at $116B in 2022 meaning it makes up nearly a third of the global market share. A 2023 survey conducted by American Water Works assessing the state of the water industry reported that the three highest ranked issues include replacing aging infrastructure, improving water supply/conservation, and financing capital improvements. 92% of utility respondents reported supply chain difficulties as another headwind facing the industry. In the US, water utilities are expected to test for 93 different contaminants largely due to the emergence of PFAS which are forever chemicals that have created a higher demand for more advanced filtration systems.

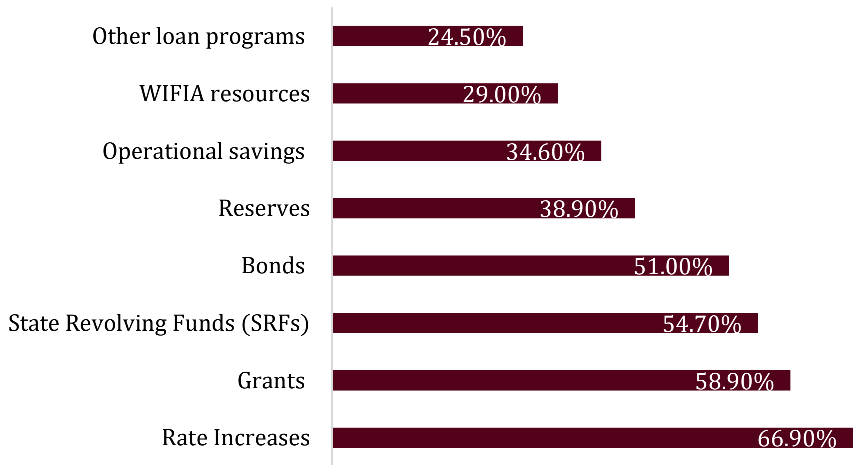
Figure 3. 3-Year Change in Natural Gas Prices ($USD/Per Gallon)



The US natural gas distribution industry focuses on the transfer of natural gas to commercial, residential, and industrial users. As natural gas prices have decreased in the past year, more energy and utility companies, specifically electric power plants, have started using it due to its affordability (Figure 3). Although there is projected to be a

8.7% decline in revenues in 2023, revenues are expected to increase by a CAGR of 3.2% over the next 5 years.

Figure 4. Utility Capital Funding Sources



To help mitigate some of the cost for replacing aging water infrastructure, the Biden-Harris Administration passed the Bipartisan Infrastructure Bill (BIL) which allocated $50B to improve water quality, infrastructure, and stormwater systems across the US. In addition, Congress also passed the Infrastructure and Investment Jobs Act (IIJA) which allocated another $55 billion to water infrastructure projects. Much of the implementation of these funds are overseen by the EPA which helps states, municipalities, territories and tribes secure grants and federal funds to enhance water infrastructure. As of 2022, over $4B helped finance water infrastructure projects across the US. Due to the added costs, while undertaking capital expenditures and infrastructure projects, 78% of utility management teams have reported that they will raise rates in 2023. As shown in Figure 4, utility companies have many options when it comes to funding capital improvements, including grants, state revolving fund (SFRs), bonds, reserves, and several others. Given the importance of infrastructure projects in the water utility industry, it is important to acknowledge the many sources of capital and ways to finance.

The increasing risks posed by climate change and extreme storms are a great threat to the water utility market because they could have detrimental impacts on water quality, supply, and infrastructure. Within the past year, the National Center for Environmental Information (NCEI) reported that there have been 18 extreme storms that totaled together cost $18B in damages. Given the severity of these climate events, nearly 60% of water utilities have already implemented a climate action plan. Larger utility facilities face less risk than smaller systems when it comes to extreme weather such as droughts, flooding, and freezing cold temperatures. This is primarily due to the extensive network of systems and geographic diversity that allows larger companies to continue supplying to vast areas. Overall, as the water sector continues to increase and the water, wastewater, natural gas segments all face the threats of climate events.

Rationale 1: Reliable Core Business Overshadows Headwinds

Historically, the US utility industry has been a safe-haven investment because of its reliability during recessionary periods. Investors depend upon utility companies to provide high dividends and steady returns, compared to other sectors such as technology which may provide high returns but come with significant risk. Currently, the utilities sector is down by 21% and Q3 2023 results showed that it is also the worst performing sector on the S&P 500. This comes in response to the heightening of Treasury yields caused by the Federal Reserve raising interest rates to around 5.3%. Both the 2-year and 10-year Treasury yields, 5.07% and 4.65% respectively, are higher than the dividend yield of the utility sector which is typically around 4%. In response to Treasury yields surpassing those of utilities, investors have promptly sold off shares of utilities and put them into higher yielding fixed income assets. Another headwind facing the industry is the Maui wildfires caused by the electric utility company, Hawaiian Electric Industries (HE) which fell by 63% in August. Despite these current challenges facing the sector, it is important to acknowledge that utilities have not underperformed like this since 1999 during the dot-com bubble. Following the dot-com crash though, utilities increased by 57% in 2000, proving the Company's resilience in economic downturns.

Due to many of the headwinds outlined above, the WTRG stock has been dramatically affected. Compared to peers, WTRG had the lowest 1-year total return of -24.16% signaling that the Company is significantly underperforming. The Q2 2023 earnings outlined natural gas prices coming down resulting in decreased gas volumes of $4.7 million and a 2.7% reduction in revenue which compressed earnings per share (EPS). To combat these headwinds and compression in natural gas prices, WTRG has several solutions that will continue to drive top-line growth.

Figure 5. WTRG Projected Water Rate Base

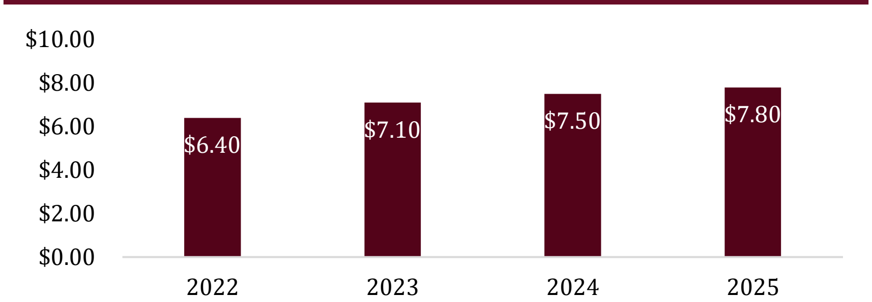
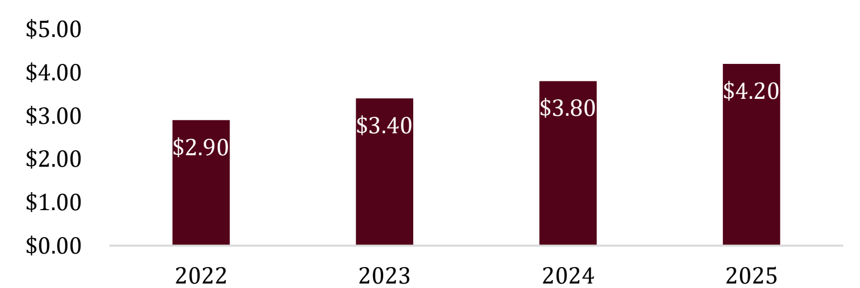


Figure 6. WTRG Projected Gas Rate Base



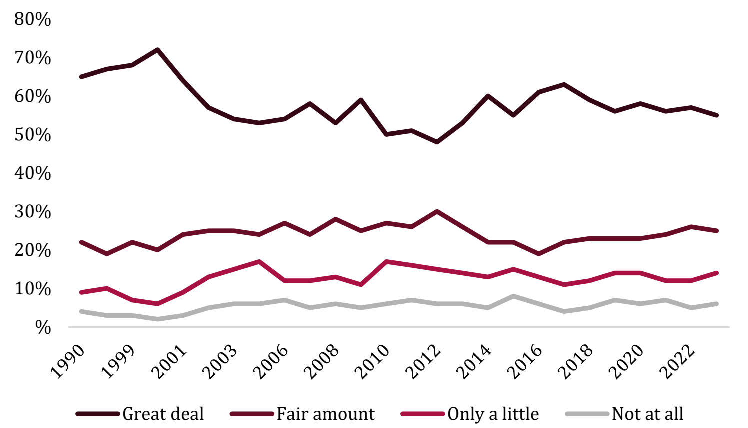
WTRG is maximizing rate base growth potential in both its water and natural gas segments which will assist increasing top-line growth and aid financing investments in core infrastructure. Within the water segment, WTRG is expected to raise rates at a 6 - 7% CAGR by 2025 and within the natural gas segment, rates are set to increase by a 8 -10% CAGR. The company is also on track to meet earnings guidance, meaning that EPS will compound annually at a growth rate of 5-7%. In addition to increasing rate bases, WTRG also has benefited from regulatory activity across both segments. In the water segment, WTRG increased revenue by $26.4 million due to rate cases and surcharge filings in 6 states. The natural gas segment also saw an added $20.9 million in revenue after submitting surcharge filings with the PA legislature to account for weather normalization.

Thus, despite the headwinds facing the utility sector and the WTRG stock, increases in rate bases across both the water and gas segments will generate higher top-line for the Company within the next two years. Additionally, the added revenue made up through regulatory actions has significance as it indicates WTRG will continue to be profitable even as more extreme weather events occur. Negative market sentiment significantly compressed the Company's share price, presenting a great opportunity to buy.

Rationale 2: Unparalleled M&A Activity with Significant White Space

The water utility sector faces adversity as looming aged infrastructure and environmental concerns are exacerbated by the extreme fragmentation of utility businesses in the US. With over 50,000 regulated community water systems, about 15,000 wastewater treatment plants, and more than 1,000 stormwater utilities, there is a notable issue in terms of centralizing nationwide water consumption and related services. For additional color, in countries like the United Kingdom and Australia, they have only 32 regulated water utilities and 82 water suppliers, respectively. Because of this, numerous states have already passed legislation supporting and advocating for consolidation within the water utility sector, like Pennsylvania (2016), Illinois (2018), North Carolina (2015), Kentucky (2000), and California (2015).

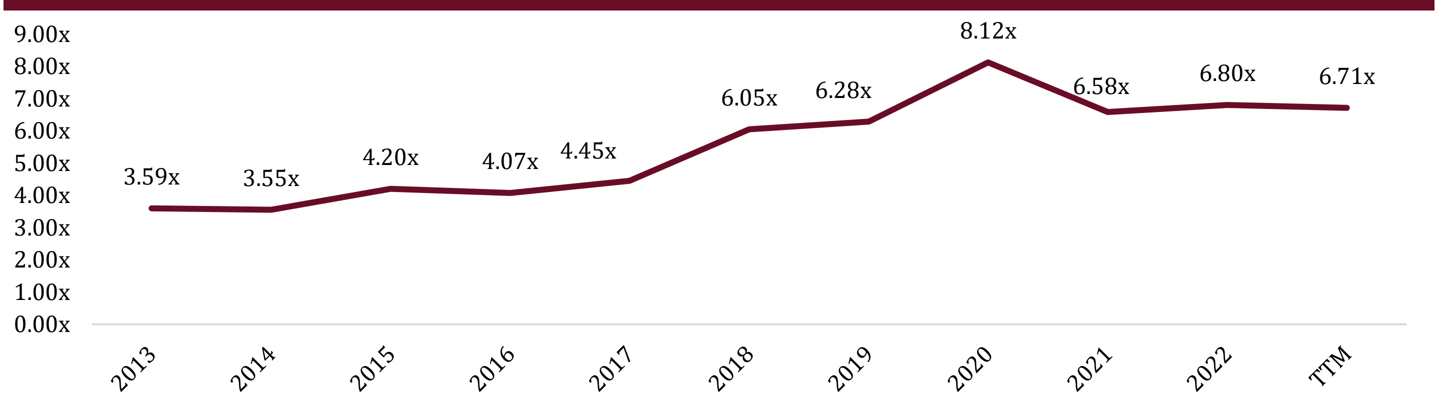
Figure 7. Public Concerns about Drinking Water



The calls for consolidation at its core are to streamline operations and decision making as it relates to water utility operations. The heavy fragmentation causes issues in responding to water shortages, sudden pollutants, and other unforeseen circumstances. Corresponding between hundreds of facilities in different municipalities slows down emergency responses and collaboration between water systems in cases where water suppliers need to share resources. Additionally, other benefits to mergers are economies of scale and operating efficiencies, more capital access at a lower cost, equalized customer rates for services, revenue stabilization, and reduced exposure to regulatory penalties. So, unlike other industries where M&A activity is stunted by regulation, like section 7 of the Clayton Act ("may be substantially to lessen competition, or to tend to create a monopoly"), water and wastewater utilities have innate motivation and support to consolidate. As shown in Figure 7, there is great and consistent public concern about drinking water. The weighing concerns of public drinking water and water resources work in favor on establishing support for WTRG acquisition activities.

WTRG has the business model and experience to capitalize on this governmental support, and a deep history of acquisitions. From 1993 to 2013, Aqua America completed 300 acquisitions. Into the present, customer base has increased by over 128,000 and over $526M in rate base acquired through M&A since 2015. To maintain this growth, beyond relying on that of somewhat stagnant population growth and reliance on housing starts to propel revenue, consistent acquisitions and controlled asset management are crucial for WTRG or any water utility business's success. Moreso, despite a higher-than-average leverage ratio (refer to Figure 8), WTRG still has a robust pipeline of acquisitions. So far in 2023, the Company has successfully completed 6 acquisitions, mounting 11,025 customers and $44.6M cumulative purchase price. Before 2024, management reports a high confidence of closing on four more wastewater transactions: 3 in Pennsylvania and 1 in Illinois (acquisition of 208,000 with a $335.8M cumulative purchase price). These four wastewater transactions are anticipated to generate ~$17M of incremental earnings potential.

Figure 8. WTRG Leverage Ratio (Debt to EBITDA) Over Time



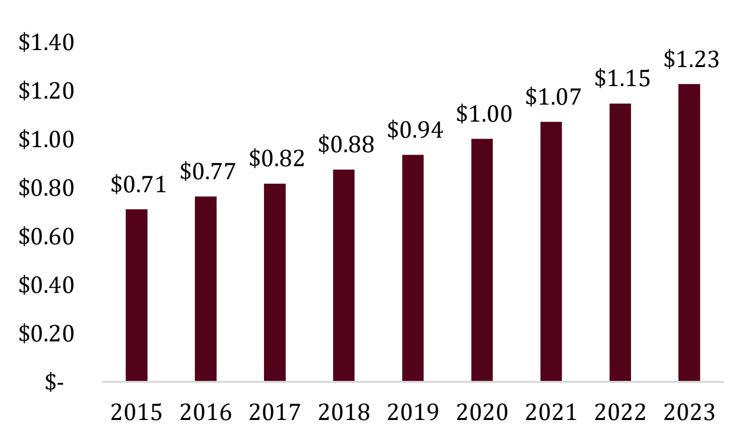
Finally, beyond this, there is still untapped potential white space for WTRG to continue consolidating across its current coverage areas. The Company is actively pursuing over 400,000 customers, the majority of which being wastewater targets. In the case where Essential Utilities continues its geographic expansion, there is mounted support for it, and millions more customers in new service areas. Also, many acquisition targets for the company are sourced directly from municipalities. Since 2001, 31 general-purpose governments have filed for bankruptcy. While the number does not seem high, to prevent such extreme situations, municipalities outsource services they do not have the resources to support. In cases where local governments can no longer sustain their water practices, WTRG has an opportunity to purchase these assets, at a discount, while providing value to customers and enhancing its portfolio.

The market is undervaluing this earnings potential for WTRG given the poor sentiment of higher leverage and concerns with liquidity. The high leverage is a biproduct of the large-scale acquisition of Peoples for $4.275B which closed in March 2020. However, the Company has since de-levered from its peak leverage in 2020 by about 1.5x, and recently sold the lowest performing natural gas facet of the Peoples holding in West Virginia (closed October 4, 2023). As to be discussed in the following thesis, a strong plan for financing, and the eventual easing of rates within the investment horizon will outweigh current market sentiment. The Company would be at a greater disadvantage by not pursuing all acquisition opportunities, especially given the dire need for unification of the United State's water systems.

Rationale 3: Superior Capital Allocation

As we touched on in the last thesis, given the aggressive M&A strategy that WTRG has, the Company's allocation of capital is incredibly significant towards its continued growth and stability. When analyzing where the Company is allocating capital, investments in infrastructure are prioritized. As shown in the Q2 2023 earnings call presentation, WTRG is putting $547.6M into infrastructure investments with a specific target to replace 1,300 miles of water pipelines over the next two years. WTRG intends to not only reduce water loss and methane emissions through these investments, but also to strengthen the water systems environmental portfolio. Compared to 2015 levels, WTRG has tripled annual capital allocation and the rate base has maintained a CAGR of 9% and is projected to continue compounding at that rate through the end of 2023. Even looking at 2022 statistics for annual capital allocation, WTRG allocated $424.6M whereas a direct competitor American States Water Co (AWR) only spent around $167M to improve the Company's infrastructure.

Figure 9. Dividends Per Share (Annualized)



Moving focus towards the balance sheet, WTRG has maintained a very strong credit portfolio with an A rating from S&P and Baa2 from Moody's. The company has a leverage ratio (Net Debt/ EBITDA) of 6.85x which is higher compared to all of the Company's comparable companies, yet given that they have plans to pay off its debt and continue to fund acquisitions by using both debt and equity, it is not something investors should be wary of. Additionally, the Company's dividend payout ratio is around 60-65% which is lower than the industry average and further indicates that WTRG has consistency in paying dividends and retaining earnings. Since 2015, WTRG has consistently increased its dividend by a 7% CAGR and ensured that the payout does not exceed 65%. Currently the Company's annualized dividend rate is valued at $1.23 per share as shown in Figure 9. Essential Utilities' dividend yield is at 3.8%, which is higher than some of its most direct competitors including AWR, SJW, and CWT.

WTRG outlined in its most recent annual filing that the Company's 2023 capital investment plan relies on the ability to maintain its strong credit portfolio. To achieve this, WTRG's goal is to stay in both the debt and equity market. As of July 2023, WTRG issued around $300 million in common stock through an ATM to help fund the Company's acquisitions, specifically its municipal acquisition program. The choice to issue equity was likely fueled by the demand for more liquidity and a desire to increase working capital to further expand business operations and fund infrastructure projects such as water treatment plant upgrade, pipes, service lines, and rehabilitation of utility meters. Issuing equity also indicates that WTRG has confidence in its shareholders and future growth. Looking into the Company's debt profile, the 2022 10K reported that WTRG's total long-term debt outstanding was $6,617,395,000 but much of the debt, $5,445,182,000 is due after 5 years meaning it is less of a concern for our 3-5 investment horizon. It is also important to note that WTRG is planning on refinancing $221,345 of long-term debt over the course of 2024-2025 which will help the Company finance acquisitions while also maintaining ots strong credit rating and liquidity. Similarly, in 2019 WTRG issued equity and refinanced to fund its acquisition of People's Natural Gas which further shows how this business operates and feeds off of inorganic growth.

Several other things that truly strengthen the capital allocation are namely the executive team, the Company's diversified revenue streams, and regional diversity. Since 2015, the executive team has been led by CEO Christopher Franklin, who served as President and COO of WTRG for 30 years prior to becoming CEO. Under his leadership, Franklin has tripled the Company's market capitalization, implemented a successful growth-acquisition strategy which nearly doubled the customer base, and increased shareholders return by 100%. The growth strategy backed by the management team has pushed to diversify both geographically and across its streams of revenue. All of these factors contribute to Essential Utilities strong strategic capital allocation.

Risks

Industry Specific

Economic Optimism

As aforementioned, rising risk-free rates pulls from the inherent appeal of the defensible nature of equities within the utilities sector. Coupled with this is the economic optimism of investors following the non-stop raising of rates since March 2022. Unemployment has stabilized, with a 3.8% unemployment rate in August compared to 4.3% unemployment rate the same month a year prior. Consumer spending also rose in the summer months despite a slowing hiring rate. The economy is on track to grow 4% this quarter, compared to the 2.1% growth in the previous quarter. Thus, with a brighter economic outlook, there is potential for less investment in the utilities sector, than in the past few years with greater uncertainty.

Political Issues of Infrastructure Aid

In 2021, there were historical investments into infrastructure and combating climate related issues within the US through the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA). From this, there projects a combined investment of each act into energy and water of about $375B and $65B respectively. However, the funding is already facing issues, in terms of overall impact and distribution. Based on last year's results, states averaged a range of about 85-98% of granted funding from the IIJA. The use of funding is heavily dependent on the state, and then needs to be allocated between both municipal properties and privately owned utilities like WTRG. Thus, relationships with the state legislators are a key driver of capitalizing on this funding.

Industrial Input Inflation Catalyzed by IRA and IIJA

The funding from the government in the IRA and IIJA has led to increases of infrastructure industry commodities. From January 2021 to December 2022, there was a 25% increase in two-infrastructure-specific commodity indexes within the Producer Price Index (the roadway industry & the energy and communications industries). In analysis of the allocated total budget from the government with the IIJA by Brooking, it is estimated that if "inflation was 2.3% higher each year than expected, it would effectively cause infrastructure industries to lose $137 billion in estimated buying power via federal spending." So, with the persistent issues in water infrastructure, like the Association of State Dam Safety Officials (ASDSO) finding in 2022 that rehabilitating non-federal dams alone would cost upwards of $75B, seeming solutions to the crisis of water infrastructure are creating complicated issues for funding in the space. Utilities are reliant on this funding to be able to focus capital towards other areas like consolidation, as asset management is fundamental to the success of utility businesses.

Company Specific

Exposure to Extreme Weather

Extreme weather impacts the predictability of revenue for WTRG and usefulness of some of its services. As mentioned in the first thesis, the Company has a strong track record of responding to extreme weather and other unforeseen circumstances. However, it is an overarching issue for revenue brought in by the natural gas segment of the company. In Q1 2023, there was a decrease in revenue from the previous year ($.441M in Q1 2023 compared to $.446M in Q1 2022) because of overall higher temperatures in the areas of natural gas operation. According to the "Annual 2022 Global Climate Report" by the National Oceanic and Atmospheric Administration, each monthly global surface temperature ranked among the ten warmest for their respective month for 2022. Thus, there is some uncertainty in profitability of the natural gas revenue segment granted the extreme weather leads to higher temperatures.

Catalysts

Industry Specific

ESG Investing

Historically, there is an increase in the amount of sustainable funds and ESG investors increase the share price of US water utilities. In 2019, WTRG was up by 33% and outperformed both the utility sector and S&P due to an influx in ESG funds buying shares of the Company's stock. As ESG continues to become more important to investors over the next 3-5 years, it will be one of the drivers moving up the equity price of WTRG.

Water shortage

Water scarcity has become increasingly severe in recent years. In 2023, it was reported that globally nearly 2B people are going without access to safe drinking water and 3.6B have no access to safely regulated water sanitation. In correlation with the increased rates of water shortage, more investors seek ESG investing to combat water scarcity issues. Investors seek to invest more into water utilities because of the importance of finding water solutions and the fact that there is a limited amount of publicly traded water utilities, making them more valuable to investors. As water shortage becomes more severe due to climate change, increased levels of investments from ESG funds will benefit the share price of WTRG.

Company Specific

Leading Water Quality Commitment and PFAS Remediation

Ensuring safe water quality has become a growing concern given the emergence of PFAS, "forever chemicals" which can be found in nearly 45% of tap water. According to the EPA, 1 in 15 water systems face health-based violations on a year-to-year basis. Within the water utility industry, WTRG is the industry leader when it comes to water quality and purifying water to remove harmful contaminants such as PFAS, PFOS, and the PFNA compound. According to the Company's 2022 ESG report, WTRG outperformed the US standard when it comes to water quality, and this will continue to drive growth for the business as it pertains directly to people's health and wellbeing.

Strong Organic Growth Triggered by Increased Housing Developments

As noted in the Q1 earnings call, new housing developments in Western Pennsylvania are correlated to a higher demand for natural gas and water connections and a 2-3% customer growth. Geographic diversity has also contributed to significant organic growth in areas such as Indiana, Texas, North Carolina, and southeast Pennsylvania.

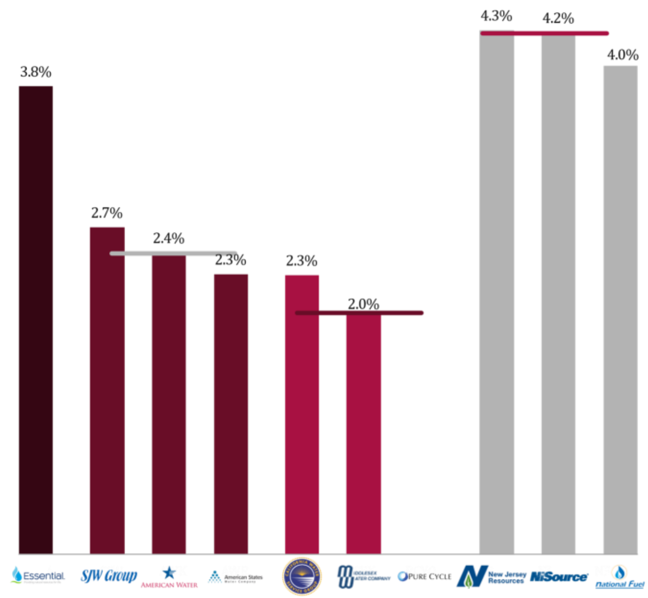
Relative Valuation – Comparable Companies

		Market Data		Valuation		Financial Performance		Utility Specific									
Tier	Company Name	Ticker	Market Cap (B)	P/E	EV/EBITDA Adj.	Leverage (LF)	Current Ratio (LF)	Dividend Indicated Yield	1 year total return	Net Debt to EBITDA (LF)	Total Debt to Total Capital	Price to Book	ROIC	ROE	ROA	EV/EBIT Adj
Direct Comparables	**Essential Utilities, Inc.**	WTRG	8.54	18.39x	15.49x	123.45%	0.53x	3.80%	-24.16%	6.85x	55.25%	1.52x	5.66%	8.51%	2.99%	23.12x
1	American States Water	AWR	2.80	23.98x	16.59x	109.76%	1.20x	2.27%	-5.79%	3.74x	52.33%	3.72x	8.99%	16.13%	5.73%	20.62x
1	SJW Group	SJW	1.82	20.16x	13.93x	139.25%	0.85x	2.65%	-3.57%	6.47x	58.20%	1.54x	4.89%	7.99%	2.44%	24.22x
1	American Water Works Co	AWK	22.57	24.62x	16.54x	126.41%	1.13x	2.44%	-11.90%	5.44x	55.83%	2.33x	5.55%	10.35%	3.19%	24.35x
Mean				**22.92x**	**15.69x**	**125.14%**	**1.06x**	**2.45%**	**-7.09%**	**5.22x**	**55.45%**	**2.53x**	**6.48%**	**11.49%**	**3.79%**	**23.06x**
Median				**23.98x**	**16.54x**	**126.41%**	**1.13x**	**2.44%**	**-5.79%**	**5.44x**	**55.83%**	**2.33x**	**5.55%**	**10.35%**	**3.19%**	**24.22x**
Other Water Service Businesses	**Essential Utilities, Inc.**	WTRG	8.54	18.39x	15.49x	123.45%	0.53x	3.80%	-24.16%	6.85x	55.25%	1.52x	5.66%	8.51%	2.99%	23.12x
2	California Water Service	CWT	2.64	39.85x	18.23x	84.93%	0.86x	2.26%	-15.37%	5.29x	45.93%	1.91x	1.66%	4.84%	1.64%	43.04x
2	Middlesex Water Company	MSEX	1.13	30.53x	21.23x	95.61%	0.46x	1.96%	-20.65%	5.41x	48.88%	2.74x	5.29%	9.31%	3.44%	35.79x
2	Pure Cycle Corp	PCYO	0.229	24.33x	11.32x	3.38%	4.88x	-	15.81%	-1.20x	3.27%	1.96x	5.81%	8.23%	7.57%	24.34x
Mean				**31.57x**	**16.93x**	**61.31%**	**2.07x**	**2.11%**	**-6.74%**	**3.17x**	**32.69%**	**2.20x**	**4.25%**	**7.46%**	**4.22%**	**34.39x**
Median				**30.53x**	**18.23x**	**84.93%**	**0.86x**	**2.11%**	**-15.37%**	**5.29x**	**45.93%**	**1.96x**	**5.29%**	**8.23%**	**3.44%**	**35.79x**
Alternative Utility Businesses	**Essential Utilities, Inc.**	WTRG	8.54	18.39x	15.49x	123.45%	0.53x	3.80%	-24.16%	6.85x	55.25%	1.52x	5.66%	8.51%	2.99%	23.12x
3	Nisource Inc	NI	9.69	16.24x	11.29x	166.71%	0.45x	4.23%	-5.87%	5.97x	62.51%	1.61x	5.24%	10.92%	2.69%	19.22x
3	National Fuel Gas Co	NFG	4.57	8.08x	5.90x	85.91%	0.61x	3.96%	-18.75%	2.05x	46.21%	1.57x	10.70%	22.73%	6.92%	8.78x
3	New Jersey Resources Corp	NJR	3.84	13.30x	12.20x	159.25%	0.78x	4.25%	2.27%	5.50x	61.43%	1.93x	6.78%	15.00%	4.52%	16.54x
Mean				**12.54x**	**9.80x**	**137.29%**	**0.61x**	**4.15%**	**-7.45%**	**4.51x**	**56.72%**	**1.70x**	**7.57%**	**16.22%**	**4.71%**	**14.85x**
Median				**13.30x**	**11.29x**	**159.25%**	**0.61x**	**4.23%**	**-5.87%**	**5.50x**	**61.43%**	**1.61x**	**6.78%**	**15.00%**	**4.52%**	**16.54x**
Low				**8.08x**	**5.90x**	**3.38%**	**0.45x**	**1.96%**	**-24.16%**	**-1.20x**	**3.27%**	**1.52x**	**1.66%**	**4.84%**	**1.64%**	**8.78x**
High				**39.85x**	**21.23x**	**166.71%**	**4.88x**	**4.25%**	**15.81%**	**6.85x**	**62.51%**	**3.72x**	**10.70%**	**22.73%**	**7.57%**	**43.04x**

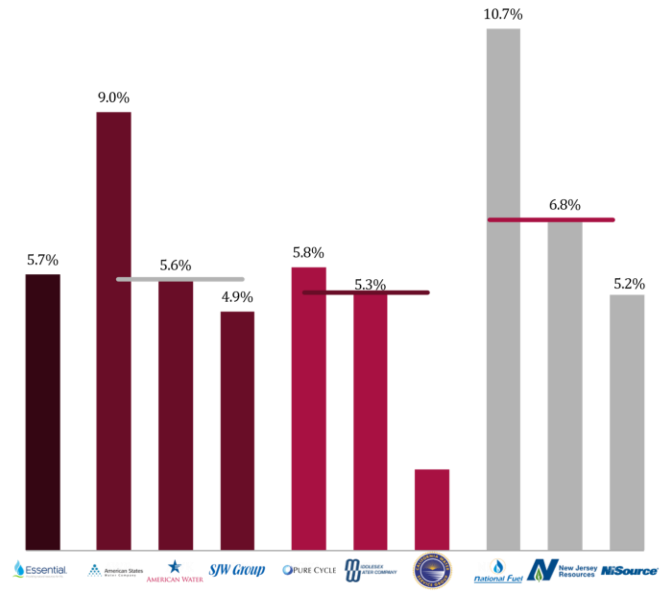
When evaluating comparable companies for WTRG, we divided the Company's peers into three main categories. The first tier includes the Company's direct comparables which are companies that have similar water and wastewater facilities. Additionally, Essential Utilities' market cap is somewhat closely correlated to that of WTRG, with AWK as an intentional outlier – the largest player in the water utility market. The second tier includes other water service businesses that operate in the same market and the third tier consists of alternative utility businesses that offer services such as natural gas. As seen below, WTRG is trading lower than its peers and has higher leverage, yet its dividend yield remains above both tier 1 and tier 2 companies and reflects the reliability of the Company.

Benchmarking

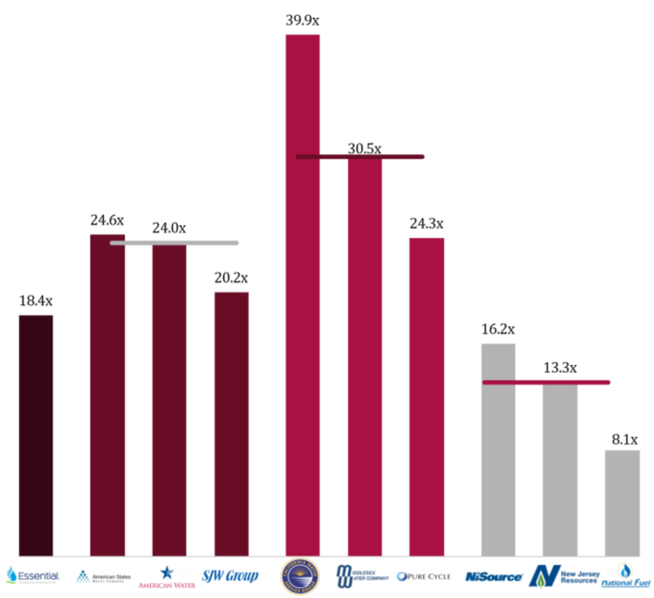
Dividend Yield



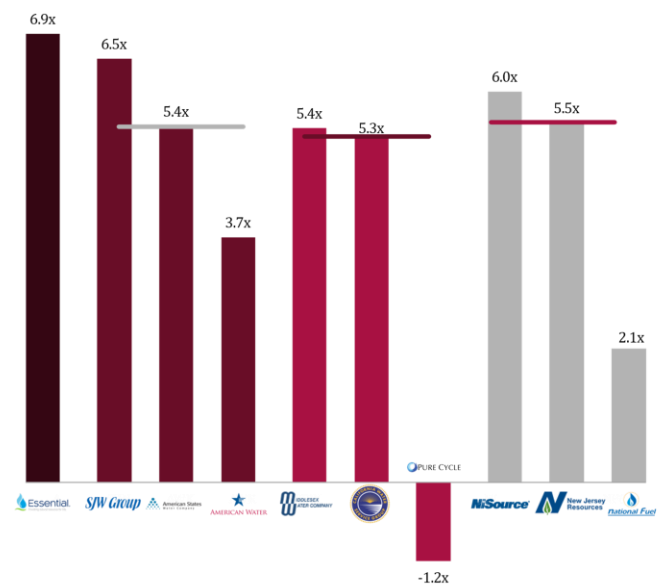
Return on Invested Capital



Price to Earnings



Net Debt / EBITDA



Intrinsic Valuation – Discounted Dividend Model

We valued WTRG using a dividend discount model to yield a discounted share price upside of 86.4% assuming a P/E multiple of 18.39x and projected dividend payout ratio of 65.2%. The P/E multiple is reflective of the current multiple and the dividend payout ratio is around the ceiling of what management states (65% as a maximum potential payout ratio). To arrive at the dividend payout ratio, we referred to historical dividends, as the company in the past four years raised the dividends per share once every four quarters and recently announced its new raise. We then applied the projected EPS and projected dividends per share for 2023 to get to the ~65% dividend payout ratio.

At the core of the model are conservative revenue projections for the business. Given the aggressive acquisitions and realized synergies from the large-scale acquisition of Peoples in 2020, our model does not match the current pacing of revenue growth (CAGR from 2020-2022 being 25.1% compared to 13.1%). Additionally, we were bearish in operating expenses, given the constricting nature of rising rates / industrial input inflation combined with the recent weather extremities. Finally, we were more conservative than management's estimates of a 6-8% CAGR in the water segments, with an average CAGR for water and wastewater being 6.2% and 7% respectively (historically wastewater growth has significantly outpaced the water revenue segment). Thus, we sustain our valuation which implies a 86.4% upside to the discounted share price.

General Assumptions	
Current Share Price	$34.23
P/E Mutliple	18.4x
Latest closing share price date	10/10/2022
Basic shares outstanding	262.2
Diluted shares outstanding	262.9

CAPM	8.8%
Beta	0.77
Risk Free Rate	4.67%
ERM	10.0%
Market Value of Equity	8,998
Cost of Equity	**8.77%**

WTRG DDM Valuation	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027
Net Income	$ 478	$ 615	$ 682	$ 781	$ 871
P/E Multiple	18.4x	18.4x	18.4x	18.4x	18.4x
Value of Equity	$ 8,792	$ 11,302	$ 12,544	$ 14,362	$ 16,024
Diluted Shares Outstanding	262.9	262.9	262.9	262.9	262.9
Share Price	$ 33.44	$ 42.99	$ 47.72	$ 54.63	$ 60.96
Upside (downside)	*-2%*	*26%*	*39%*	*60%*	*78%*
Dividends	$ 1.14	$ 1.52	$ 1.69	$ 1.94	$ 2.16
PV of Dividends	$ 1.05	$ 1.40	$ 1.55	$ 1.78	$ 1.99
Sum of PV of Dividends	$ 1.05	$ 2.45	$ 4.00	$ 5.79	$ 7.77
Discounted Share Price + Dividend	$ 31.80	$ 41.98	$ 47.87	$ 56.01	$ 63.81
Discounted Share Price Upside	***-7.1%***	***22.6%***	***39.9%***	***63.6%***	***86.4%***

	2019	2020	2021	2022	2023E
EPS	$1.04	$1.09	$1.67	$1.77	$ 1.8
Dividend Payout Ratio	87.2%	88.6%	62.1%	62.7%	65.2%
Dividends	$0.91	$0.97	$1.04	$1.11	$1.19

CAPM \ P/E	16.4x	16.9x	17.4x	17.9x	18.4x	18.9x	19.4x	19.9x	20.4x
6.8%	$59.54	$61.11	$62.68	$64.26	$65.83	$67.40	$68.97	$70.54	$72.11
7.3%	$59.26	$60.83	$62.39	$63.96	$65.52	$67.09	$68.65	$70.21	$71.78
7.8%	$58.99	$60.55	$62.10	$63.66	$65.22	$66.77	$68.33	$69.89	$71.45
8.3%	$58.72	$60.27	$61.82	$63.37	$64.92	$66.47	$68.02	$69.57	$71.12
8.8%	$58.45	$59.99	$61.53	$63.07	$64.62	$66.16	$67.70	$69.25	$70.79
9.3%	$58.18	$59.71	$61.25	$62.79	$64.32	$65.86	$67.39	$68.93	$70.46
9.8%	$57.91	$59.44	$60.97	$62.50	$64.03	$65.56	$67.09	$68.61	$70.14
10.3%	$57.65	$59.17	$60.69	$62.22	$63.74	$65.26	$66.78	$68.30	$69.83
10.8%	$57.39	$58.91	$60.42	$61.94	$63.45	$64.97	$66.48	$68.00	$69.51

CAPM \ P/E	16.4x	16.9x	17.4x	17.9x	18.4x	18.9x	19.4x	19.9x	20.4x
6.8%	73.94%	78.53%	83.13%	87.72%	92.31%	96.90%	101.49%	106.08%	110.68%
7.3%	73.13%	77.70%	82.27%	86.84%	91.41%	95.98%	100.55%	105.12%	109.69%
7.8%	72.33%	76.88%	81.43%	85.98%	90.53%	95.07%	99.62%	104.17%	108.72%
8.3%	71.53%	76.06%	80.59%	85.12%	89.65%	94.17%	98.70%	103.23%	107.76%
8.8%	70.74%	75.25%	79.76%	84.27%	88.77%	93.28%	97.79%	102.29%	106.80%
9.3%	69.96%	74.45%	78.94%	83.42%	87.91%	92.40%	96.88%	101.37%	105.86%
9.8%	69.19%	73.66%	78.12%	82.59%	87.05%	91.52%	95.99%	100.45%	104.92%
10.3%	68.42%	72.87%	77.31%	81.76%	86.21%	90.65%	95.10%	99.54%	103.99%
10.8%	67.66%	72.09%	76.51%	80.94%	85.36%	89.79%	94.22%	98.64%	103.07%

Appendix

Christopher Franklin (CEO) serves as Chairman and Cheif Executive Officer of WTRG since his appointment in 2015. Prior to becoming CEO, Franklin served as president and Chief Operating Officer. In total, Franklin has worked with the Company for over 30+ years and has experience holding executive roles, managing operations, and handling public affairs.

Daniel Schuller (CFO) serves as Executive Vice President and Chief Financial Officer since his appointment in 2018. Prior to this, he worked on the Company's strategy and corporate development helping to design their strategic acquisition effort. Before joining WTRG, he served as investment principal on J.P. Morgan Asset Management – Infrastructure Investments Group.

Sumit Nair (CIO) serves as Vice President and Chief Information Officer of WTRG since his appointment in 2022. In his role, he oversees all of the Company's information technology services and infrastructure. Nair brings with him 30+ years of experience implementing IT strategy and solutions that help improve business efficiency.

Colleen Arnold (President, Aqua) has served as President of the Aqua division at WTRG which is the water and wastewater branch of the Company since 2015. She has worked with Aqua for 10+ years and has over 25+ years of experience managing utility operations. She also has a background in environmental engineering and has a MBA from Villanova University.

Michael Huwar (President, Peoples) has served as President of the Peoples division of WTRG since 2017. Prior to this, he worked for 34+ years with Columbia's Pennsylvania and Maryland divisions and oversaw their natural gas operations.

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