

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

ARTNA - NASDAQ - as of 8/2/17	\$39.40
Price Target	--
52-Week Range	\$26.28 - \$41.90
Shares Outstanding (mm)	8.3
Market Cap. (\$mm)	\$325.6
1-Mo. Average Daily Volume	21,982
Institutional Ownership	41.4%
LT Debt/Total Capital	Q2'17 36.3%
ROE	TTM 9.7%
Book Value / Share	Q2'17 \$15.56
Price / Book Value	2.5x
Dividend Yield	2.4%
EBITDA Margin	FY'16 45.9%

EPS FY 12/31

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$0.31	--	\$0.34	A --	--
2Q	\$0.33	--	\$0.35	A --	--
3Q	\$0.48	\$0.45	\$0.45	--	--
4Q	\$0.30	\$0.33	\$0.32	--	--
Year	\$1.41	\$1.49	\$1.46	\$1.59	\$1.55
P/E	27.9x		27.0x		25.4x

Revenue (\$mm)

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
1Q	\$18.4	--	\$19.3	A --	--
2Q	\$19.4	--	\$20.5	A --	--
3Q	\$21.8	\$22.1	\$22.1	--	--
4Q	\$19.4	\$20.2	\$20.2	--	--
Year	\$79.1	\$82.0	\$82.0	\$85.2	\$85.2

Company Description: *Artesian Resources Corp., through its wholly owned subsidiary, Artesian Water Company, provides water service to approximately 85,000 metered customers, and has a customer base of ~275,000 residents in DE, MD, and PA. It sells water to residential, commercial, industrial, governmental, municipal, and utility customers, and also provides wastewater treatment services.*

Water Utilities

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Artesian Resources Corp.

ARTNA — NASDAQ — Neutral-3

Q2'17 Results, Reiterating Neutral
Investment Highlights

- Artesian reported Q2'17 EPS of \$0.35 vs. \$0.33 in Q2'16; EPS fell \$0.03 short of our target, which was the sole published estimate. A lower effective tax rate aided in Q2 as did lower interest expense from a Q1 refinancing; core operations were positive as well. A charity donation cost ARTNA about \$0.02/share in the quarter, and will not necessarily repeat next year.
- Total revenue grew 5.7% to \$20.5MM in the second quarter, essentially in line with our estimate. Usage was up yr/yr (usually a function of weather); DSIC surcharges were also an incremental driver.
- Utility operating expenses grew 9.4% in Q2, well ahead of our estimate for +3.0% and driving much of the EPS miss versus our target. Total Op Ex (inclusive of D&A and non-utility) was higher by 8.4% yr/yr.
- The company does not 'guide' to rate case activity, but at this point we stick with our revised base case that ARTNA will file general rate case in DE in spring-2018. Given TTM earned-ROE at 9.7% as of Q2'17, we see little potential for a filing in 2017.
- We also believe a more active recent M&A effort could be a catalyst to see a filing from ARTNA.
- YTD Cap Ex was \$17.1MM versus \$12.1MM.
- Mostly reflecting the downside to our Q2 estimate, our 2017E EPS slides to \$1.46; in sympathy, our 2018E EPS falls \$0.04 to \$1.55, but remains sensitive to developments in our rate outlook.
- We are reiterating our Neutral rating. We see tougher comps in 2H'17 (particularly for Q3) and believe much of the positive relative value argument we cited early in the year has been eliminated.
- Similarly, we like the story with re-accelerating capital spend and a potential rate case next year; however, we believe investors could see a more compelling entry point.

**Note Important Disclosures on Pages 5-6
Note Analyst Certifications on Page 5**

SUITABILITY

We assign ARTNA a suitability rating of '3.' A complete description of our suitability scale is on page 5. Artesian's small-cap status, relatively low trading volume and a lack of regional diversification versus most Utility sector peers keep ARTNA below our '2' suitability rating. Industry-appropriate leverage, tenured monopoly franchises and a seemingly amicable regulatory environment keep ARTNA well above our most aggressive '4' rating.

CONSIDERATIONS AND RISKS

We view all companies in the Water Utilities industry as being subject to significant regulatory and political risk. Utility operations are heavily regulated; negative rate-making climates and/or new environmental restrictions may affect the company's ability to earn a sufficient return on invested capital. Weather, natural disaster, and availability of water supplies could negatively impact sources of water, demand for water services, and a utility's ability to supply water to customers. Risks associated with the collection, treatment, and disposal of wastewater could also impose significant costs.

Significant capital expenditures are required to maintain infrastructure and expand rate base. Should the company suffer from a lack of ability to secure appropriate funding to make investments, or if delays are incurred in completing projects, operating results could be negatively affected. Contamination of water could result in service interruptions or cause enforcement actions. Water assets can be subject to condemnation through eminent domain.

Artesian operates with limited geographical diversity. As such, the company's operating results may be more sensitive to negative events that directly affect its regions of operations. Additionally, the company is subject to all other risks that result from operating as a publicly traded company.

Our Suitability rating is 3 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Artesian Resources Corp.

Summary Balance Sheet	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17p	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$243	\$209	\$511	\$223	\$244	\$226	\$226	\$200	\$100	\$6,020	\$5,200	\$5,200	\$4,070
A/R	5,065	6,350	5,809	7,885	7,849	7,796	7,796	6,000	8,340	7,950	8,100	8,100	8,550
Other CAs	11,340	7,885	5,770	5,879	7,786	6,613	6,613	5,981	4,467	7,940	6,750	6,750	6,890
Total Current Assets	16,648	14,444	12,090	13,987	15,879	14,635	14,635	12,181	12,907	21,910	20,050	20,050	19,510
Net PP&E	393,793	405,606	407,173	413,642	419,952	425,502	425,502	430,749	438,259	443,850	448,860	448,860	472,990
Other	11,772	11,576	11,543	11,329	11,108	10,839	10,839	15,555	15,467	11,330	11,060	11,060	11,280
Total Assets	422,213	431,626	\$430,806	\$438,958	\$446,939	\$450,976	450,976	\$458,485	\$466,633	\$477,090	\$479,970	479,970	503,780
LOC	18,491	10,487	6,466	4,818	4,008	7,130	7,130	3,892	10,890	8,890	13,890	13,890	(110)
A/P	3,783	4,914	3,052	3,633	4,402	5,532	5,532	4,341	3,840	4,460	5,750	5,750	6,070
Accrued Exp	1,513	1,254	1,501	2,205	2,570	1,309	1,309	2,506	2,000	2,370	1,090	1,090	860
Other CLs	6,405	6,563	6,419	6,796	9,913	5,357	5,357	32,227	27,480	10,110	5,460	5,460	5,570
Total Current Liabilities	30,192	23,218	17,438	17,452	20,893	19,328	19,328	42,966	44,210	25,830	26,190	26,190	12,390
LTD	104,954	103,647	103,259	102,992	102,599	102,331	102,331	81,533	81,262	82,980	82,700	82,700	105,570
Def Income Tax	57,043	62,156	63,518	64,711	66,449	68,453	68,453	69,695	65,360	67,110	69,140	69,140	69,830
Net CIAC	92,429	99,847	102,842	108,118	110,868	112,106	112,106	114,352	118,679	119,430	120,180	120,180	123,180
Other	11,990	10,427	10,212	10,297	10,253	9,735	9,735	9,466	14,583	10,460	9,930	9,930	10,130
Shareholders' Equity	125,605	132,331	133,537	135,388	135,877	139,023	139,023	140,473	142,539	171,280	171,830	171,830	182,680
Total Liab & SE	\$422,213	\$431,626	\$430,806	\$438,958	\$446,939	\$450,976	450,976	\$458,485	\$466,633	\$477,090	\$479,970	479,970	503,780
Summary Cash Flow	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income	\$9,506	\$11,305	\$2,830	\$3,041	\$4,360	\$2,723	\$12,954	\$3,086	\$3,251	\$4,130	\$2,990	\$13,460	\$14,370
D&A	8,673	8,837	2,315	2,249	2,270	2,353	9,188	2,319	2,329	2,410	2,490	9,550	10,110
Deferred Tax	7,255	5,097	543	1,188	1,733	1,633	5,097	1,237	750	750	750	3,490	3,000
(Inc) / Dec in Wrk Cap	(7,103)	3,200	897	(523)	2,380	(3,461)	(707)	2,304	(6,580)	7,540	(3,600)	(340)	(390)
Operating Cash Flow	18,331	28,439	6,585	5,955	10,743	3,248	26,532	8,946	(250)	14,830	2,630	26,160	27,090
Cap Ex	(23,730)	(20,694)	(4,270)	(7,780)	(7,954)	(8,247)	(28,251)	(7,664)	(9,436)	(8,000)	(7,500)	(32,600)	(34,240)
Dividends	(7,523)	(7,811)	(2,010)	(2,042)	(2,047)	(2,081)	(8,180)	(2,084)	(2,120)	(2,130)	(2,170)	(8,500)	(8,860)
Free Cash Flow	(12,922)	(66)	305	(3,867)	742	(7,080)	(9,899)	(802)	(11,806)	4,700	(7,040)	(14,940)	(16,010)
Net Adv and CIAC	3,808	5,829	3,214	4,495	2,156	42	9,907	2,128	1,000	1,000	1,000	5,130	4,000
LTD Proceeds	689	-	-	-	-	-	-	0	-	-	-	-	25,000
LTD (Repay)	(1,132)	(1,263)	(379)	(263)	(383)	(264)	(1,289)	(290)	(280)	(280)	(280)	(1,130)	(26,120)
Net LOC Borrow / (Repay)	8,159	(8,004)	(4,021)	(1,648)	(4,106)	6,418	(3,357)	(3,238)	7,000	-	5,000	8,760	10,000
Stock Issued	1,651	3,049	386	830	225	385	1,826	414	500	500	500	1,910	2,000
Net Cash Flow	253	(455)	(495)	(453)	(1,366)	(499)	(2,812)	(1,788)	(3,586)	5,920	(820)	(270)	(1,130)
EBITDA	\$ 31,094	\$ 34,203	\$ 8,120	\$ 8,941	\$ 10,713	\$ 8,564	\$ 36,338	\$ 8,405	\$ 9,082	\$ 10,800	\$ 9,040	\$ 37,330	\$ 39,240
EBITDA Margin	42.9%	44.4%	44.0%	46.1%	49.1%	44.1%	45.9%	43.8%	44.3%	48.8%	44.8%	45.5%	46.1%
EV / TTM EBITDA	9.9x	10.4x	10.3x	12.1x	10.4x	10.9x	10.9x	10.4x	12.0x	11.9x	11.8x	11.8x	12.0x
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Book Value	\$ 14.04	\$ 14.55	\$ 14.63	\$ 14.79	\$ 14.81	\$ 15.13	\$ 15.13	\$ 15.26	\$ 15.56	\$ 18.64	\$ 18.64	\$ 18.64	\$ 19.58
Price / Book	1.6x	1.9x	1.9x	2.3x	1.9x	2.1x	2.1x	2.1x	2.5x	2.1x	2.1x	2.1x	2.0x
LTD / Total Cap	45.5%	43.9%	43.6%	43.2%	43.0%	42.4%	42.4%	36.7%	36.3%	32.6%	32.5%	32.5%	36.6%
ROE (TTM)	7.7%	8.8%	9.0%	8.7%	9.1%	9.6%	9.6%	9.7%	9.7%	9.0%	8.8%	8.8%	8.5%

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

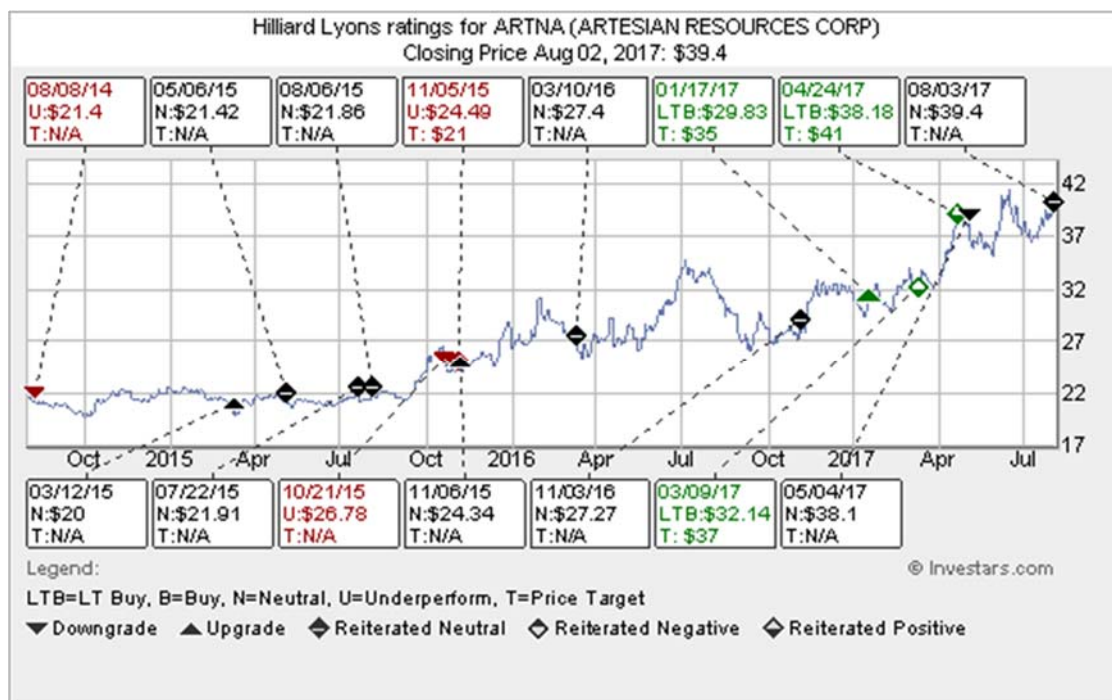
Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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