

**COMPANY UPDATE / RATING CHANGE
ESTIMATE CHANGE / TARGET CHANGE**
Key Metrics

| | |
|-------------------------------|-------------------|
| ARTNA - NASDAQ - as of 5/3/17 | \$38.10 |
| Price Target | -- |
| 52-Week Range | \$26.02 - \$40.40 |
| Shares Outstanding (mm) | 9.2 |
| Market Cap. (\$mm) | \$348.8 |
| 1-Mo. Average Daily Volume | 22,564 |
| Institutional Ownership | 43.5% |
| LT Debt/Total Capital | Q1'17 36.7% |
| ROE | TTM 9.7% |
| Book Value / Share | Q1'17 \$15.26 |
| 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 | \$0.41 | \$0.38 | -- | -- |
| 3Q | \$0.48 | \$0.45 | \$0.45 | -- | -- |
| 4Q | \$0.30 | \$0.35 | \$0.33 | -- | -- |
| Year | \$1.41 | \$1.55 | \$1.49 | \$1.70 | \$1.59 |
| P/E | 27.0x | | 25.6x | | 24.0x |

Revenue (\$mm)

| | | Prior | Current | Prior | Current |
|------|--------|--------|---------|--------|---------|
| | 2016A | 2017E | 2017E | 2018E | 2018E |
| 1Q | \$18.4 | -- | \$19.3 | A -- | -- |
| 2Q | \$19.4 | \$20.8 | \$20.5 | -- | -- |
| 3Q | \$21.8 | \$22.0 | \$22.1 | -- | -- |
| 4Q | \$19.4 | \$20.3 | \$20.2 | -- | -- |
| Year | \$79.1 | \$82.3 | \$82.0 | \$86.2 | \$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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May 4, 2017

Artesian Resources Corp.

ARTNA — NASDAQ — Neutral-3

Q1'17 Results, Downgrading to Neutral
Investment Highlights

- We are downgrading our rating on ARTNA to Neutral from Long-term Buy, and remove our prior 2-year price target of \$41. Our suitability rating remains '3.'
- Artesian reported Q1'17 EPS of \$0.34 vs. \$0.31 in Q1'16; EPS fell a penny short of our target, which was the sole published estimate. Reduced interest expense was the primary driver of yr/yr EPS growth, though core operations were positive as well.
- Total revenue grew 4.0% in the first quarter, just below our 4.4%. DSIC surcharges and customer additions were contributors, though 'other' utility revenue drove ~1/5th of growth on expanded services.
- Utility operating expenses grew 4.2% in Q1, about 170bps above our model and compelling us to revisit our full-year assumption following several strong years of operating performance.
- At this juncture, we shift our base case from a 2017 DE general rate case filing to a 2018 filing. Given earned-ROE at 9.7% as of Q1'17, and having moved past the much of spring (when the past couple of cases have been filed), we believe our move is justified.
- Our 2017/2018 EPS estimates slide lower as we tweak our revenue model for the rate case item and take a more cautious stance on 2017 Op Ex. Given recent momentum in ARTNA (including +19% YTD), these revisions do factor into our downgrade.
- Despite our downgrade, we still hold a positive bias toward fundamentals relative to our outlook over much of the past several years. The reduction in interest that aided Q1 should benefit the balance of calendar 2017, and we still believe a general rate case could be a catalyst at some point.
- We more/less wait for improved risk/reward based on valuation and/or our portfolio of catalysts.
- ARTNA announced a 1.5% dividend increase on 5/4.

**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.

| Income Statements (000's) | 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 |
|----------------------------------|---------------|---------------|---------------|-------------------|---------------|-------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Revenues | | | | | | | | | | | | | |
| Water Sales | \$64,667 | \$68,932 | \$16,436 | \$17,323 | \$19,680 | \$17,147 | \$70,587 | \$16,935 | \$18,380 | \$19,920 | \$17,820 | \$73,060 | \$75,930 |
| Other Utility Op Rev | 3,648 | 3,694 | 865 | 912 | 976 | 1,064 | 3,816 | 1,020 | 1,000 | 1,020 | 1,140 | 4,180 | 4,430 |
| Non-Utility Op Rev | 4,150 | 4,398 | 1,148 | 1,160 | 1,172 | 1,206 | 4,686 | 1,235 | 1,170 | 1,180 | 1,220 | 4,810 | 4,860 |
| Total Op Revenue | 72,465 | 77,024 | 18,449 | 19,395 | 21,828 | 19,417 | 79,089 | 19,190 | 20,550 | 22,120 | 20,180 | 82,050 | 85,220 |
| Operating Expenses | | | | | | | | | | | | | |
| Utility Op Expense | 34,893 | 36,148 | 8,546 | 8,766 | 9,292 | 9,055 | 35,658 | 8,905 | 9,030 | 9,520 | 9,330 | 36,790 | 37,890 |
| Non-Utility Op Expense | 2,193 | 2,305 | 635 | 590 | 698 | 678 | 2,602 | 686 | 640 | 650 | 670 | 2,650 | 2,680 |
| D & A | 8,673 | 8,837 | 2,315 | 2,249 | 2,270 | 2,353 | 9,188 | 2,319 | 2,380 | 2,390 | 2,480 | 9,570 | 10,060 |
| Taxes | | | | | | | | | | | | | |
| State and Federal Income | 6,375 | 7,784 | 1,952 | 2,023 | 2,498 | 1,859 | 8,331 | 2,095 | 2,400 | 2,800 | 2,050 | 9,350 | 9,900 |
| Property & Other | 4,285 | 4,368 | 1,148 | 1,098 | 1,125 | 1,120 | 4,491 | 1,194 | 1,120 | 1,150 | 1,140 | 4,600 | 4,690 |
| Total Op Expenses | 56,419 | 59,442 | 14,596 | 14,726 | 15,883 | 15,065 | 60,270 | 15,199 | 15,570 | 16,510 | 15,670 | 62,960 | 65,220 |
| Operating Income | 16,046 | 17,582 | 3,853 | 4,669 | 5,945 | 4,352 | 18,819 | 3,991 | 4,980 | 5,610 | 4,510 | 19,090 | 20,000 |
| % | 22.1% | 22.8% | 20.9% | 24.1% | 27.2% | 22.4% | 23.8% | 20.8% | 24.2% | 25.4% | 22.3% | 23.3% | 23.5% |
| Other Income / (Expense) | 853 | 721 | 680 | 18 | 61 | 19 | 779 | 652 | 49 | 61 | 19 | 781 | 781 |
| Income Before Interest | 16,899 | 18,303 | 4,533 | 4,687 | 6,006 | 4,371 | 19,598 | 4,643 | 5,029 | 5,671 | 4,529 | 19,871 | 20,781 |
| Interest | 7,393 | 6,998 | 1,703 | 1,646 | 1,646 | \$1,648 | 6,644 | 1,557 | 1,500 | 1,500 | 1,510 | 6,067 | 5,890 |
| Net Income | \$9,506 | \$11,305 | \$2,830 | \$3,041 | \$4,360 | \$2,723 | \$12,954 | \$3,086 | \$3,529 | \$4,171 | \$3,019 | \$13,804 | \$14,891 |
| EPS (FD) | \$1.06 | \$1.26 | \$0.31 | \$0.33 | \$0.48 | \$0.30 | \$1.41 | \$0.34 | \$0.38 | \$0.45 | \$0.33 | \$1.49 | \$1.59 |
| Diluted Avg Shares | 8,926 | 9,005 | 9,130 | 9,155 | 9,177 | 9,187 | 9,098 | 9,204 | 9,232 | 9,259 | 9,287 | 9,245 | 9,358 |
| Cash div. per share of com. stk. | \$0.8477 | \$0.8733 | \$0.2216 | \$0.2249 | \$0.2249 | \$0.2283 | \$0.8997 | \$0.2283 | \$0.232 | \$0.232 | \$0.235 | \$0.927 | \$0.955 |
| Rate of Change Analysis: | | | | | | | | | | | | | |
| | 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 |
| Revenues | 4.9% | 6.3% | 2.7% | -0.7% | 5.1% | 3.6% | 2.7% | 4.0% | 6.0% | 1.3% | 3.9% | 3.7% | 3.9% |
| Utility Op Ex | 1.1% | 3.6% | -1.3% | 3.1% | 2.8% | -9.0% | -1.4% | 4.2% | 3.0% | 2.5% | 3.0% | 3.2% | 3.0% |
| Operating Income | 10.8% | 9.6% | 4.9% | -6.3% | 10.2% | 23.3% | 7.0% | 3.6% | 6.7% | -5.6% | 3.6% | 1.4% | 4.8% |
| EPS | 13.4% | 18.0% | 9.4% | -7.9% | 15.6% | 46.9% | 12.5% | 8.2% | 15.1% | -5.2% | 9.7% | 5.6% | 6.6% |
| EBITDA | 9.8% | 10.0% | 6.2% | -4.6% | 6.2% | 20.6% | 6.2% | 3.5% | 9.2% | 0.8% | 5.6% | 4.6% | 5.1% |
| Margin Analysis: | | | | | | | | | | | | | |
| Utility: Op Exp / Rev | 51.1% | 49.8% | 49.4% | 48.1% | 45.0% | 49.7% | 47.9% | 49.6% | 46.6% | 45.5% | 49.2% | 47.6% | 47.2% |
| Non Utility: Op Exp / Rev | 52.8% | 52.4% | 55.3% | 50.9% | 59.6% | 56.2% | 55.5% | 55.5% | 54.7% | 55.1% | 54.9% | 55.1% | 55.1% |
| Net Income Margin | 13.1% | 14.7% | 15.3% | 15.7% | 20.0% | 14.0% | 16.4% | 16.1% | 17.2% | 18.9% | 15.0% | 16.8% | 17.5% |
| Tax Rate | 40.1% | 40.8% | 40.8% | 39.9% | 36.4% | 40.6% | 39.1% | 40.4% | 40.5% | 40.2% | 40.4% | 40.4% | 39.9% |
| | | | | 1.5% div raise | | 1.5% div raise | | | | | | | |

Source: Company reports and Hilliard Lyons estimates

Artesian Resources Corp.

| Summary Balance Sheet | FY'14 | FY'15 | Q1'16 | Q2'16 | Q3'16 | Q4'16 | FY'16 | Q1'17p | Q2'17E | Q3'17E | Q4'17E | FY'17E | FY'18E |
|-------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash | \$243 | \$209 | \$511 | \$223 | \$244 | \$226 | \$226 | \$200 | \$330 | \$1,400 | \$550 | \$550 | \$1,330 |
| A/R | 5,065 | 6,350 | 5,809 | 7,885 | 7,849 | 7,796 | 7,796 | 6,000 | 8,350 | 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 | 6,000 | 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 | 14,680 | 17,290 | 15,400 | 15,400 | 16,770 |
| Net PP&E | 393,793 | 405,606 | 407,173 | 413,642 | 419,952 | 425,502 | 425,502 | 430,749 | 436,370 | 441,980 | 447,000 | 447,000 | 469,710 |
| Other | 11,772 | 11,576 | 11,543 | 11,329 | 11,108 | 10,839 | 10,839 | 15,555 | 11,560 | 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 | \$462,610 | \$470,600 | \$473,460 | 473,460 | 497,760 |
| LOC | 18,491 | 10,487 | 6,466 | 4,818 | 4,008 | 7,130 | 7,130 | 28,000 | 35,000 | 35,000 | 40,000 | 40,000 | 26,000 |
| A/P | 3,783 | 4,914 | 3,052 | 3,633 | 4,402 | 5,532 | 5,532 | 3,000 | 3,850 | 4,460 | 5,750 | 5,750 | 6,070 |
| Accrued Exp | 1,513 | 1,254 | 1,501 | 2,205 | 2,570 | 1,309 | 1,309 | 1,200 | 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 | 10,766 | 6,930 | 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 | 47,780 | 51,940 | 52,300 | 52,300 | 38,500 |
| LTD | 104,954 | 103,647 | 103,259 | 102,992 | 102,599 | 102,331 | 102,331 | 81,533 | 82,910 | 82,630 | 82,340 | 82,340 | 105,220 |
| Def Income Tax | 57,043 | 62,156 | 63,518 | 64,711 | 66,449 | 68,453 | 68,453 | 65,000 | 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 | 115,100 | 115,850 | 116,600 | 116,600 | 119,600 |
| Other | 11,990 | 10,427 | 10,212 | 10,297 | 10,253 | 9,735 | 9,735 | 14,161 | 10,500 | 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 | 140,960 | 142,610 | 143,150 | 143,150 | 154,480 |
| Total Liab & SE | \$422,213 | \$431,626 | \$430,806 | \$438,958 | \$446,939 | \$450,976 | 450,976 | \$458,485 | \$462,610 | \$470,600 | \$473,460 | 473,460 | 497,760 |
| Summary Cash Flow | FY'14 | FY'15 | Q1'16 | Q2'16 | Q3'16 | Q4'16 | FY'16 | Q1'17p | 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 | \$3,530 | \$4,170 | \$3,020 | \$13,800 | \$14,890 |
| D&A | 8,673 | 8,837 | 2,315 | 2,249 | 2,270 | 2,353 | 9,188 | 2,319 | 2,380 | 2,390 | 2,480 | 9,570 | 10,060 |
| Deferred Tax | 7,255 | 5,097 | 543 | 1,188 | 1,733 | 1,633 | 5,097 | 750 | 750 | 750 | 750 | 3,000 | 3,000 |
| (Inc) / Dec in Wrk Cap | (7,103) | 3,200 | 897 | (523) | 2,380 | (3,461) | (707) | 5,196 | (4,610) | 2,690 | (3,640) | (360) | (340) |
| Operating Cash Flow | 18,331 | 28,439 | 6,585 | 5,955 | 10,743 | 3,248 | 26,532 | 11,351 | 2,050 | 10,000 | 2,610 | 26,010 | 27,610 |
| Cap Ex | (23,730) | (20,694) | (4,270) | (7,780) | (7,954) | (8,247) | (28,251) | (7,700) | (8,000) | (8,000) | (7,500) | (31,200) | (32,770) |
| Dividends | (7,523) | (7,811) | (2,010) | (2,042) | (2,047) | (2,081) | (8,180) | (2,100) | (2,140) | (2,150) | (2,180) | (8,570) | (8,940) |
| Free Cash Flow | (12,922) | (66) | 305 | (3,867) | 742 | (7,080) | (9,899) | 1,551 | (8,090) | (150) | (7,070) | (13,760) | (14,100) |
| Net Adv and CIAC | 3,808 | 5,829 | 3,214 | 4,495 | 2,156 | 42 | 9,907 | 2,200 | 1,000 | 1,000 | 1,000 | 5,200 | 4,000 |
| LTD Proceeds | 689 | - | - | - | - | - | - | 35,400 | - | - | - | 35,400 | 25,000 |
| LTD (Repay) | (1,132) | (1,263) | (379) | (263) | (383) | (264) | (1,289) | (35,680) | (280) | (280) | (280) | (36,520) | (26,120) |
| Net LOC Borrow / (Repay) | 8,159 | (8,004) | (4,021) | (1,648) | (4,106) | 6,418 | (3,357) | (4,000) | 7,000 | 5,000 | 5,000 | 8,000 | 10,000 |
| Stock Issued | 1,651 | 3,049 | 386 | 830 | 225 | 385 | 1,826 | 500 | 500 | 500 | 500 | 2,000 | 2,000 |
| Net Cash Flow | 253 | (455) | (495) | (453) | (1,366) | (499) | (2,812) | (29) | 130 | 1,070 | (850) | 320 | 780 |
| EBITDA | \$ 31,094 | \$ 34,203 | \$ 8,120 | \$ 8,941 | \$ 10,713 | \$ 8,564 | \$ 36,338 | \$ 8,405 | \$ 9,760 | \$ 10,800 | \$ 9,040 | \$ 38,010 | \$ 39,960 |
| EV / TTM EBITDA | 9.9x | 10.4x | 10.3x | 12.1x | 10.4x | 10.9x | 10.9x | 11.9x | 11.7x | 11.6x | 11.5x | 11.5x | 11.6x |
| Selected Financial Statistics | 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 |
| Book Value | \$ 14.04 | \$ 14.55 | \$ 14.63 | \$ 14.79 | \$ 14.81 | \$ 15.13 | \$ 15.13 | \$ 15.26 | \$ 15.27 | \$ 15.40 | \$ 15.41 | \$ 15.41 | \$ 16.44 |
| Price / Book | 1.6x | 1.9x | 1.9x | 2.3x | 1.9x | 2.1x | 2.1x | 2.5x | 2.5x | 2.5x | 2.5x | 2.5x | 2.3x |
| LTD / Total Cap | 45.5% | 43.9% | 43.6% | 43.2% | 43.0% | 42.4% | 42.4% | 36.7% | 37.0% | 36.7% | 36.5% | 36.5% | 40.5% |
| ROE (TTM) | 7.7% | 8.8% | 9.0% | 8.7% | 9.1% | 9.6% | 9.6% | 9.7% | 9.9% | 9.7% | 9.8% | 9.8% | 10.0% |

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

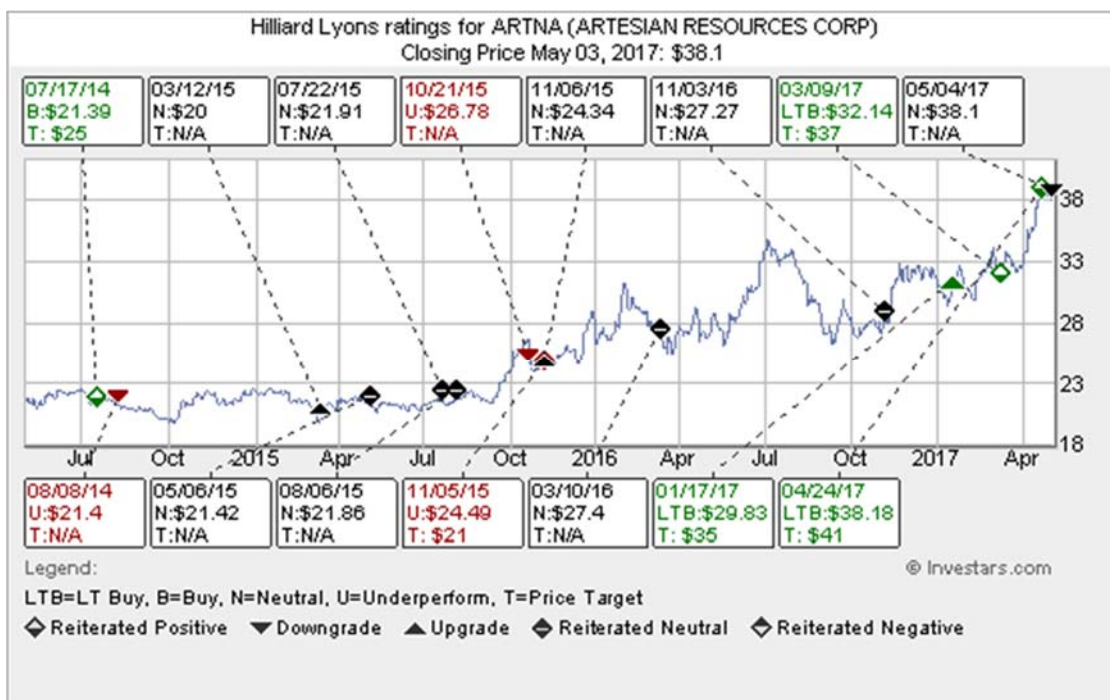
Investment Ratings

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 | 30% | 14% | 86% |
| Hold/Neutral | 71 | 58% | 6% | 94% |
| Sell | 15 | 12% | 7% | 93% |

As of 5 April 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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