

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

ATO - NYSE - as of	12/6/17	\$91.43
Price Target		--
52-Week Range	\$70.98 -	\$93.56
Shares Outstanding (mm)		106.1
Market Cap. (\$mm)		\$9,701.9
1-Mo. Average Daily Volume		492,682
Institutional Ownership		72.7%
LT Debt/Total Capital	Q4'17	44.0%
ROE	TTM	10.5%
Book Value / Share	Q4'17	\$36.50
Price / Book Value		2.5x
Dividend Yield		2.1%
LTM EBITDA Margin		38.4%

EPS FY 9/30 (cnt'd ops, ex-mrk-2-mkt & one-time items)

	Prior		Current		Current	
	2017A	2018E	2018E	2019E	2019E	2019E
1Q	\$1.08	\$1.17	\$1.16	--	--	--
2Q	\$1.53	\$1.59	\$1.55	--	--	--
3Q	\$0.67	\$0.70	\$0.70	--	--	--
4Q	\$0.34	\$0.41	\$0.42	--	--	--
Year	\$3.61	\$3.87	\$3.83	\$4.07	\$4.07	\$4.07
P/E	25.3x		23.9x	--	--	22.5x

*2017 restated ex-AEM

Firm Gross Profit (\$MM)

	Prior		Current		Current	
	2017A	2018E	2018E	2019E	2019E	2019E
1Q	\$469	\$505	\$508	--	--	--
2Q	\$561	\$594	\$597	--	--	--
3Q	\$412	\$442	\$443	--	--	--
4Q	\$392	\$427	\$429	--	--	--
Year	\$1,834	\$1,969	\$1,977	\$2,091	\$2,110	\$2,110

Company Description: *Headquartered in Dallas, Texas, Atmos is the largest fully regulated natural gas-only distributor in the US, serving over three million customers across 8 states from the Blue Ridge Mountains in the East to the Rocky Mountains in the West. ATO also manages company-owned natural gas pipeline and storage assets, including one of the largest intrastate natural gas pipeline systems in Texas.*

Natural Gas Utilities

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Atmos Energy Corp.

ATO — NYSE — Neutral-1

Model Update Reflecting New Equity; Reiterating Neutral Rating.
Investment Highlights

- In the afternoon of November 28, ATO announced a \$400MM common stock offering. Later that evening, the deal was priced, with ATO netting proceeds of about \$395MM after fees and expenses for the issuance of 4,558,404 new shares.
- By our calculation, shares priced at about \$87.75, or ~2.8% below ATO's 11/28 closing price of \$90.27.
- We suspect proceeds will be primarily used to reduce short-term borrowings, but more holistically, we view the deal as supportive of ATO's long-term capital spending plans, as the company locks in a tranche of long-term financing.
- The raising of equity in and of itself does not come as a surprise to us. Management has been explicitly guiding toward some new equity over the next couple of years, and rate base growth targets (10% to 12% per year) above EPS growth targets (6% to 8% per year) already implied there would be new equity at some point across the 2018-2022 planning horizon.
- Prior to this event, our financial model assumed just under \$400MM of new equity capital would be raised by Atmos over fiscal years 2018 and 2019 (October 2017 to September 2019) under a prior-established \$500MM at-the-money equity issuance program.
- At this time, we adjust our model to reflect more new shares more quickly (weighing on 2018E EPS); our 2019 model year is less impacted by the timing item, with an additional slight positive revision to our gross margin assumptions as we further digest the 11/15 Analyst Day event.
- We expect FY 2018 EPS guidance in the range of \$3.75 to \$3.95 (initiated on 11/8) remains 'good'.
- We are reiterating our Neutral rating. Unfortunately the equity deal did not present us with much of a tactical entry point, and while the story at ATO remains resilient, we continue to look for a more compelling entry point.

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

SUITABILITY

We assign ATO a suitability rating of ‘1.’ A full description of our rating scale can be found on page 5 in the Important Disclosures section of this report. Atmos is the largest standalone publicly traded gas utility company in the country, and marks an attractive core holding, in our view. Though heavily reliant on the state of Texas and smaller than some Utility sector peers, ATO operates monopoly franchises in 9 states and has historically proved capable of returning capital to shareholders. Sector-appropriate leverage and a fully regulated business mix help keep Atmos just above our more aggressive ‘2’ rating.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive, both in terms of normal hot/cold cyclicity, and in terms of potential natural disaster impact from fire, storms, etc. Despite the rise of weather mitigation frameworks, warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported; extreme and/or sustained cold weather may lead to conservation and/or service disruptions.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of natural gas or other sources of energy. Increases in the price of natural gas can negatively impact its competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities.

Relative to the size of the current ATO enterprise, we anticipate high levels of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company’s growth prospects.

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

Additional information is available upon request.

Atmos Energy Corp. FYE Sept			dec	mar	jun	sept			dec	mar	jun	sept		
Income Statement ('000s)	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E	
Total Operating Revenues	4,142,136											-	-	
Total Purchased Gas Cost	2,462,119													
Gross Profit	1,680,017	1,708,456	468,863	560,692	412,325	392,319	1,834,199	507,592	597,082	443,403	428,921	1,976,997	2,109,831	
Operating Expenses														
O & M	541,868	538,592	124,938	132,239	128,690	160,931	546,798	127,440	136,210	132,550	165,760	561,960	573,200	
D & A	274,796	290,791	76,958	77,667	80,023	84,800	319,448	86,180	86,020	88,710	94,770	355,680	390,850	
Other Tax	231,958	221,843	57,049	65,614	62,948	54,796	240,407	60,800	70,910	67,230	58,890	257,830	275,940	
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Op Exp	1,048,622	1,051,226	258,945	275,520	271,661	300,527	1,106,653	274,420	293,140	288,490	319,420	1,175,470	1,239,990	
Operating Income	631,395	657,230	209,918	285,172	140,664	91,792	727,546	233,172	303,942	154,913	109,501	801,527	869,841	
Misc Inc / (Exp)	(4,389)	(234)	(994)	833	(289)	(2,820)	(3,270)	(990)	830	(290)	(2,820)	(3,270)	(3,270)	
Interest	116,241	114,812	31,030	26,944	28,498	33,710	120,182	30,500	30,125	30,500	32,563	123,690	144,630	
Pre-Tax Income	510,765	542,184	177,894	259,061	111,877	55,262	604,094	201,682	274,647	124,123	74,119	674,567	721,941	
Income Tax	195,690	196,642	63,856	97,049	41,069	19,409	221,383	74,620	101,620	45,930	27,420	249,590	267,130	
Net Income--Cont'd Ops	315,075	345,542	114,038	162,012	70,808	35,853	382,711	127,062	173,027	78,193	46,699	424,977	454,811	
Net Income--Disc Ops	-	4,562	10,994	2,716	-	-	13,710	-	-	-	-	-	-	
Net Income	\$315,075	\$350,104	125,032	164,728	70,808	35,853	\$396,421	127,062	173,027	78,193	46,699	\$424,977	\$454,811	
Average Shares Outstanding (FD)	101,892	103,524	105,475	105,935	106,364	106,814	106,100	109,853	111,372	111,427	111,482	111,034	111,755	
Net Income per Share	\$3.10	\$3.39	\$1.19	\$1.55	\$0.67	\$0.34	\$3.74	\$1.16	\$1.55	\$0.70	\$0.42	\$3.83	\$4.07	
MTM gains (losses)	(\$0.01)	\$0.00					\$0.00					\$0.00	\$0.00	
One-time benefits (charges)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00					\$0.00	\$0.00	
Adjusted EPS [Cont'd Ops]	\$3.11	\$3.35	\$1.08	\$1.53	\$0.67	\$0.34	\$3.61	\$1.16	\$1.55	\$0.70	\$0.42	\$3.83	\$4.07	
Adjusted EPS	\$3.11	\$3.39	\$1.19	\$1.55	\$0.67	\$0.34	\$3.74	\$1.16	\$1.55	\$0.70	\$0.42	\$3.83	\$4.07	
Dividends per share	\$1.560	\$1.680	\$0.450	\$0.450	\$0.450	\$0.450	\$1.800	\$0.485	\$0.485	\$0.485	\$0.485	\$1.940	\$2.040	
				*AEM sale closed in Jan-- \$40MM cash	*tightened guide by +\$0.10 low end +\$0.02 high end		Cont'd Ops EPS Guide: \$3.55-\$3.63					Cont'd Ops EPS Guide: \$3.75-\$3.95		
Rate of Change Analysis:														
Gross Margin	6.2%	1.7%	7.9%	9.4%	5.3%	6.1%	7.4%	8.3%	6.5%	7.5%	9.3%	7.8%	6.7%	
O&M Expense	7.3%	-0.6%	4.3%	3.4%	-2.1%	0.9%	1.5%	2.0%	3.0%	3.0%	3.0%	2.8%	2.0%	
Operating Income	3.3%	4.1%	8.9%	13.3%	9.6%	8.7%	10.7%	11.1%	6.6%	10.1%	19.3%	10.2%	8.5%	
Adjusted EPS	5.2%	9.2%	18.4%	12.9%	-3.0%	2.6%	10.3%	-2.4%	-0.1%	5.4%	24.8%	2.4%	6.3%	
Adjusted EPS--Cont'd Ops	5.2%	7.8%	9.4%	10.1%	4.4%	0.8%	7.9%	7.0%	1.6%	5.4%	24.8%	6.1%	6.3%	
Margin Analysis:														
O&M / GM	32.3%	31.5%	26.6%	23.6%	31.2%	41.0%	29.8%	25.1%	22.8%	29.9%	38.6%	28.4%	27.2%	
Other Tax / GM	13.8%	13.0%	12.2%	11.7%	15.3%	14.0%	13.1%	12.0%	11.9%	15.2%	13.7%	13.0%	13.1%	
Operating Income / GM	37.6%	38.5%	44.8%	50.9%	34.1%	23.4%	39.7%	45.9%	50.9%	34.9%	25.5%	40.5%	41.2%	
Tax Rate	38.3%	36.3%	35.9%	37.5%	36.7%	35.1%	36.6%	37.0%	37.0%	37.0%	37.0%	37.0%	37.0%	

Source: Company reports and Hilliard Lyons estimates

Atmos Energy Corp. FYE Sept		dec mar june sept											
Summary Balance Sheet ('000s)	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Cash	\$28,653	\$47,534	\$44,624	\$45,403	\$69,777	\$26,409	\$26,409	\$54,010	\$41,210	\$3,130	\$32,220	\$32,220	\$42,980
A/R	295,160	300,007	458,813	336,637	250,224	222,263	222,263	472,580	346,740	257,730	228,930	228,930	235,800
Gas Stored Underground	236,603	233,316	163,763	120,026	151,656	184,653	184,653	163,760	120,030	151,660	184,650	184,650	184,650
Other CAs	100,569	100,829	312,232	61,018	62,725	70,521	106,321	82,980	62,240	63,980	108,450	108,450	110,620
Total Current Assets	630,985	681,686	979,432	563,084	534,382	539,646	539,646	773,330	570,220	476,500	554,250	554,250	574,050
Net PP&E	7,430,580	8,268,606	8,552,962	8,738,487	8,924,381	9,259,182	9,259,182	9,473,000	9,686,980	9,973,270	10,228,500	10,228,500	11,112,650
Goodwill & Intangibles	742,702	726,962	729,673	729,673	729,673	730,132	730,132	730,130	730,130	730,130	730,130	730,130	730,130
Deferred Charges and Other	288,678	333,635	317,088	330,222	310,339	220,636	220,636	332,940	346,730	325,860	231,670	231,670	243,250
Total Assets	9,092,945	\$10,010,889	\$10,579,155	\$10,361,466	\$10,498,775	\$10,749,596	\$10,749,596	\$11,309,400	\$11,334,060	\$11,505,760	\$11,744,550	\$11,744,550	\$12,660,080
ST Debt	457,927	829,811	940,747	670,607	258,573	447,745	447,745	247,750	97,750	247,750	72,750	72,750	247,750
A/P + Othr Accrued	238,942	259,434	268,647	185,212	164,365	233,050	233,050	268,650	185,210	164,370	233,050	233,050	233,050
Current Maturity LT Debt	-	250,000	250,000	250,000	-	-	-	-	450,000	450,000	450,000	450,000	125,000
Other CLs	457,954	449,036	490,421	390,253	322,721	332,904	332,904	405,640	409,770	338,860	349,550	349,550	367,030
Total Current Liabilities	1,154,823	1,788,281	1,949,815	1,496,072	745,659	1,013,699	1,013,699	922,040	1,142,730	1,200,980	1,105,350	1,105,350	972,830
LTD	2,455,388	2,188,779	2,314,199	2,314,620	3,066,734	3,067,045	3,067,045	3,067,050	2,617,050	2,617,050	3,117,050	3,117,050	3,442,050
Deferred Income Tax	1,411,315	1,603,056	1,725,433	1,810,160	1,853,564	1,878,699	1,878,699	1,950,330	2,049,920	2,072,890	2,073,890	2,073,890	2,281,960
Deferred Credits and Other	876,622	967,714	890,733	905,750	931,108	891,487	891,487	900,400	909,400	918,490	918,490	918,490	946,320
Shareholders' Equity	\$3,194,797	\$3,463,059	\$3,698,975	\$3,834,864	\$3,901,710	\$3,898,666	\$3,898,666	\$4,469,580	\$4,614,960	\$4,696,350	\$4,529,770	\$4,529,770	\$5,016,920
Total Liab & SE	\$9,092,945	\$10,010,889	\$10,579,155	\$10,361,466	\$10,498,775	\$10,749,596	\$10,749,596	\$11,309,400	\$11,334,060	\$11,505,760	\$11,744,550	\$11,744,550	\$12,660,080
Summary Cash Flow (000's)	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Net Income	315,075	350,104	125,032	164,728	70,808	35,853	396,421	127,060	173,030	78,190	46,700	424,980	454,810
D&A	274,796	293,096	77,143	77,667	80,023	84,800	319,633	86,180	86,020	88,710	94,770	355,680	390,850
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	192,886	193,556	67,241	81,416	39,599	38,927	227,183	71,635	99,588	22,965	1,000	195,190	208,070
Cash Provided (Used) by Wrk Cap	114,191	(20,246)	(147,058)	130,524	(35,303)	30,236	(21,601)	(97,747)	133,730	47,340	(38,060)	45,260	-
Operating C.F.	896,948	816,510	122,358	454,335	155,127	189,816	921,636	187,128	492,368	237,205	104,410	1,021,110	1,053,730
Cap Ex	(975,132)	(1,086,950)	(297,962)	(261,423)	(252,763)	(324,941)	(1,137,089)	(300,000)	(300,000)	(375,000)	(350,000)	(1,325,000)	(1,275,000)
(Acquisitions) / Divestitures	-	-	(85,714)	133,560	6,279	-	54,125	-	-	-	-	-	-
Dividends	(160,018)	(175,126)	(47,740)	(47,574)	(47,761)	(48,856)	(191,931)	(53,280)	(54,020)	(54,040)	(54,070)	(215,410)	(227,980)
Free C.F.	(238,202)	(445,566)	(309,058)	278,898	(139,118)	(183,981)	(353,259)	(166,152)	138,348	(191,835)	(299,660)	(519,300)	(449,250)
Net Proceeds (Repayment) ST Debt	254,780	371,884	110,936	(270,140)	(412,034)	189,172	(382,066)	(200,000)	(150,000)	150,000	(175,000)	(375,000)	175,000
LT Debt Proceeds	493,538	-	125,000	-	759,911	-	884,911	-	-	-	500,000	500,000	700,000
(Repayment) of LT debt	(500,000)	-	-	-	(250,000)	-	(250,000)	-	-	-	-	-	(450,000)
Issued Stock	30,952	132,852	58,398	7,986	55,044	3,850	125,278	395,000	100	5,000	5,000	405,100	40,000
Repurchased Stock & Eq Awards	(7,985)	-	-	-	-	-	-	(1,250)	(1,250)	(1,250)	(1,250)	(5,000)	(5,000)
Net C.F.	46,447	33,500	(14,724)	16,744	13,803	(2,285)	13,538	27,598	(12,802)	(38,085)	29,090	5,800	10,750
Selected Financial Statistics	FY'15	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	Q1'18E	Q2'18E	Q3'18E	Q4'18E	FY'18E	FY'19E
Book Value	\$31.25	\$33.08	\$35.07	\$36.20	\$36.68	\$36.50	\$36.50	\$40.69	\$41.44	\$42.15	\$40.63	\$40.63	\$44.83
Tangible BV	\$23.99	\$26.14	\$28.15	\$29.31	\$29.82	\$29.66	\$29.66	\$34.04	\$34.88	\$35.59	\$34.08	\$34.08	\$38.30
Price / Book	1.9x	2.3x	2.1x	2.2x	2.3x	2.3x	2.3x	2.2x	2.2x	2.2x	2.3x	2.3x	2.0x
LTD / Total Capital	43.5%	41.3%	40.9%	40.1%	44.0%	44.0%	44.0%	40.7%	39.9%	39.5%	44.1%	44.1%	41.6%
Total Net Debt / Total Capital	47.4%	48.2%	48.3%	45.4%	45.5%	47.2%	47.2%	42.2%	40.4%	41.4%	44.3%	44.3%	42.9%
ROE (TTM)	10.0%	10.5%	10.8%	11.1%	10.7%	10.5%	10.5%	10.1%	9.8%	9.6%	9.6%	9.6%	9.4%

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

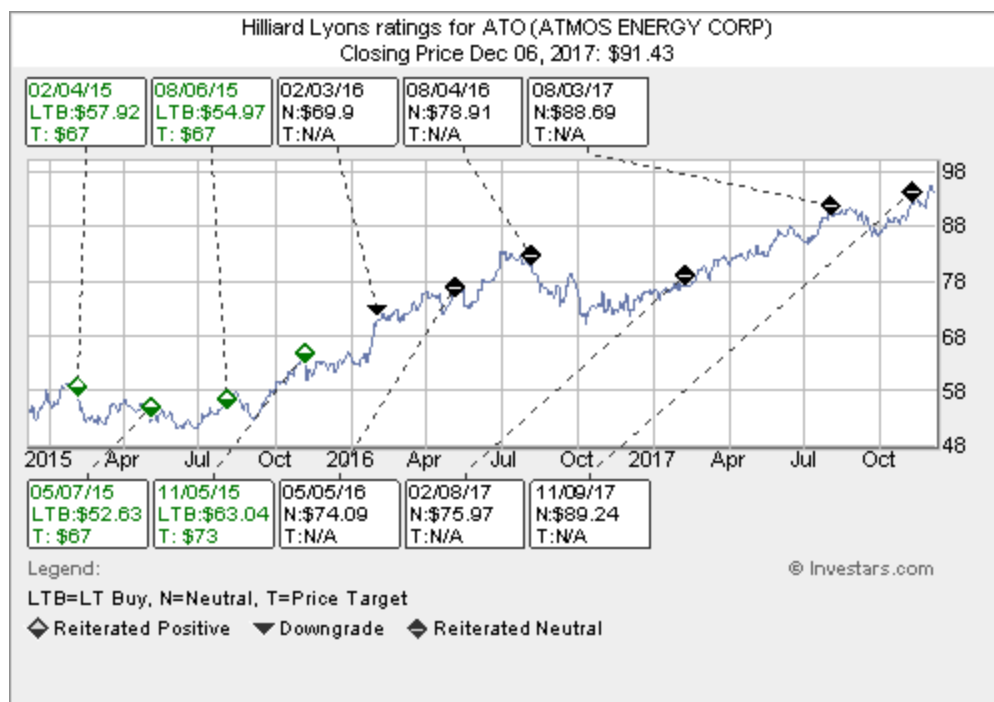
Investment Ratings

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	31	28%	13%	87%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 6 December 2017

Other Disclosures

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