

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

ATO - NYSE - as of	11/14/17	\$90.54
Price Target		--
52-Week Range	\$69.57 -	\$90.78
Shares Outstanding (mm)		106.1
Market Cap. (\$mm)		\$9,607.4
1-Mo. Average Daily Volume		328,068
Institutional Ownership		71.4%
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 (cmt'd ops, ex-mrk-2-mkt & one-time items)**

	Prior	Current	Prior	Current
	2017A	2018E	2018E	2019E
1Q	\$1.08	\$1.14	\$1.17	--
2Q	\$1.53	\$1.62	\$1.59	--
3Q	\$0.67	\$0.71	\$0.70	--
4Q	\$0.34	\$0.38	\$0.41	--
Year	\$3.61	\$3.84	\$3.87	\$4.05
P/E	25.1x	23.4x	--	22.2x

\*2017 restated ex-AEM

**Firm Gross Profit (\$MM)**

	Prior	Current	Prior	Current
	2017A	2018E	2018E	2019E
1Q	\$469	\$500	\$505	--
2Q	\$561	\$601	\$594	--
3Q	\$412	\$441	\$442	--
4Q	\$392	\$419	\$427	--
Year	\$1,834	\$1,961	\$1,969	\$2,089

**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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November 15, 2017

**Atmos Energy Corp.**

ATO — NYSE — Neutral-1

**Few Surprises at ATO's November 15 Analyst Day; Tweaking Model.**
**Investment Highlights**

- Atmos held an investor event in New York City on 11/15/17. Michael Haefner, President and CEO, and Christopher Forsythe, SVP and CFO, gave what we consider to be their first extended remarks to the investment community. SVPs David Park (Utility) and Kevin Akers (Safety) also presented, along with Dennis Gordon, President of Atmos Pipeline Texas.
- We remind investors that former CEO Kim Cocklin transitioned to Executive Chairman on October 1; by our interpretation, he is still active at the firm. Mr. Forsythe assumed the CFO role in Spring 2017.
- ATO extended stretch guidance to 2022, reiterating average annual EPS growth of 6% to 8% per year (in line with our expectation); rate base growth of 10% to 12%, on \$1.3-\$1.9B of Cap Ex is projected as well.
- **Key Takeaway #1: Strategy Intact.** Mr. Haefner's vision for ATO flows in line with the past several years, particularly, no meaningful growth by M&A and Cap Ex focused on organic system opportunities.
- **Key Takeaway #2: Stretch Guidance a Positive Surprise (sort of).** The EPS trajectory over the next five years was as expected, but a hike in the rate base growth rate leaves at least the possibility for upside surprise in EPS, depending on long-term financing.
- **Key Takeaway #3: No New Catalysts.** The hike in rate base growth was good to see, but may not generate immediate fervor, in our view. This should not be interpreted as a negative comment.
- On 11/8, ATO initiated FY 2018 EPS guidance in the range of \$3.75 to \$3.95. Our 2018/2019 EPS estimates rise \$0.03/\$0.02, to \$3.87 and \$4.07, respectively, due mostly to fine tuning our gross margin model.
- We are reiterating our Neutral rating. The story at ATO remains resilient, in our view, and we continue to like the stock for core positions, but continue to wait for an entry point at which to get tactically more aggressive.

**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. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation.

Atmos’ CFO left the company somewhat abruptly in February 2017. We see a slight element of risk tied to this event.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a 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. Additionally, we anticipate a high level 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	505,411	594,346	441,605	427,302	1,968,664	2,091,497	
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	94,530	355,440	388,120	
Other Tax	231,958	221,843	57,049	65,614	62,948	54,796	240,407	60,540	70,590	66,950	58,670	256,750	273,570	
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Op Exp	1,048,622	1,051,226	258,945	275,520	271,661	300,527	1,106,653	274,160	292,820	288,210	318,960	1,174,150	1,234,890	
Operating Income	631,395	657,230	209,918	285,172	140,664	91,792	727,546	231,251	301,526	153,395	108,342	794,514	856,607	
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	31,425	30,925	32,488	35,513	130,350	145,780	
Pre-Tax Income	510,765	542,184	177,894	259,061	111,877	55,262	604,094	198,836	271,431	120,617	70,009	660,894	707,557	
Income Tax	195,690	196,642	63,856	97,049	41,069	19,409	221,383	73,570	100,430	44,630	25,900	244,530	261,790	
Net Income--Cont'd Ops	315,075	345,542	114,038	162,012	70,808	35,853	382,711	125,266	171,001	75,987	44,109	416,364	445,767	
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	125,266	171,001	75,987	44,109	\$416,364	\$445,767	
Average Shares Outstanding (FD)	101,892	103,524	105,475	105,935	106,364	106,814	106,100	107,090	107,532	107,974	108,416	107,753	109,658	
Net Income per Share	\$3.10	\$3.39	\$1.19	\$1.55	\$0.67	\$0.34	\$3.74	\$1.17	\$1.59	\$0.70	\$0.41	\$3.87	\$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	\$1.17	\$1.59	\$0.70	\$0.41	\$3.87	\$4.07	
Adjusted EPS	\$3.11	\$3.39	\$1.19	\$1.55	\$0.67	\$0.34	\$3.74	\$1.17	\$1.59	\$0.70	\$0.41	\$3.87	\$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		
<b>Rate of Change Analysis:</b>														
Gross Margin	6.2%	1.7%	7.9%	9.4%	5.3%	6.1%	7.4%	7.8%	6.0%	7.1%	8.9%	7.3%	6.2%	
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%	10.2%	5.7%	9.1%	18.0%	9.2%	7.8%	
Adjusted EPS	5.2%	9.2%	18.4%	12.9%	-3.0%	2.6%	10.3%	-1.3%	2.3%	5.7%	21.2%	3.4%	5.2%	
Adjusted EPS--Cont'd Ops	5.2%	7.8%	9.4%	10.1%	4.4%	0.8%	7.9%	8.2%	4.0%	5.7%	21.2%	7.2%	5.2%	
<b>Margin Analysis:</b>														
O&M / GM	32.3%	31.5%	26.6%	23.6%	31.2%	41.0%	29.8%	25.2%	22.9%	30.0%	38.8%	28.5%	27.4%	
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%	45.8%	50.7%	34.7%	25.4%	40.4%	41.0%	
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	\$52,550	\$28,320	\$24,060	\$21,810	\$21,810	\$16,280	
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	771,870	557,330	497,430	543,840	543,840	547,350	
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	9,948,270	10,153,740	10,153,740	11,040,620	
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	
<b>Total Assets</b>	<b>9,092,945</b>	<b>\$10,010,889</b>	\$10,579,155	\$10,361,466	\$10,498,775	\$10,749,596	\$10,749,596	\$11,307,940	\$11,321,170	\$11,501,690	\$11,659,380	\$11,659,380	\$12,561,350	
ST Debt	457,927	829,811	940,747	670,607	258,573	447,745	447,745	617,750	417,750	42,750	252,750	252,750	282,750	
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	1,292,040	1,462,730	995,980	1,285,350	1,285,350	1,007,830	
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	3,117,050	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	1,949,330	2,047,750	2,070,070	2,071,070	2,071,070	2,275,360	
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	\$4,099,120	\$4,284,240	\$4,400,100	\$4,267,420	\$4,267,420	\$4,889,790	
<b>Total Liab &amp; SE</b>	<b>\$9,092,945</b>	<b>\$10,010,889</b>	\$10,579,155	\$10,361,466	\$10,498,775	\$10,749,596	\$10,749,596	\$11,307,940	\$11,321,170	\$11,501,690	\$11,659,380	\$11,659,380	\$12,561,350	
<b>Summary Cash Flow (000's)</b>		<b>FY'15</b>	<b>FY'16</b>	<b>Q1'17</b>	<b>Q2'17</b>	<b>Q3'17</b>	<b>Q4'17</b>	<b>FY'17</b>	<b>Q1'18E</b>	<b>Q2'18E</b>	<b>Q3'18E</b>	<b>Q4'18E</b>	<b>FY'18E</b>	<b>FY'19E</b>
Net Income	315,075	350,104	125,032	164,728	70,808	35,853	396,421	125,270	171,000	75,990	44,110	41,110	416,360	445,770
D&A	274,796	293,096	77,143	77,667	80,023	84,800	319,633	86,180	86,020	88,710	94,530	94,530	355,440	388,120
Impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	192,886	193,556	67,241	81,416	39,599	38,927	227,183	70,627	98,421	22,315	1,000	1,000	192,360	204,290
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)	(38,060)	45,260	-
Operating C.F.	896,948	816,510	122,358	454,335	155,127	189,816	921,636	184,330	489,171	234,355	101,580	101,580	1,009,420	1,038,180
Cap Ex	(975,132)	(1,086,950)	(297,962)	(261,423)	(252,763)	(324,941)	(1,137,089)	(300,000)	(300,000)	(350,000)	(300,000)	(300,000)	(1,250,000)	(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)	(51,940)	(52,150)	(52,370)	(52,580)	(52,580)	(209,040)	(223,710)
Free C.F.	(238,202)	(445,566)	(309,058)	278,898	(139,118)	(183,981)	(353,259)	(167,610)	137,021	(168,015)	(251,000)	(251,000)	(449,620)	(460,530)
Net Proceeds (Repayment) ST Debt	254,780	371,884	110,936	(270,140)	(412,034)	189,172	(382,066)	170,000	(200,000)	(375,000)	210,000	210,000	(195,000)	30,000
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)
Equity Comp-Op	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Financing Costs-Op	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury Unlock // IR Lock Stl	13,364	(25,670)	-	-	-	(11,326)	(11,326)	-	-	-	-	-	-	-
Issued Stock	30,952	132,852	58,398	7,986	55,044	3,850	125,278	25,000	40,000	40,000	40,000	40,000	145,000	180,000
Repurchased Stock & Eq Awards	(7,985)	-	-	-	-	-	-	(1,250)	(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	26,140	(24,229)	(4,265)	(2,250)	(2,250)	(4,620)	(5,530)
<b>Selected Financial Statistics</b>		<b>FY'15</b>	<b>FY'16</b>	<b>Q1'17</b>	<b>Q2'17</b>	<b>Q3'17</b>	<b>Q4'17</b>	<b>FY'17</b>	<b>Q1'18E</b>	<b>Q2'18E</b>	<b>Q3'18E</b>	<b>Q4'18E</b>	<b>FY'18E</b>	<b>FY'19E</b>
Book Value	\$31.25	\$33.08	\$35.07	\$36.20	\$36.68	\$36.50	\$36.50	\$38.28	\$39.84	\$40.75	\$39.36	\$39.36	\$39.36	\$44.29
Tangible BV	\$23.99	\$26.14	\$28.15	\$29.31	\$29.82	\$29.66	\$29.66	\$31.46	\$33.05	\$33.99	\$32.63	\$32.63	\$32.63	\$37.68
Price / Book	1.9x	2.3x	2.1x	2.2x	2.3x	2.3x	2.3x	2.4x	2.3x	2.2x	2.3x	2.3x	2.3x	2.0x
LTD / Total Capital	43.5%	41.3%	40.9%	40.1%	44.0%	44.0%	44.0%	44.0%	42.8%	41.7%	44.8%	45.5%	45.5%	42.2%
Total Net Debt / Total Capital	47.4%	48.2%	48.3%	45.4%	45.5%	47.2%	47.2%	47.0%	44.7%	44.9%	47.1%	47.1%	47.1%	43.9%
ROE (TTM)	10.0%	10.5%	10.8%	11.1%	10.7%	10.5%	10.5%	10.2%	10.1%	9.9%	9.9%	9.9%	9.9%	9.6%

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

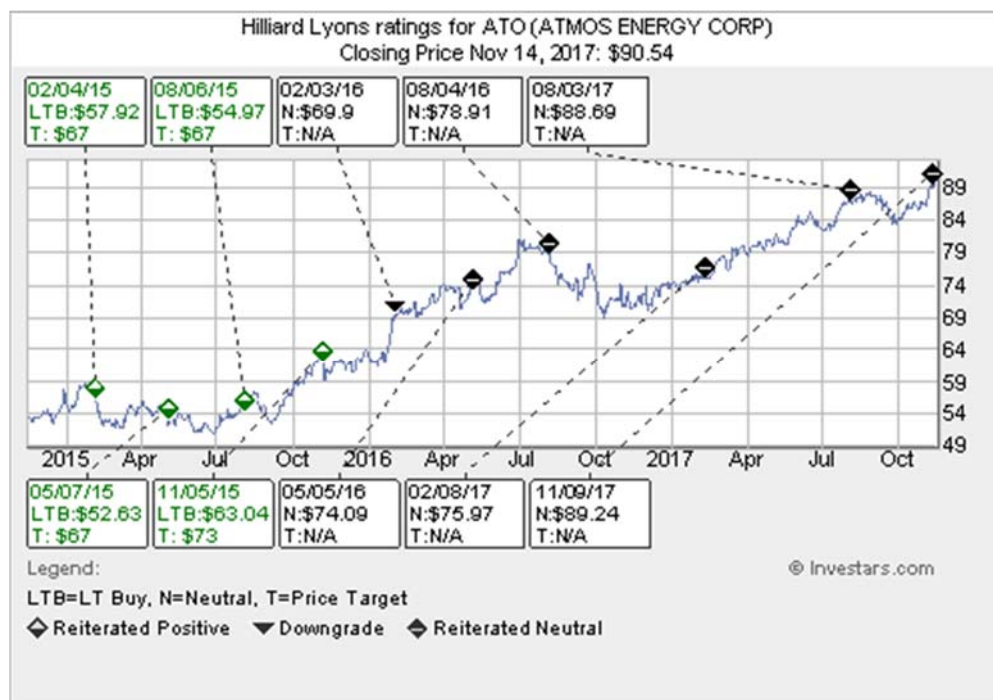
### **Investment Ratings**

**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	32	29%	13%	88%
Hold/Neutral	73	65%	7%	93%
Sell	7	6%	0%	100%

As of 8 November 2017

**Other Disclosures**

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