



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

| | | |
|----------------------------|-----------|-----------|
| SJI - NYSE - as of | 11/8/17 | \$32.05 |
| Price Target | | \$38.00 |
| 52-Week Range | \$29.15 - | \$38.40 |
| Shares Outstanding (mm) | | 79.5 |
| Market Cap. (\$mm) | | \$2,549.5 |
| 1-Mo. Average Daily Volume | | 383,219 |
| Institutional Ownership | | 71.1% |
| Equity/Total Capital | Q3'17 | 45.4% |
| ROE | TTM | 7.2% |
| Book Value / Share | Q3'17 | \$15.36 |
| Price / Book Value | | 2.1x |
| Dividend Yield | | 3.4% |
| LTM EBITDA Margin | | 11.3% |

Economic EPS (adjusted for mark-to-market) FY 12/31

| | | Prior | Current | Prior | Current |
|------|---------|--------|----------|--------|---------|
| | 2016A | 2017E | 2017E | 2018E | 2018E |
| 1Q | \$0.80 | -- | \$0.72 | A -- | -- |
| 2Q | *\$0.10 | -- | \$0.06 | A -- | -- |
| 3Q | *\$0.01 | -- | (\$0.05) | A -- | -- |
| 4Q | \$0.42 | \$0.50 | \$0.48 | -- | -- |
| Year | \$1.33 | \$1.22 | \$1.21 | \$1.43 | \$1.47 |
| P/E | 24.2x | | 26.6x | | 21.9x |

*HL-Adjusted for Special Items

Utility Margin (\$MM)

| | | Prior | Current | Prior | Current |
|------|---------|---------|---------|-------|---------|
| | 2016A | 2017E | 2017E | 2018E | 2018E |
| 1Q | \$109.9 | -- | \$118.5 | A -- | -- |
| 2Q | \$43.6 | -- | \$45.4 | A -- | -- |
| 3Q | \$31.9 | -- | \$33.2 | A -- | -- |
| 4Q | \$79.0 | \$81.7 | \$87.0 | -- | -- |
| Year | \$264.3 | \$278.6 | \$284.0 | \$341 | \$367 |

Company Description: *South Jersey Industries is an energy services holding company that provides a variety of products and services. It provides natural gas to 350,000+ customers in southern New Jersey, and sells natural gas to wholesale customers in the interstate market. Through its non-utility operations, the company markets energy services including natural gas, electricity, energy management, and consulting services, and own/operates a portfolio of solar power production.*

Natural Gas Utilities

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November 9, 2017

South Jersey Industries, Inc.

SJI – NYSE – Buy-3

Q3'17 Follow-Up; Revising Model and Reiterating Buy Rating.

Investment Highlights

- Subsequent to our usual post-earnings follow ups, including review of the quarterly 10-Q, we make a few adjustments and republish our financial model for SJI.
- Our Q4'17 Economic EPS (EEPS) estimate slips \$0.02 to \$0.48, but due to rounding, our FY 2017 EEPS falls just a penny to \$1.21. Management guided FY 2017 EEPS to be 'solidly' in the range of \$1.14-\$1.20, but we still view this as somewhat conservative.
- Our 2018/2019 EEPS estimates move +\$0.04/+\$0.02 to \$1.47/\$1.61. Upward pressure to our gross margin forecast due to final rate case, SHARP and AIRP awards more than offsets higher depreciation in 2018. Ripple effect pushes our EEPS target for 2019 higher, although we remind investors that this number remains sensitive to initial impact from the Elkton and Elizabethtown M&A.
- Perhaps of note, our timing, funding and initial operating assumptions for the noted franchises are largely unchanged following Q3 commentary.
- SJI seems cognizant of our view that the narrative has become somewhat abstract, with few updates to the '2020 Plan,' and with Elkton/Etown adding layers of uncertainty. At some point in 2018 we expect an in-depth organic refresh (i.e. an Investor Day), and management insinuated that a revamp of the '\$150MM by 2020' target would be forthcoming after the pending acquisitions receive regulatory approval.
- The timing of SJI's transformative M&A is less than ideal, in our view, but we nonetheless support SJI expanding its core regulated business in NJ and are fine taking a contrarian view.
- We are reiterating our Buy rating and 1-yr \$38 price target. At \$38, SJI would trade ~26x our 2018E EPS, which we believe is attainable based on SJI's historical comps and the company's percolating growth outlook.

Note Important Disclosures on Pages 6-7
Note Analyst Certification on Page 6

ADDITIONAL DISCUSSION—Q3 RECAP

We were generally pleased with Q3'17 Economic EPS (EEPS) of (\$0.05), where losses were a penny better than we had anticipated. Although results were down yr/yr, we still see SJI as heading towards putting in a decent, normalized base case year, sufficient to support our assumptions for 2018/2019 that underpin our positive rating on the stock. Shares outstanding were ~flat yr/yr in Q3'17, with SJI having now lapped its Q2'16 equity secondary.

GAAP results for Q3 include an unexpected \$44.0MM writedown of solar assets in Maryland; SJI's holdings in the state are now carried at just over \$10MM. Fortunately, in this case, renewables concerns are very state-specific, and at this time, we see little read-through value toward SJI's >\$500MM of solar investment in New Jersey.

Investment Tax Credits (ITC) were \$0.0MM in Q3'17, down \$1.4MM y/y and a third straight 'zero' quarter with SJI ending new design-build solar projects. This pocket of contribution within Energy Services has been a major headwind in 2017, but is the primary driver of SJI's improved earnings quality. The Utility segment generated Q3 losses of \$5.8MM, down \$2.5 MM yr/yr in South Jersey Gas' final quarter before implementing new base rates just this month. TTM customer growth was maintained at 1.5%. The Energy Group generated economic losses of \$0.8MM in Q3'17 versus (\$1.4MM) in the prior year; Midstream contributed \$1.3MM from a zero base.

ADDITIONAL DISCUSSION—FINAL THOUGHTS

We sense a high degree of investor fatigue with SJI unveiling transformative M&A in the midst of a third consecutive year of EEPS decline; however, we see this as an opportunity for investors and are compelled to reiterate our Buy rating. Within our investment timeframe we expect several quarters of re-accelerating earnings growth, better clarity on Elkton/Etown accretion, a firm timeline for both PennEast and BL England completion, and perhaps most importantly, an extended and re-affirmed medium-term earnings target; we see each of these items as a reasonable catalyst, holding positive implications for valuation and sentiment.

SUITABILITY

We assign SJI a suitability rating of '3.' A complete description of our suitability scale is on page 6. Size versus the broad Utility sector and significant exposure to non-regulated and/or more cyclical market-based and renewable energy businesses keep SJI below our '2' suitability rating. Acceptable leverage ratios (following a recent secondary), a long history of capital return, and a strong core regulated utility franchise keep South Jersey Industries well above our most aggressive '4' rating.

CONSIDERATIONS AND RISKS

Utility operations are weather sensitive. Gas utilities face competition from alternative fuels. In the industrial market, customers have the capability of using natural gas or other fuels. Increases in gas prices can negatively impact the price benefits of natural gas to the end user.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions can vary and have a significant bearing on the profitability of gas utilities. There are a number of items that can create volatility in the earnings results for the marketing segment, including weather, customer demand, supply/storage levels, gas price volatility, customer growth/retention, and accounting treatment.

SJI generates a significant portion of earnings via Investment Tax Credits (ITCs), which are subject to federal regulatory statutes. A change in laws regarding these credits may materially alter the reported financial performance of the company and/or the forward earnings outlook for the firm.

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

Prices of other stocks mentioned: Southern Company (SO—\$51.72, Neutral)

Additional information is available upon request.

South Jersey Industries, Inc.

| Income Statement (000s) | FY'14 | FY'15 | Q1'16 | Q2'16 | Q3'16 | Q4'16 | FY'16 | Q1'17 | Q2'17 | Q3'17 | Q4'17E | FY'17E | FY'18E | FY'19E |
|-------------------------------------------------------------------------------------------|------------------|------------------|-----------------|----------------------------------------------|---------------------------------------------|----------------|-----------------|-----------|-----------|----------------------------------------------------------------------------|----------|-------------------------------------------------------|------------------------------------------------------|--------------------|
| Operating Revenue: | | | | | | | | | | | | | | |
| Utility | \$500,752 | \$528,763 | \$183,669 | \$68,273 | \$60,983 | 140,894 | \$453,819 | \$195,769 | \$81,938 | \$65,473 | | 343,180 | - | - |
| Nonutility | 386,244 | 430,805 | 149,366 | 86,129 | 158,099 | 189,087 | 582,681 | 230,060 | 162,436 | 161,654 | 199,253 | 753,400 | 829,350 | 901,460 |
| Total Operating Revenue | 886,996 | 959,568 | 333,035 | 154,402 | 219,082 | 329,981 | 1,036,500 | 425,829 | 244,374 | 227,127 | | 1,096,580 | 1,658,700 | 1,802,920 |
| Utility Margin | | | | | | | | | | | 86,953 | 86,950 | 367,300 | 522,960 |
| Operating Expenses: | | | | | | | | | | | | | | |
| Cost of Gas -- Utility | 230,093 | 239,763 | 65,206 | 19,508 | 25,353 | 57,087 | 167,154 | 71,379 | 32,331 | 28,217 | - | 131,930 | - | - |
| Cost of Sales -- Non-Utility | 306,859 | 319,579 | 87,769 | 78,832 | 117,635 | 129,597 | 413,833 | 215,763 | 147,354 | 140,598 | 149,440 | 653,160 | 679,000 | 735,170 |
| Operations | 140,260 | 148,672 | 38,797 | 36,250 | 34,796 | 42,114 | 151,957 | 39,626 | 38,474 | 82,521 | 29,480 | 190,100 | 122,750 | 172,690 |
| Maintenance | 13,457 | 16,183 | 4,384 | 4,259 | 4,150 | 4,756 | 17,549 | 4,981 | 4,672 | 4,615 | 4,760 | 19,030 | 22,820 | 30,150 |
| Depreciation | 63,004 | 72,451 | 20,701 | 22,296 | 23,109 | 24,283 | 90,389 | 24,323 | 24,556 | 24,914 | 25,720 | 99,510 | 108,040 | 149,720 |
| Energy & Other Taxes | 5,720 | 6,026 | 1,925 | 1,243 | 1,449 | 1,725 | 6,342 | 2,071 | 1,551 | 1,517 | 1,730 | 6,870 | 6,870 | 6,870 |
| Total Operating Expense | 759,393 | 802,674 | 218,782 | 162,388 | 206,492 | 259,562 | 847,224 | 358,143 | 248,938 | 282,382 | 211,130 | 1,100,600 | 939,480 | 1,094,600 |
| Operating Income | 127,603 | 156,894 | 114,253 | (7,986) | 12,590 | 70,419 | 189,276 | 67,686 | (4,564) | (55,255) | 75,076 | 82,930 | 257,170 | 329,820 |
| Other Income / (Expense) | 11,819 | 9,510 | 2,203 | 4,361 | 2,223 | 1,202 | 9,989 | 5,665 | 2,317 | 2,253 | 700 | 10,940 | 11,440 | 11,440 |
| Interest Expense / (Income) | 29,560 | 31,622 | 9,160 | 8,229 | 7,355 | 6,705 | 31,449 | 16,745 | 10,979 | 10,567 | 11,509 | 49,800 | 52,750 | 81,340 |
| EBT | 109,862 | 134,782 | 107,296 | (11,854) | 7,458 | 64,916 | 167,816 | 56,606 | (13,226) | (63,569) | 64,267 | 44,070 | 215,860 | 259,920 |
| Income Tax / (Benefit) | 4,449 | 1,360 | 39,267 | (7,189) | 2,807 | 19,266 | 54,151 | 21,870 | (5,544) | (24,765) | 26,030 | 17,590 | 86,350 | 103,960 |
| Equity in Affiliated Co | (7,785) | (27,812) | 158 | (133) | 5,013 | 358 | 5,396 | 3,011 | 70 | 1,256 | 188 | 4,520 | 1,790 | 16,790 |
| Income from Cont'd Ops | \$97,628 | \$105,610 | \$68,187 | (\$4,798) | \$9,664 | \$46,008 | \$119,061 | \$37,747 | (\$7,612) | (\$37,548) | \$38,425 | \$31,000 | \$131,300 | \$172,750 |
| Minus/plus: | | | | | | | | | | | | | | |
| Unrlzd MTM Deriv (Gain) / Loss | 4,500 | (5,066) | (18,612) | 22,523 | (9,459) | (22,001) | (27,549) | (13,908) | 8,336 | 4,649 | | (923) | - | - |
| Loss on PP&E (solar impairment) | - | - | - | - | - | - | - | 256 | - | 43,966 | | 44,222 | - | - |
| Unrlzd Loss De-Design't Int Rt Ctr | - | - | - | - | - | - | - | 2,392 | - | - | | 2,392 | - | - |
| Other // Legal Chg | (100) | (100) | (41) | (41) | (41) | (41) | (164) | 43,946 | 11,574 | 6,245 | | 61,765 | - | - |
| Tax | - | - | 7,460 | (9,002) | 3,816 | 8,538 | 10,812 | (13,205) | (7,821) | (21,284) | | (42,310) | - | - |
| Net Loss from Affil, not ongoing | - | - | - | - | - | - | - | - | - | - | | - | - | - |
| Net Loss from Affil, ongoing | 1,524 | (1,524) | - | - | - | - | - | - | - | - | | - | - | - |
| Rlzd (Gain) / Loss on inv hedges | 427 | 54 | 3 | 23 | (39) | 696 | 683 | 332 | - | - | | 332 | - | - |
| Economic Earnings | \$103,979 | \$98,974 | \$56,997 | \$8,705 | \$3,941 | \$33,200 | \$102,843 | \$57,560 | \$4,477 | (\$3,972) | \$38,425 | \$96,478 | \$131,300 | \$172,750 |
| EPS from Cont'd Ops | \$1.47 | \$1.43 | \$0.95 | (\$0.06) | \$0.12 | \$0.58 | \$1.38 | \$0.72 | \$0.06 | (\$0.05) | \$0.48 | \$1.21 | \$1.47 | \$1.61 |
| Economic EPS | \$1.57 | \$1.43 | \$0.80 | \$0.12 | \$0.05 | \$0.42 | \$1.38 | \$0.72 | \$0.06 | (\$0.05) | \$0.48 | \$1.21 | \$1.47 | \$1.61 |
| Adjusted--Economic EPS | | \$1.70 | | \$0.10 | \$0.01 | | \$1.33 | | | | | | | |
| Economic EPS -- ex-ITC (Adj if Nec) | \$1.11 | \$1.14 | \$0.77 | \$0.08 | (\$0.01) | \$0.36 | \$1.21 | \$0.72 | \$0.06 | (\$0.05) | \$0.48 | \$1.21 | \$1.47 | \$1.61 |
| Diluted Avg Shares | 66,428 | 68,931 | 71,416 | 75,298 | 79,635 | 79,643 | 76,475 | 79,641 | 79,549 | 79,539 | 79,539 | 79,567 | 86,560 | 107,620 |
| Dividends | \$0.960 | \$1.018 | \$0.264 | \$0.264 | \$0.264 | \$0.273 | \$1.064 | \$0.273 | \$0.273 | \$0.273 | \$0.283 | \$1.101 | \$1.145 | \$1.191 |
| Rate of Change Analysis: | | | | | | | | | | | | | | |
| Utility Margin--Approx | 9.2% | 9.3% | 4.3% | 3.6% | 3.3% | 4.6% | 4.1% | 7.8% | 4.2% | 4.1% | 10.1% | 7.5% | 29.3% | 42.4% |
| Operating Income | 83.2% | 23.0% | 49.6% | -126.3% | nm | 7.9% | 20.6% | -40.8% | -42.8% | -538.9% | 6.6% | -56.2% | 210.1% | 28.2% |
| Economic EPS--Adj if Necessary | 3.7% | 8.0% | -7.0% | -47.1% | nm | -41.3% | -21.8% | -9.4% | -42.8% | nm | 15.9% | -8.6% | 21.1% | 9.4% |
| EBITDA | 59.8% | 20.3% | 44.8% | -70.0% | 959.6% | 11.4% | 21.9% | -31.8% | 39.7% | -185.0% | 6.4% | -34.8% | 100.2% | 31.3% |
| Margin Analysis: | | | | | | | | | | | | | | |
| O + M / Utility GM | 66.2% | 65.0% | 39.3% | 93.0% | 122.2% | 59.3% | 64.1% | 37.6% | 95.1% | 262.7% | | | | |
| Op Income / Utility GM--Approx | 54.9% | 61.8% | 104.0% | nm | 39.5% | 89.1% | 71.6% | 57.1% | nm | nm | 86.3% | 29.2% | 70.0% | 63.1% |
| Tax Rate | 4.0% | 1.0% | 36.6% | 60.6% | 37.6% | 29.7% | 32.3% | 38.6% | 41.9% | 39.0% | 40.5% | 39.9% | 40.0% | 40.0% |
| * A portion of forward 'Operations Expense' is reflected in the Utility Margin projection | *\$30.3MM of ITC | *\$38.3MM of ITC | \$1.7MM in ITCs | \$1.1MM in ITCs **EEPS ajd for 1.3MM at gain | \$1.8MM in ITCs **EEPS ajd for \$2.9MM gain | \$4.5M in ITCs | *\$9.1MM of ITC | Zero ITC | Zero ITC | Zero ITC; initial *\$44MM PennEast; writedown of delayed solar assts in MD | | *EEPS Guide for \$1.14-\$1.20 **modeling \$0MM of ITC | *Model Q4 Close Ele & Elk--\$1.7B *modeling \$0 xITC | *modeling \$0 xITC |

Source: Company reports and Hilliard Lyons estimates

South Jersey Industries, Inc.

| South Jersey Industries, Inc. | | | | | | | | | | | | | | |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|-----------|
| Balance Sheet Analysis (000s) | | | | | | | | | | | | | | |
| | FY'14 | FY'15 | Q1'16 | Q2'16 | Q3'16 | Q4'16 | FY'16 | Q1'17 | Q2'17 | Q3'17 | Q4'17E | FY'17E | FY'18E | FY'19E |
| Cash | \$4,171 | \$3,877 | \$4,250 | \$4,160 | \$6,941 | \$18,282 | \$18,282 | \$15,048 | \$10,122 | \$13,681 | \$15,230 | \$15,230 | \$14,310 | \$580 |
| A/R | 251,892 | 178,359 | 179,662 | 175,341 | 159,994 | 222,339 | 222,339 | 234,312 | 180,551 | 150,607 | 226,790 | 226,790 | 231,330 | 235,960 |
| Natural Gas in Storage | 63,246 | 54,211 | 38,571 | 44,499 | 50,787 | 53,857 | 53,857 | 35,216 | 47,521 | 55,502 | 54,930 | 54,930 | 56,030 | 57,150 |
| Other CA | 247,388 | 194,827 | 173,627 | 151,757 | 140,042 | 178,835 | 178,835 | 152,052 | 118,268 | 103,673 | 140,000 | 140,000 | 147,000 | 154,350 |
| Total Current Assets | 566,697 | 431,274 | 396,110 | 375,757 | 357,764 | 473,313 | 473,313 | 436,628 | 356,462 | 323,463 | 436,950 | 436,950 | 448,670 | 448,040 |
| Utility Net PP&E | 2,134,103 | 2,448,105 | 2,478,166 | 2,514,890 | 2,547,107 | 1,952,912 | 1,952,912 | 2,002,765 | 2,056,003 | 2,101,491 | 2,160,770 | 2,160,770 | 3,277,730 | 3,653,010 |
| Non-Utility Net PP&E | | | | | | 670,858 | 670,858 | 659,920 | 651,766 | 596,656 | 596,660 | 596,660 | 596,660 | 596,660 |
| Total Reg & Other Non-Current | 505,901 | 520,970 | 546,601 | 556,429 | 568,428 | 590,918 | 590,918 | 607,811 | 625,776 | 658,642 | 646,140 | 646,140 | 1,496,140 | 1,396,140 |
| Other | 142,724 | 80,551 | 73,107 | 75,505 | 83,817 | 42,566 | 42,566 | 40,228 | 51,853 | 59,814 | 61,010 | 61,010 | 66,030 | 71,470 |
| Total Assets | 3,349,425 | 3,480,900 | 3,493,984 | 3,522,581 | 3,557,116 | 3,730,567 | 3,730,567 | 3,747,352 | 3,741,860 | 3,740,066 | 3,901,530 | 3,901,530 | 5,885,230 | 6,165,320 |
| A/P | 272,998 | 186,400 | 151,006 | 166,418 | 141,096 | 243,669 | 243,669 | 272,673 | 246,688 | 208,021 | 248,540 | 248,540 | 253,510 | 258,580 |
| CP of LTD | 149,909 | 29,454 | 28,604 | 244,605 | 231,909 | 231,909 | 231,909 | 31,909 | 15,909 | 10,909 | 30,000 | 30,000 | 250,000 | 50,000 |
| N/P | 245,700 | 431,700 | 339,500 | 145,400 | 230,200 | 296,100 | 296,100 | 205,100 | 296,300 | 280,100 | 380,100 | 380,100 | 525,100 | 683,100 |
| Other CL | 181,578 | 184,922 | 178,893 | 202,010 | 209,192 | 180,946 | 180,946 | 171,341 | 175,222 | 185,140 | 189,990 | 189,990 | 199,490 | 209,460 |
| Total Current Liabilities | 850,185 | 832,476 | 698,003 | 758,433 | 812,397 | 952,624 | 952,624 | 681,023 | 734,119 | 684,170 | 848,630 | 848,630 | 1,228,100 | 1,201,140 |
| LTD | 859,491 | 1,006,394 | 1,046,968 | 831,089 | 808,704 | 808,005 | 808,005 | 1,079,298 | 1,066,680 | 1,180,319 | 1,161,230 | 1,161,230 | 1,841,230 | 2,141,230 |
| Def Inc Taxes | 344,520 | 295,945 | 333,572 | 330,046 | 331,762 | 343,549 | 343,549 | 365,764 | 360,179 | 335,420 | 336,420 | 336,420 | 340,420 | 344,420 |
| Other Liabilities | 362,797 | 308,546 | 321,999 | 375,466 | 336,874 | 337,149 | 337,149 | 313,369 | 301,633 | 318,807 | 325,180 | 325,180 | 351,980 | 380,990 |
| Shareholders' Equity | 932,432 | 1,037,539 | 1,093,442 | 1,227,547 | 1,267,379 | 1,289,240 | 1,289,240 | 1,307,898 | 1,279,249 | 1,221,350 | 1,230,070 | 1,230,070 | 2,123,500 | 2,097,540 |
| Total Liab & SE | 3,349,425 | 3,480,900 | 3,493,984 | 3,522,581 | 3,557,116 | 3,730,567 | 3,730,567 | 3,747,352 | 3,741,860 | 3,740,066 | 3,901,530 | 3,901,530 | 5,885,230 | 6,165,320 |
| Cash Flow Analysis | | | | | | | | | | | | | | |
| | FY'14 | FY'15 | Q1'16 | Q2'16 | Q3'16 | Q4'16 | FY'16 | Q1'17 | Q2'17 | Q3'17 | Q4'17E | FY'17E | FY'18E | FY'19E |
| Net Income (Economic) | \$103,979 | \$98,974 | \$56,997 | \$8,705 | \$3,941 | \$33,200 | \$102,843 | \$57,560 | \$4,477 | (\$3,972) | \$38,430 | \$96,478 | \$131,300 | \$172,750 |
| Depreciation | 63,004 | 72,451 | 20,701 | 22,296 | 23,109 | 24,283 | 90,389 | 24,323 | 24,556 | 24,914 | 25,720 | 99,510 | 108,040 | 149,720 |
| (Inc.) dec. in working cap. | (18,943) | 51,875 | (5,886) | 58,792 | 2,634 | (29,881) | 25,659 | 52,850 | 53,136 | 7,809 | (66,569) | 47,230 | 1,830 | 1,940 |
| Other Op | 13,292 | (36,506) | 26,268 | (29,774) | 8,650 | 38,205 | 43,349 | (55,205) | (38,039) | (25,328) | 12,500 | (106,070) | 100,000 | 100,000 |
| Operating CF | 161,332 | 186,794 | 98,080 | 60,019 | 38,334 | 65,807 | 262,240 | 79,528 | 44,130 | 3,423 | 10,081 | 137,160 | 341,170 | 424,420 |
| Cap Ex | (342,578) | (345,621) | (67,416) | (51,427) | (69,562) | (89,597) | (278,002) | (67,278) | (74,751) | (63,575) | (85,000) | (290,600) | (475,000) | (525,000) |
| Net Sale / (Purch) Rstd Inv | (22,337) | 20,069 | 8,906 | (1,125) | 2,679 | 21,511 | 31,971 | - | - | - | - | - | - | - |
| Other Inv | (10,104) | (45,100) | (737) | (3,312) | 2,915 | 1,997 | 863 | (5,475) | (15,413) | (2,925) | (1,000) | (24,810) | (1,703,000) | (4,000) |
| Investing CF | (375,019) | (370,652) | (59,247) | (55,864) | (63,968) | (66,089) | (245,168) | (72,753) | (90,164) | (66,500) | (86,000) | (315,410) | (2,178,000) | (529,000) |
| LTD Proceeds | 329,000 | 130,000 | 61,000 | - | - | - | 61,000 | 273,000 | 48,000 | 125,000 | - | 446,000 | 930,000 | 350,000 |
| LTD (Repay) | (21,000) | (125,009) | (12,905) | (173) | (35,379) | (909) | (49,366) | (200,000) | (77,400) | (15,000) | - | (292,400) | (30,000) | (250,000) |
| Net Borrow / (Repay) ST Facility | (108,200) | 186,000 | (92,200) | (194,100) | 84,800 | 65,900 | (135,600) | (91,000) | 91,200 | (16,200) | 100,000 | 84,000 | 145,000 | 158,000 |
| Stock Issued | 80,680 | 63,192 | 5,645 | 208,818 | (37) | - | 214,426 | - | - | - | 10 | 10 | 900,000 | 0 |
| Mandatory Conv Pref Div | | | | | | | | | | | | | (9,750) | (39,000) |
| Dividends | (63,869) | (70,158) | - | (18,790) | (20,962) | (42,628) | (82,380) | - | (21,676) | (21,677) | (22,540) | (65,890) | (99,340) | (128,150) |
| Other Fin | (2,571) | (461) | - | - | (7) | (10,740) | (10,747) | (2,772) | (39) | (1,684) | - | (4,500) | 0 | 0 |
| Financing CF | 214,040 | 183,564 | (38,460) | (4,245) | 28,415 | 11,623 | (2,667) | (20,772) | 40,085 | 70,439 | 77,470 | 167,220 | 1,835,910 | 90,850 |
| Net Cash Flow | 353 | (294) | 373 | (90) | 2,781 | 11,341 | 14,405 | (13,997) | (5,949) | 7,362 | 1,551 | (11,030) | (920) | (13,730) |
| FCF (including div) | (245,115) | (228,985) | 30,664 | (10,198) | (52,190) | (66,418) | (98,142) | 12,250 | (52,297) | (81,829) | (97,459) | (219,330) | (233,170) | (228,730) |
| EBITDA | 190,607 | 229,345 | 134,954 | 14,310 | 35,699 | 94,702 | 279,665 | 92,009 | 19,992 | (30,341) | 100,796 | 182,440 | 365,210 | 479,540 |
| EV / TTM EBITDA | 14.9x | 11.5x | 11.3x | 8.4x | 11.7x | 12.4x | 12.4x | 16.5x | 8.8x | 22.2x | 20.3x | 20.3x | 14.4x | 11.7x |
| Selected Financial Statistics | | | | | | | | | | | | | | |
| | FY'14 | FY'15 | Q1'16 | Q2'16 | Q3'16 | Q4'16 | FY'16 | Q1'17 | Q2'17 | Q3'17 | Q4'17E | FY'17E | FY'18E | FY'19E |
| Book Value | \$13.83 | \$14.90 | \$15.31 | \$16.30 | \$15.91 | \$16.19 | \$16.19 | \$16.42 | \$16.08 | \$15.36 | \$15.46 | \$15.46 | \$19.73 | \$19.49 |
| Price / Book | 2.1x | 1.6x | 1.9x | 1.9x | 1.9x | 2.1x | 2.1x | 2.2x | 2.1x | 2.2x | 2.1x | 2.1x | 1.6x | 1.6x |
| TTM earned-ROE (adj if Nec) | 11.9% | 12.1% | 11.5% | 10.4% | 10.3% | 8.3% | 8.3% | 8.0% | 7.6% | 7.2% | 7.6% | 7.6% | 9.3% | 8.1% |
| Equity / Total Cap (inc ST & CP LTD) | 42.6% | 41.4% | 43.6% | 50.1% | 49.9% | 49.1% | 49.1% | 49.8% | 48.1% | 45.4% | 43.9% | 43.9% | 44.8% | 42.2% |
| LT Debt / Total Cap | 48.0% | 49.2% | 48.9% | 40.4% | 39.0% | 38.5% | 38.5% | 45.2% | 45.5% | 49.1% | 48.6% | 48.6% | 46.4% | 50.5% |

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 | 39 | 32% | 8% | 92% |
| Hold/Neutral | 74 | 60% | 9% | 91% |
| Sell | 8 | 7% | 0% | 100% |
| Restriction | 2 | 2% | 100% | 0% |

As of 5 October 2017

Other Disclosures

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