



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

WGL - NYSE - as of	8/3/17	\$85.56
Price Target		--
52-Week Range	\$58.66 -	\$86.89
Shares Outstanding (mm)		51.2
Market Cap. (\$mm)		\$4,382.3
1-Mo. Average Daily Volume		315,606
Institutional Ownership		70.1%
LT Debt/Total Capital	Q3'17	44.8%
ROE--adjusted	TTM	11.9%
Book Value / Share	Q3'17	\$29.54
Price / Book Value		2.9x
Dividend Yield		2.4%
EBITDA Margin	TTM	17.6%

EPS FY 9/30 (non-GAAP operating)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
Q1	\$1.18	--	\$1.24	A -- --
Q2	\$1.78	--	\$1.87	A -- --
Q3	\$0.33	--	\$0.26	A -- --
Q4	(\$0.01)	(\$0.01)	(\$0.22)	-- --
Year	\$3.29	\$3.37	\$3.15	\$3.71 \$3.50
P/E	26.0x		27.2x	24.4x

Utility Net Rev (ex-COGS) + Non-Utility Rev (\$mm)

	Prior	Current	Prior	Current
2016A	2017E	2017E	2018E	2018E
Q1	\$563	--	\$534	A -- --
Q2	\$715	--	\$707	A -- --
Q3	\$375	--	\$424	A -- --
Q4	\$452	\$467	\$467	-- --
Year	\$2,104	\$2,090	\$2,133	\$2,201 \$2,168

Company Description: WGL is a holding company serving the Washington, D.C. metro area. Washington Gas, its leading subsidiary, has provided natural gas service to customers in the D.C. area for over 160 years, and today serves more than one million customers in D.C., MD and VA. Its unregulated subsidiaries provide energy-related services to residential, commercial and governmental customers. WGL agreed to be acquired on 1/25/2017.

Natural Gas Utilities

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WGL Holdings, Inc.

WGL — NYSE — Underperform-4

Q3'17 Results from WGL; Reiterating Underperform.

Investment Highlights

- WGL reported fiscal Q3'17 (ending 6/30/17) non-GAAP operating EPS of \$0.26 versus \$0.33 in the year-ago period. Results fell between consensus at \$0.24 and our target for \$0.27.
- Regulated utility adjusted EBIT nearly doubled to \$9.3MM in Q3, reflecting new base rates in VA and D.C. Optimization and customer growth augmented the increase, while rising depreciation & amortization was one of the more notable expense items.
- Retail Energy Marketing contributed Q3 adjusted EBIT of \$6.1MM versus \$16.3MM in the year ago period, driven by lower natural gas margins. The Commercial Energy Systems segment grew adjusted EBIT by \$6.5MM to \$16.2MM in Q3; on an absolute basis the segment has been the top YTD grow driver for WGL.
- After two sequential quarters of guidance adjustment, management reaffirmed its FY 2017 non-GAAP operating EPS outlook in the range of \$3.10 to \$3.30, but put focus on the lower end as a result of lower expectations for Retail Energy-Marketing.
- Largely in deference to guidance, our Q4 EPS estimate slides to (\$0.22), putting our FY 2017 forecast within guidance at \$3.15. Our outlook for the core utility segment is essentially unchanged. Our Fiscal 2018 estimate slides in sympathy to \$3.50.
- Given WGL's plan to be acquired in the middle of next year, we refrain from initiating 2019 estimates.
- We are reiterating our Underperform rating, based on our preference for deploying capital into what we view as more compelling long-term investments across the gas utility industry. We view WGL as a merger arbitrage play at this point.

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

SUITABILITY

We assign WGL a suitability rating of '4.' A complete description of our suitability scale is on page 5. Since WGL has agreed to be acquired at a certain price, upside in shares is capped and long-term downside is limited, save for the potential of the deal to fall through, be rejected by WGL shareholders, or otherwise rejected by any number of regulatory bodies. We do not expect fundamental news flow and/or results to impact the share price of WGL. As such, we view WGL stock as a merger arbitrage play, which we view as inherently speculative, and meriting our '4-speculative/most aggressive' rating.

CONSIDERATIONS AND RISKS

WGL has agreed to be acquired. Should the deal not close, we believe WGL would likely experience a share price decline to eliminate the expected takeover premium. This could happen slowly over time, or exceptionally quickly due to a news item or release.

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 by customers in order to reduce consumption.

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.

WGL holds equity interest in several major planned mid-stream projects, which carry considerable timing risk. Any of which, could independently drive delta to our financial projections, if they are cancelled, delayed, or suffer cost over-runs.

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

Additional information is available upon request.

WGL Holdings, Inc.				dec	mar	june	sept			dec	mar	june	sept		
Balance Sheet (\$000s), FYE Sept.		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	
Cash	\$ 8,811	\$ 6,733	\$ 15,778	\$ 9,874	\$ 16,534	\$ 5,573	\$ 5,573	\$ 12,884	\$ 7,462	\$ 9,570	\$ 34,140	\$ 34,140	\$ 34,140	\$ 21,150	
A/R	298,975	276,358	449,035	577,622	457,388	491,020	491,020	441,654	709,854	574,013	500,840	500,840	500,840	510,860	
Storage Gas (FIFO)	333,602	211,443	212,969	133,947	172,718	207,132	207,132	208,841	139,134	210,531	209,200	209,200	209,200	211,290	
Other	194,127	286,849	240,214	202,765	173,914	139,749	139,749	431,831	147,909	168,181	142,540	142,540	142,540	145,390	
Total CAs	835,515	781,383	917,996	924,208	820,554	843,474	843,474	1,095,210	1,004,359	962,295	886,720	886,720	886,720	888,690	
Net PP&E	3,314,445	3,672,728	3,746,621	3,832,519	3,950,198	4,127,237	4,127,237	4,223,783	4,272,782	4,346,786	4,439,590	4,439,590	4,439,590	5,270,780	
Pension & Othr Retirement	192,981	212,041	206,153	200,243	194,282	223,242	223,242	215,854	213,143	210,000	209,000	209,000	209,000	205,000	
Other	513,558	628,049	629,485	702,595	777,779	864,752	864,752	940,543	919,451	854,412	864,750	864,750	864,750	864,750	
Total Assets	4,856,499	5,294,201	\$ 5,500,255	\$ 5,659,565	\$ 5,742,813	\$ 6,058,705	6,058,705	\$ 6,475,390	\$ 6,409,735	\$ 6,373,493	\$ 6,400,060	6,400,060	6,400,060	7,229,220	
CP of LTD	20,000	25,000	25,000	-	-	-	-	-	-	-	-	-	-	50,000	
Notes Payable // Project Financing	453,500	332,000	527,875	329,307	358,342	331,385	331,385	634,392	782,320	788,854	713,854	713,854	713,850	1,113,850	
A/P & Othr Accrued	313,221	325,146	309,339	349,746	333,160	405,351	405,351	447,467	389,881	377,133	425,620	425,620	425,620	446,900	
Other	233,564	300,768	318,735	306,849	303,421	290,190	290,190	340,181	259,918	267,906	319,210	319,210	319,210	351,130	
Total CLs	1,020,285	982,914	1,180,949	985,902	994,923	1,026,926	1,026,930	1,422,040	1,432,119	1,433,893	1,458,684	1,458,684	1,458,680	1,961,880	
LTD	679,228	944,201	945,582	1,194,251	1,194,275	1,444,300	1,444,300	1,435,247	1,235,432	1,235,623	1,444,300	1,444,300	1,444,300	1,594,300	
Deferred Income Tax	660,908	672,963	713,585	724,400	743,677	726,763	726,763	784,001	844,915	845,109	845,110	845,110	845,110	855,110	
Accrued Pension & Benefit	120,446	176,128	179,920	183,445	186,696	228,377	228,377	231,198	234,018	235,050	235,050	235,050	235,050	236,050	
Accrued Asset Removal	327,388	325,496	320,250	317,961	311,469	310,788	310,788	302,296	294,625	290,476	290,480	290,480	290,480	290,480	
Other	773,495	888,237	842,694	830,319	872,519	917,408	917,408	832,970	799,320	778,652	963,280	963,280	963,280	1,011,440	
Preferred Stock + NCI	28,173	28,173	28,173	28,173	28,173	28,582	28,582	28,173	31,424	33,407	28,173	28,173	28,173	28,173	
Common Sh Equity	1,246,576	1,243,247	1,289,102	1,395,114	1,411,081	1,375,561	1,375,561	1,439,465	1,537,882	1,521,283	1,134,983	1,134,983	1,134,983	1,251,787	
Total Cap & Liab	4,856,499	5,261,359	\$ 5,500,255	\$ 5,659,565	\$ 5,742,813	\$ 6,058,705	6,058,705	\$ 6,475,390	\$ 6,409,735	\$ 6,373,493	\$ 6,400,060	6,400,060	6,400,060	7,229,220	
Cash Flow (\$000s), FYE Sept.		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	
Net Income	\$ 138,952	\$ 158,247	\$ 59,205	\$ 89,490	\$ 17,009	\$ (590)	\$ 165,114	\$ 63,606	\$ 96,087	\$ 13,635	\$ (11,560)	\$ (11,560)	\$ 161,760	\$ 180,060	
D&A	110,772	121,892	31,412	33,170	33,786	34,198	132,566	35,283	39,110	39,094	37,200	37,200	150,690	168,810	
(Inc)/ Dec in Wrk Cap	26,637	131,183	(125,408)	16,405	90,300	25,079	6,376	(152,318)	(52,420)	39,412	203,186	203,186	37,900	39,800,00	
Other Operating	105,806	92,737	(23,294)	55,998	(42,637)	(66,357)	(76,290)	(40,666)	102,587	41,372	27,000	27,000	130,293	108,000	
Operating CF	\$ 382,167	\$ 504,059	\$ (58,085)	\$ 195,063	\$ 98,458	\$ (7,670)	\$ 227,766	\$ (94,095)	\$ 185,364	\$ 133,513	\$ 255,826	\$ 255,826	\$ 480,643	\$ 496,670	
Cap Ex	(394,762)	(464,291)	(101,013)	(105,915)	(141,666)	(181,791)	(530,385)	(155,758)	(110,787)	(85,690)	(100,000)	(100,000)	(452,235)	(400,000)	
Net (Investment) in Non-Util Int	(27,299)	(56,667)	(6,309)	(108,534)	(17,523)	(30,000)	(149,798)	(60,442)	(26,026)	(20,358)	(30,000)	(30,000)	(136,826)	(600,000)	
Other Investing	-	(4,151)	-	1,392	15,714	(2,388)	14,718	(863)	10,466	(605)	-	-	8,998.00	-	
Investing CF	(422,061)	(525,109)	(107,322)	(213,057)	(143,475)	(214,179)	(665,465)	(217,063)	(126,347)	(106,653)	(130,000)	(130,000)	(580,063)	(1,000,000)	
Common Stock Issued	(55,422)	(41,485)	83	31,817	46,150	237	78,287	251	47	(3)	0	0	295	-	
LTD Issued	175,253	298,227	-	250,000	-	248,125	498,125	-	50,000	-	-	-	50,000	200,000	
LTD (Retired)	(67,000)	(20,000)	-	(25,000)	-	-	(25,000)	-	-	-	-	-	-	-	
Notes Issued / (Retired), net	80,400	(121,500)	195,875	(242,875)	21,000	(37,000)	(63,000)	324,001	(93,195)	(13,806)	(75,000)	(75,000)	142,000	400,000	
Dividends	(85,901)	(91,316)	(23,377)	(22,085)	(23,508)	(23,871)	(92,841)	(23,921)	(25,299)	(26,452)	(26,260)	(26,260)	(101,932)	(109,660)	
Other Financing	(2,103)	(4,954)	1,871	20,233	8,035	10,829	40,968	18,138	4,008	15,509	-	-	37,655.00	-	
Financing CF	45,227	18,972	174,452	12,090	51,677	198,320	436,539	318,469	(64,439)	(24,752)	(101,260)	(101,260)	128,018	490,340	
Net Cash Flow	5,333	(2,078)	9,045	(5,904)	6,660	(23,529)	(1,160)	7,311	(5,422)	2,108	24,566	24,566	28,598	(12,990)	
EBITDA	313,024	388,786	151,163	213,144	53,911	33,096	451,314	140,739	242,098	70,341	43,951	43,951	497,129	568,208	
EV / TTM EBITDA	9.1x	9.9x	10.5x	11.2x	10.2x	10.3x	10.3x	12.1x	12.0x	11.6x	11.7x	11.7x	11.7x	10.5x	
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	
Book Value	\$ 24.19	\$ 24.83	\$ 25.77	\$ 27.75	\$ 27.72	\$ 26.93	\$ 26.93	\$ 28.13	\$ 29.88	\$ 29.54	\$ 22.04	\$ 22.04	\$ 22.04	\$ 24.31	
Price / Book	1.7x	2.3x	2.4x	2.6x	2.6x	2.3x	2.3x	2.7x	2.9x	2.9x	3.9x	3.9x	3.9x	3.5x	
Sh Equity Capitalization	52.1%	49.0%	46.5%	48.0%	47.9%	43.7%	43.7%	41.2%	43.3%	43.0%	34.8%	34.8%	34.8%	31.4%	
LT Debt / Total Capital	35.3%	43.2%	42.3%	46.1%	45.8%	51.2%	51.2%	49.9%	44.5%	44.8%	56.0%	56.0%	56.0%	56.0%	
ROE (TTM)-Adjusted Profit	10.9%	12.6%	12.6%	11.4%	11.7%	12.3%	12.3%	12.3%	12.3%	11.9%	11.5%	11.5%	11.5%	12.8%	

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

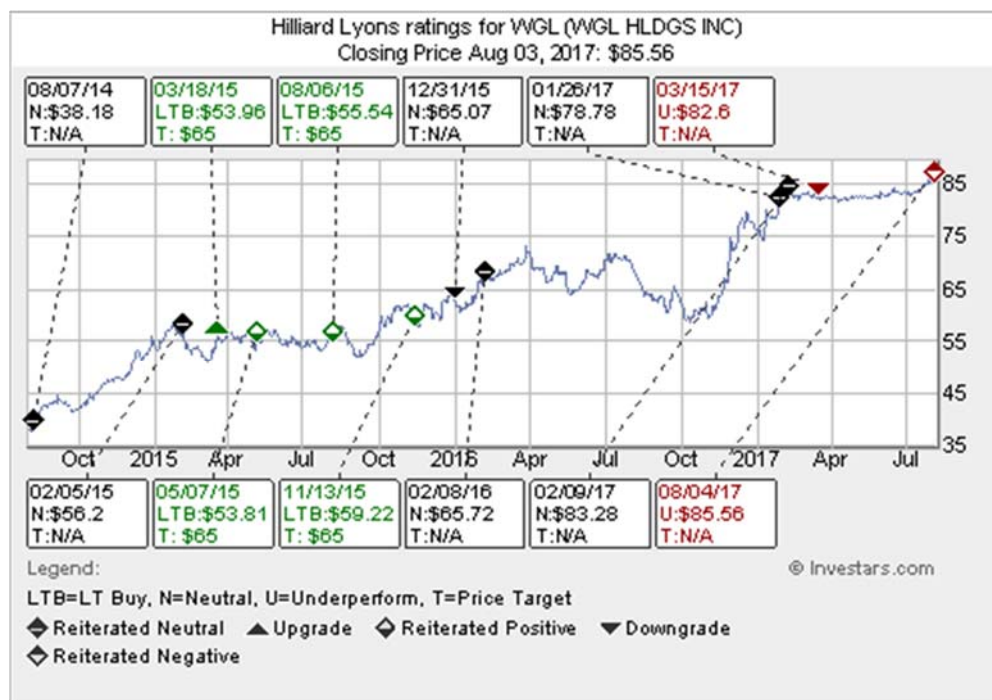
Investment Ratings

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.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# 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

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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