



COMPANY UPDATE / RATING CHANGE ESTIMATE CHANGE

Key Metrics

WGL - NYSE - as of	3/14/17	\$82.60
Price Target		--
52-Week Range	\$58.66 -	\$84.08
Shares Outstanding (mm)		51.2
Market Cap. (\$mm)		\$4,242.9
1-Mo. Average Daily Volume		417,814
Institutional Ownership		69.4%
LT Debt/Total Capital	Q1'17	49.9%
ROE--adjusted	TTM	12.3%
Book Value / Share	Q1'17	\$28.13
Price / Book Value		2.9x
Dividend Yield		2.5%
EBITDA / Gross Margin		--

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	\$2.09	\$2.09	--	--
Q3	\$0.33	\$0.24	\$0.24	--	--
Q4	(\$0.01)	(\$0.03)	(\$0.03)	--	--
Year	\$3.29	\$3.54	\$3.54	\$3.62	\$3.80
P/E	25.1x		23.3x		21.7x

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

		Prior	Current	Prior	Current
	2016A	2017E	2017E	2018E	2018E
Q1	\$563	--	\$534	A --	--
Q2	\$715	\$709	\$709	--	--
Q3	\$375	\$382	\$382	--	--
Q4	\$452	\$467	\$467	--	--
Year	\$2,104	\$2,092	\$2,092	\$2,194	\$2,201

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

Downgrading to Underperform on Preference for Other Opportunities in the Gas Utility Space.

Investment Highlights

- We are downgrading our rating on WGL to Underperform from Neutral; our suitability rating of '4-speculative/most aggressive' remains intact with the company having agreed to be acquired.
- Exiting positions in the late-Q1/early-Q2 timeframe, ahead of any material news regarding the deal approval process, makes tactical sense for investors disinclined to make a merger arbitrage call. Selling earlier in the year leaves ideal time for tax planning.
- We believe Fed activity has more/less been adequately priced into the peer industry in our view, and at this juncture we prefer rotation from WGL into a potentially longer-term investment. Worth stressing here, we no longer view WGL shares as vehicle for playing themes affecting the gas utility industry.
- WGL has agreed to be acquired at \$88.25/sh. The deal is projected to close by the end of Q2'18; we believe 6/30/18 is a reasonable base case target for investors.
- We expect a few negative headlines to surface at some point, but believe the deal will close. Prior to closing, the transaction must be approved by: FERC, state-level commissions in MD, VA and DC, and the federal Committee on Foreign Investment in the US.
- WGL's most recent FY 2017 EPS guidance was a range of \$3.40-\$3.60.
- As a caveat to our preferred strategy, we acknowledge delaying sales until 2018 could be a prudent move on an individualized tax basis; investors could also avoid commissions by holding to close (or through a deal collapse), while likely collecting dividends.

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

ADDITIONAL DISCUSSION—DOWNGRADE TIMING

There are numerous facets to our Underperform rating, although our downgrade at this juncture is compelled by a convergence of several factors. When the company agreed to be acquired, we ceased to view the stock as a fundamental play on gas utility themes (evidenced by our suitability change on January 26). For a time however, we took a neutral stance on this item given several factors, including our fear of rotation after a strong 2016 and our explicit view (Utilities Monthly published 2/17) that the market was acutely mispricing the likelihood of a March Fed hike. At this point, we no longer fear interest rates or sector rotation, but are increasingly optimistic toward the group as a whole given their resilient growth prospects and a lack of legislative progress on tax reform or infrastructure.

As noted in our opening bullet points, we do believe the acquisition of WGL will close, but even our base case expects a slight delay. To that end, we suspect the merger risk/reward could be more attractive at some point as well, further curbing our current appetite for holding shares.

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	Q2'17E	Q3'17E	Q4'17E	FY'17E	FY'18E	
Cash	\$ 8,811	\$ 6,733	\$ 15,778	\$ 9,874	\$ 16,534	\$ 5,573	\$ 5,573	\$ 12,884	\$ 20,850	\$ 38,500	\$ 55,800	\$ 55,800	\$ 55,800	\$ 55,800	
A/R	298,975	276,358	449,035	577,622	457,388	491,020	491,020	441,654	589,170	466,540	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	135,290	174,450	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	206,820	177,390	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	952,130	856,880	908,380	908,380	908,380	922,760	
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	4,316,810	4,409,190	4,501,460	4,501,460	4,501,460	5,335,360	
Pension & Othr Retirement	192,981	212,041	206,153	200,243	194,282	223,242	223,242	215,854	214,850	213,850	212,850	212,850	212,850	208,850	
Other	513,558	628,049	629,485	702,595	777,779	864,752	864,752	940,543	702,600	777,780	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	\$ 6,186,390	\$ 6,257,700	\$ 6,487,440	6,487,440	6,487,440	7,331,720	
CP of LTD	20,000	25,000	25,000	-	-	-	-	-	-	-	-	-	-	50,000	
Notes Payable	453,500	332,000	527,875	329,307	358,342	331,385	331,385	634,392	559,392	564,392	644,392	644,392	644,392	1,044,390	
A/P & Othr Accrued	313,221	325,146	309,339	349,746	333,160	405,351	405,351	447,467	367,230	349,820	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	337,530	333,760	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	1,264,152	1,247,972	1,389,222	1,389,222	1,389,222	1,892,420	
LTD	679,228	944,201	945,582	1,194,251	1,194,275	1,444,300	1,444,300	1,435,247	1,444,300	1,444,300	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	784,000	784,000	784,000	784,000	784,000	794,000	
Accrued Pension & Benefit	120,446	176,128	179,920	183,445	186,696	228,377	228,377	231,198	231,200	231,200	231,200	231,200	231,200	232,200	
Accrued Asset Removal	327,388	325,496	320,250	317,961	311,469	310,788	310,788	302,296	302,300	302,300	302,300	302,300	302,300	302,300	
Other	773,495	888,237	842,694	830,319	872,519	917,408	917,408	832,970	871,830	916,140	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	28,173	28,173	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	1,260,435	1,303,615	1,344,965	1,344,965	1,344,965	1,476,887	
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	\$ 6,186,390	\$ 6,257,700	\$ 6,487,440	6,487,440	6,487,440	7,331,720	
Cash Flow (\$000s), FYE Sept.		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	
Net Income	\$ 138,952	\$ 158,247	\$ 59,205	\$ 89,490	\$ 17,009	\$ (590)	\$ (590)	\$ 165,114	\$ 63,606	\$ 106,940	\$ 12,410	\$ (1,630)	\$ 181,320	\$ 194,520	
D&A	110,772	121,892	31,412	33,170	33,786	34,198	34,198	132,566	35,283	36,970	37,620	37,730	147,600	166,100	
(Inc) / Dec in Wrk Cap	26,637	131,183	(125,408)	16,405	90,300	25,079	25,079	6,376	(152,318)	68,158	91,720	30,300	37,900	39,800,00	
Other Operating	105,806	92,737	(23,294)	55,998	(42,637)	(66,357)	(66,357)	(76,290)	(40,666)	27,000	27,000	27,000	40,334	108,000	
Operating CF	\$ 382,167	\$ 504,059	\$ (58,085)	\$ 195,063	\$ 98,458	\$ (7,670)	\$ (7,670)	\$ 227,766	\$ (94,095)	\$ 239,068	\$ 168,750	\$ 93,400	\$ 407,154	\$ 508,420	
Cap Ex	(394,762)	(464,291)	(101,013)	(105,915)	(141,666)	(181,791)	(181,791)	(530,385)	(155,758)	(100,000)	(100,000)	(100,000)	(455,758)	(400,000)	
Net (Investment) in Non-Util Int	(27,299)	(56,667)	(6,309)	(108,534)	(17,523)	(30,000)	(30,000)	(149,798)	(60,442)	(30,000)	(30,000)	(30,000)	(150,442)	(600,000)	
Other Investing	-	(4,151)	-	1,392	15,714	(2,388)	(2,388)	14,718	(863)	-	-	-	(863,00)	-	
Investing CF	(422,061)	(525,109)	(107,322)	(213,057)	(143,475)	(214,179)	(214,179)	(665,465)	(217,063)	(130,000)	(130,000)	(130,000)	(607,063)	(1,000,000)	
Common Stock Issued	(55,422)	(41,485)	83	31,817	46,150	237	237	78,287	251	0	0	0	251	-	
LTD Issued	175,253	298,227	-	250,000	-	248,125	248,125	498,125	0	50,000	50,000	50,000	50,000	200,000	
LTD (Retired)	(67,000)	(20,000)	-	(25,000)	-	-	-	(25,000)	0	(50,000)	(50,000)	(50,000)	(50,000)	-	
Notes Issued / (Retired), net	80,400	(121,500)	195,875	(242,875)	21,000	(37,000)	(37,000)	(63,000)	324,001	(75,000)	5,000	80,000	334,001	400,000	
Dividends	(85,901)	(91,316)	(23,377)	(22,085)	(23,508)	(23,871)	(23,871)	(92,841)	(23,921)	(26,100)	(26,100)	(26,100)	(102,221)	(108,990)	
Other Financing	(2,103)	(4,954)	1,871	20,233	8,035	10,829	10,829	40,968	18,138	-	-	-	18,138,00	-	
Financing CF	45,227	18,972	174,452	12,090	51,677	198,320	198,320	436,539	318,469	(101,100)	(21,100)	53,900	250,169	491,010	
Net Cash Flow	5,333	(2,078)	9,045	(5,904)	6,660	(23,529)	(23,529)	(1,160)	7,311	7,968	17,650	17,300	50,260	(570)	
EBITDA	313,024	388,786	151,163	213,144	53,911	33,096	33,096	451,314	140,739	226,029	74,222	51,891	492,876	554,378	
EV / TTM EBITDA	9.1x	9.9x	10.5x	11.2x	10.2x	10.3x	10.3x	10.3x	12.1x	12.5x	11.9x	11.4x	11.4x	10.4x	
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	\$ 24.19	\$ 24.83	\$ 25.77	\$ 27.75	\$ 27.72	\$ 26.93	\$ 26.93	\$ 26.93	\$ 28.13	\$ 24.63	\$ 25.48	\$ 26.28	\$ 26.28	\$ 28.86	
Price / Book	1.7x	2.3x	2.4x	2.6x	2.6x	2.3x	2.3x	2.3x	2.7x	3.4x	3.3x	3.2x	3.2x	2.9x	
Sh Equity Capitalization	52.1%	49.0%	46.5%	48.0%	47.9%	43.7%	43.7%	43.7%	41.2%	38.9%	39.8%	39.8%	39.8%	35.9%	
LT Debt / Total Capital	35.3%	43.2%	42.3%	46.1%	45.8%	51.2%	51.2%	51.2%	49.9%	53.4%	52.6%	51.8%	51.8%	51.9%	
ROE (TTM)--Adjusted Profit	10.9%	12.6%	12.6%	11.4%	11.7%	12.3%	12.3%	12.3%	12.3%	13.6%	13.4%	13.5%	13.5%	13.4%	

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

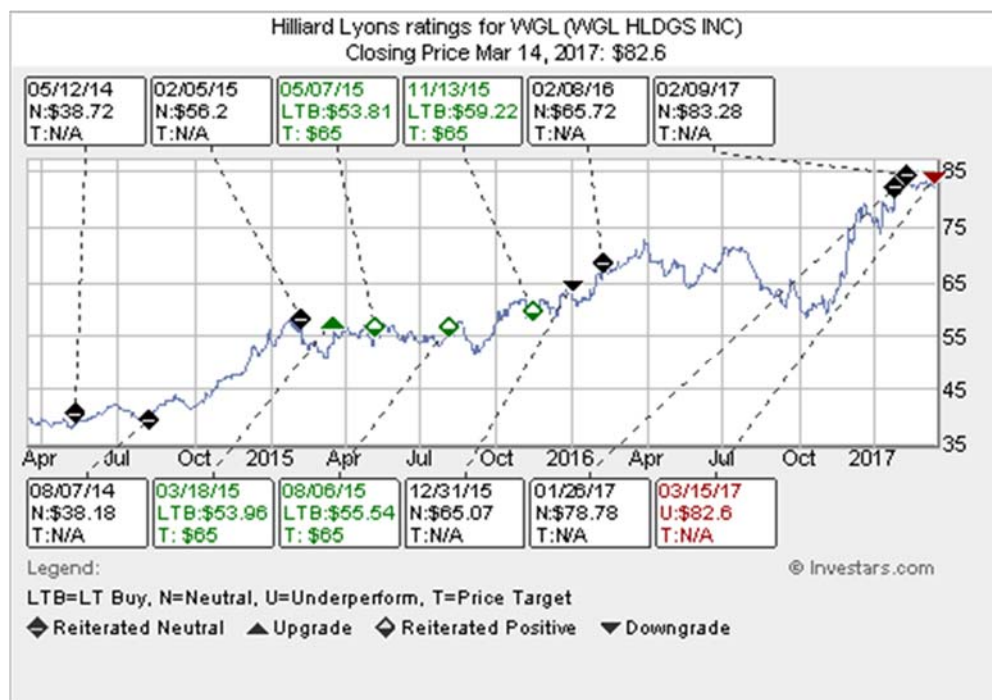
Investment Ratings

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	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017

Other Disclosures

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