

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

WGL - NYSE - as of	11/20/17	\$84.30
Price Target		--
52-Week Range	\$65.31 -	\$86.89
Shares Outstanding (mm)		51.2
Market Cap. (\$mm)		\$4,317.8
1-Mo. Average Daily Volume		243,408
Institutional Ownership		73.8%
LT Debt/Total Capital	Q4'17	48.2%
ROE--adjusted	TTM	11.1%
Book Value / Share	Q4'17	\$29.86
Price / Book Value		2.8x
Dividend Yield		2.4%
EBITDA Margin	TTM	19.3%

EPS FY 9/30 (non-GAAP operating)

	Prior		Current		
	2016A	2017A	2017A	2018E	2018E
Q1	\$1.18	--	\$1.24	--	--
Q2	\$1.78	--	\$1.87	--	--
Q3	\$0.33	--	\$0.26	--	--
Q4	(\$0.01)	--	(\$0.17)	--	--
Year	\$3.29	--	\$3.20	\$3.50	\$3.75
P/E	25.6x		26.3x		22.5x

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

	Prior		Current		
	2016A	2017A	2017A	2018E	2018E
Q1	\$563	--	\$534	A	--
Q2	\$715	--	\$707	A	--
Q3	\$375	--	\$424	A	--
Q4	\$452	--	\$415	A	--
Year	\$2,104	--	\$2,080	\$2,168	\$2,169

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

Analyst: Spencer E. Joyce, CFA
502.588.8402 // sjoyce@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 // gmoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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WGL Holdings, Inc.

WGL — NYSE — Neutral-4

Q4'17 Results from WGL; Reiterating Neutral.
Investment Highlights

- WGL reported fiscal Q4'17 (ending 9/30/17) non-GAAP operating EPS of (\$0.17) versus (\$0.01) in the year-ago period. Results beat both consensus at (\$0.19) and our target for (\$0.22).
- Regulated utility adjusted EBIT fell a few million dollars in fiscal Q4, but grew \$2.9MM on the full year to \$227.2MM, in part reflecting new base rates in VA and D.C., and increased optimization.
- Retail Energy Marketing contributed Q4 adjusted EBIT of \$12.4MM versus \$24.3MM in the year ago period, on softness for both gas and electric activities. FY Retail adjusted EBIT fell \$11.6MM to \$41.6MM.
- The Commercial Energy Systems segment grew adjusted EBIT by \$6.8MM to \$47.6MM in FY 2017, reflecting steady growth across the year and across a range of project lines. Midstream grew adjusted EBIT \$8.3MM, on increasing impact from major projects.
- WGL did not offer guidance for fiscal 2018; we remind investors the company is set to be acquired during the forward calendar year. Our Fiscal 2018 estimate rises to \$3.75 over what we view as an easy comparison year. Having said that, we expect reported results to have little impact on the stock.
- Given WGL's plan to be acquired in the middle of next year, we refrain from initiating 2019 estimates. Purchase consideration is to be all-cash.
- We reiterating our Neutral rating. We view WGL as a merger arbitrage play at this point, which drives our aggressive suitability rating.

**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	Q4'17p	FY'17p	FY'18E			
Cash	\$ 8,811	\$ 6,733	\$ 15,778	\$ 9,874	\$ 16,534	\$ 5,573	\$ 5,573	\$ 12,884	\$ 7,462	\$ 9,570	\$ 8,524	\$ 8,524	\$ 8,524	\$ 9,190			
A/R	298,975	276,358	449,035	577,622	457,388	491,020	491,020	441,654	709,854	574,013	553,312	553,312	553,312	564,380			
Storage Gas (FIFO)	333,602	211,443	212,969	133,947	172,718	207,132	207,132	208,841	139,134	210,531	243,984	243,984	243,984	246,420			
Other	194,127	286,849	240,214	202,765	173,914	139,749	139,749	431,831	147,909	168,181	180,069	180,069	180,069	183,670			
Total CAs	835,515	781,383	917,996	924,208	820,554	843,474	843,474	1,095,210	1,004,359	962,295	985,889	985,889	985,889	1,003,660			
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	4,630,051	4,630,051	4,630,051	5,450,390			
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	801,069	801,069	801,069	801,070			
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	\$ 6,626,009	6,626,009	6,626,009	7,460,120			
CP of LTD	20,000	25,000	25,000	-	-	-	-	-	250,000	250,000	250,000	250,000	250,000	50,000			
Notes Payable // Project Financing	453,500	332,000	527,875	329,307	358,342	331,385	331,385	634,392	532,320	538,854	559,844	559,844	559,844	959,840			
A/P & Othr Accrued	313,221	325,146	309,339	349,746	333,160	405,351	405,351	447,467	389,881	377,133	423,824	423,824	423,824	445,020			
Other	233,564	300,768	318,735	306,849	303,421	290,190	290,190	340,181	259,918	267,906	255,320	255,320	255,320	280,850			
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	1,488,988	1,488,988	1,488,988	1,735,710			
LTD	679,228	944,201	1,194,251	1,194,275	1,194,275	1,444,300	1,444,300	1,435,247	1,235,432	1,235,623	1,430,861	1,430,861	1,430,861	1,835,623			
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	762,782	762,782	762,782	800,920			
Preferred Stock + NCI	28,173	28,173	28,173	28,173	28,173	28,582	28,582	28,173	31,424	33,407	35,024	35,024	35,024	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	1,537,714	1,537,714	1,537,714	1,678,050			
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	\$ 6,626,009	6,626,009	6,626,009	7,460,120			
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)	\$ (590)	\$ 165,114	\$ 63,606	\$ 96,087	\$ 13,635	\$ (8,840)	\$ 164,488	\$ 193,030			
D&A	110,772	121,892	31,412	33,170	33,786	34,198	34,198	132,566	35,283	39,110	39,094	40,651	154,138	179,660			
(Inc) / Dec in Wrk Cap	26,637	131,183	(125,408)	16,405	90,300	25,079	25,079	6,376	(152,318)	(52,420)	39,412	9,465	(155,861)	29,600,000			
Other Operating	105,806	92,737	(23,294)	55,998	(42,637)	(66,357)	(66,357)	(76,290)	(40,666)	102,587	41,372	27,000	130,293	108,000			
Operating CF	\$ 382,167	\$ 504,059	\$ (58,085)	\$ 195,063	\$ 98,458	\$ (7,670)	\$ (7,670)	\$ 227,766	\$ (94,095)	\$ 185,364	\$ 133,513	\$ 68,276	\$ 293,058	\$ 510,290			
Cap Ex	(394,762)	(464,291)	(101,013)	(105,915)	(141,666)	(181,791)	(181,791)	(530,385)	(155,758)	(110,787)	(85,690)	(100,000)	(452,235)	(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)	(26,026)	(20,358)	(30,000)	(136,826)	(600,000)			
Other Investing	-	(4,151)	-	1,392	15,714	(2,388)	(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)	(214,179)	(665,465)	(217,063)	(126,347)	(106,653)	(130,000)	(580,063)	(1,000,000)			
Common Stock Issued	(55,422)	(41,485)	83	31,817	46,150	237	237	78,287	251	47	(3)	0	295	-			
LTD Issued	175,253	298,227	-	250,000	-	248,125	248,125	498,125	-	50,000	-	200,000	250,000	450,000			
LTD (Retired)	(67,000)	(20,000)	-	(25,000)	-	-	-	(25,000)	-	-	-	0	-	(250,000)			
Notes Issued / (Retired), net	80,400	(121,500)	195,875	(242,875)	21,000	(37,000)	(37,000)	(63,000)	324,001	(93,195)	(13,806)	(85,000)	132,000	400,000			
Dividends	(85,901)	(91,316)	(23,377)	(22,085)	(23,508)	(23,871)	(23,871)	(92,841)	(23,921)	(25,299)	(26,452)	(26,260)	(101,932)	(109,660)			
Other Financing	(2,103)	(4,954)	1,871	20,233	8,035	10,829	10,829	40,968	18,138	4,008	15,509	-	37,655	-			
Financing CF	45,227	18,972	174,452	12,090	51,677	198,320	198,320	436,539	318,469	(64,439)	(24,752)	88,740	318,018	490,340			
Net Cash Flow	5,333	(2,078)	9,045	(5,904)	6,660	(23,529)	(23,529)	(1,160)	7,311	(5,422)	2,108	27,016	31,013	630			
EBITDA	313,024	388,786	151,163	213,144	53,911	33,096	33,096	451,314	140,739	242,098	70,341	64,008	517,186	574,378			
EV / TTM EBITDA	9.1x	9.9x	10.5x	11.2x	10.2x	10.3x	10.3x	10.3x	12.1x	11.7x	11.4x	11.1x	11.1x	10.7x			
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			
Book Value	\$ 24.19	\$ 24.83	\$ 25.77	\$ 27.75	\$ 27.72	\$ 26.93	\$ 26.93	\$ 26.93	\$ 28.13	\$ 29.88	\$ 29.54	\$ 29.86	\$ 29.86	\$ 32.59			
Price / Book	1.7x	2.3x	2.4x	2.6x	2.6x	2.3x	2.3x	2.3x	2.7x	2.8x	2.8x	2.8x	2.8x	2.6x			
Sh Equity Capitalization	52.1%	49.0%	46.5%	48.0%	47.9%	43.7%	43.7%	43.7%	41.2%	43.3%	43.0%	40.8%	40.8%	37.2%			
LT Debt / Total Capital	35.3%	43.2%	42.3%	46.1%	45.8%	51.2%	51.2%	51.2%	49.9%	44.5%	44.8%	48.2%	48.2%	52.2%			
ROE (TTM)-Adjusted Profit	10.9%	12.6%	12.6%	11.4%	11.7%	12.3%	12.3%	12.3%	12.3%	12.3%	19.0%	11.1%	11.1%	11.6%			

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

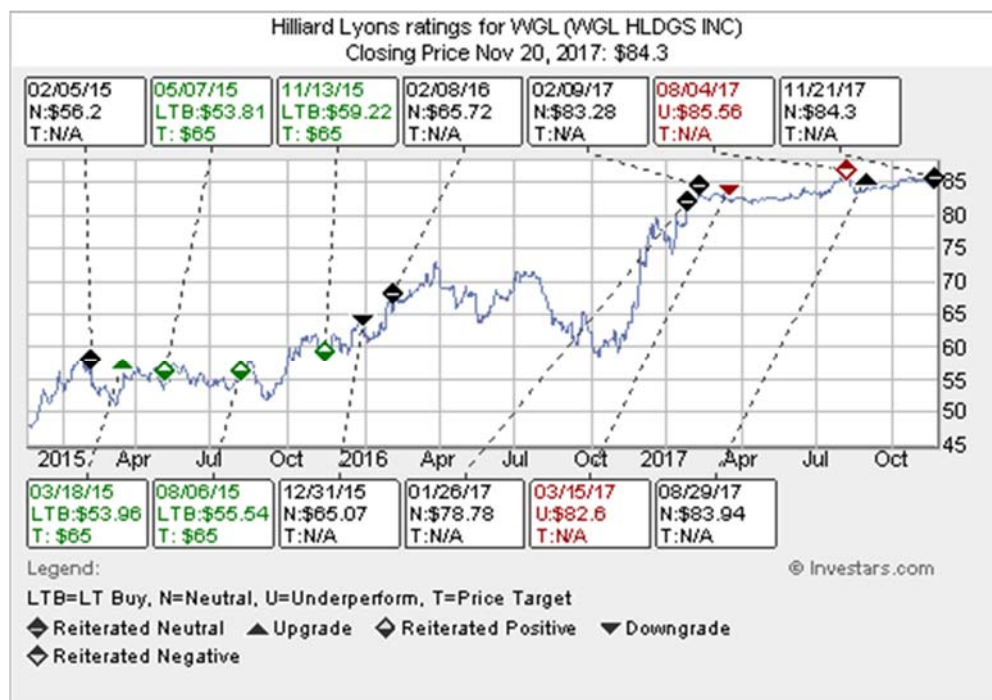
Investment Ratings

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.



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

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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