



COMPANY UPDATE / TARGET CHANGE ESTIMATE CHANGE

Key Metrics

WTR - NYSE - as of	8/3/17	\$33.58
Price Target		\$30.00
52-Week Range	\$28.03 -	\$34.41
Shares Outstanding (mm)		177.6
Market Cap. (\$mm)		\$5,963.9
1-Mo. Average Daily Volume		566,564
Institutional Ownership		54.0%
LTD / Total Capital	Q2'17	49.0%
ROE--Adj	TTM	12.6%
Book Value / Share	Q2'17	\$10.65
Price / Book Value		3.2x
Dividend Yield		2.4%
LTM EBITDA Margin		56.4%

EPS (continuing ops) FY 12/31

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.29	--	\$0.28	A --	--
2Q	\$0.33	--	\$0.34	A --	--
3Q	\$0.41	\$0.41	\$0.42	--	--
4Q	\$0.28	\$0.30	\$0.29	--	--
Year	\$1.32	\$1.34	\$1.34	\$1.39	\$1.40
P/E	25.4x		25.1x		24.0x

*Adjusted for special items

Revenue (\$MM)

	2016A	Prior 2017E	Current 2017E	Prior 2018E	Current 2018E
1Q	\$193	--	\$188	A --	--
2Q	\$204	--	\$203	A --	--
3Q	\$227	\$224	\$227	--	--
4Q	\$197	\$200	\$197	--	--
Year	\$820	\$812	\$815	\$848	\$847

Company Description: Aqua America is a water and wastewater utility holding company with operating subsidiaries serving ~3MM people. WTR provides regulated service to customers in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Indiana, Virginia. The company's history spans over 125 years.

Water Utilities

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Aqua America, Inc.

WTR – NYSE – Underperform-2

Quiet Q2 at WTR; Reiterating Underperform Rating.

Investment Highlights

- Aqua America reported Q2'17 EPS of \$0.34, up a penny from the year-ago period; results missed our estimate for \$0.35, but met consensus.
- Revenue slid 0.2% to \$203.4MM in Q2; topline fell between our target for \$200.9MM and consensus at \$208.3MM. Market-based divestitures were a drag of about \$4.4MM, although this has little impact on overall profitability.
- WTR firmed/reiterated its outlook for rate activity in PA, anticipating a DSIC (surcharge) filing to benefit Q4'17, with a base rate filing in 2018.
- Four muni deals representing ~11,000 customers and purchase consideration of \$120.5MM remain in various pending stages. Included, WTR announced a first deal negotiated under PA Act 12 Fair Value legislation in Q2, marking investment of \$29.5MM.
- O&M expense fell 4.2% in Q2, but comps are again skewed by the exiting of market-based businesses. As of Q2, WTR is essentially complete with its sales, retaining only limited O&M contracts and its service line protection royalties.
- YTD Cap Ex at \$208MM versus \$196MM in 1H'16 bodes well for eventual growth in our view, but we still site/calculate TTM ROE at 12.6% as somewhat of a limiting factor.
- Aqua reiterated EPS guidance for 2017 in the range of \$1.34 to \$1.39; our 2017E EPS continues to rest on the bottom bound of the range. Our 2018E EPS slides up \$0.01 to \$1.40.
- We are reiterating our Underperform rating but raise our 1-year price target to \$30, allowing for a higher multiple based on market valuations across the water industry. We still see negative near-term risk/reward in WTR due to our relative growth outlook.

**Note Important Disclosures on Pages 5-6
Note Analyst Certification on Page 5**

SUITABILITY

We assign WTR a suitability rating of '2.' A complete description of our suitability scale is on page 5. We view Aqua America as a strong operator in the water space, and flag consistent cash flow and earnings predictability due to entrenched regulated monopoly franchises. High sensitivity to a single state (PA) versus some larger utility peers is the primary factor that pushes WTR just below our most conservative '1' suitability rating. A strong history of returning capital to shareholders, low cyclicity and industry-appropriate leverage keep the company well above our more aggressive '3' rating.

CONSIDERATIONS AND RISKS

We view all companies in the Water Utilities industry as being subject to significant regulatory and political risk. Utility operations are heavily regulated; negative rate-making climates and/or new environmental restrictions may affect the company's ability to earn a sufficient return on invested capital. Weather, natural disaster, and availability of water supplies could negatively impact sources of water, demand for water services, and a utility's ability to supply water to customers. Risks associated with the collection, treatment, and disposal of wastewater could also impose significant costs.

Significant Cap Ex are required to maintain infrastructure and expand rate base. Should WTR suffer from the lack of ability to secure appropriate funding to make investments, or if delays are incurred in completing projects, operating results could be negatively affected. Contamination of water could result in service interruptions or cause enforcement actions. Assets can be subject to condemnation through eminent domain. The company's non-reg businesses provide performance guarantees and have long-term contracts. Additionally, WTR is subject to all other risks that result from operating as a public company.

Our Suitability rating is 2 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive).

Additional information is available upon request.

Aqua America, Inc.

Income Statements (000's)	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Operating Revenues	\$779,903	\$814,204	\$192,607	\$203,876	\$226,593	\$196,799	\$819,875	\$187,787	\$203,418	\$226,770	\$197,280	\$815,260	\$846,870
Operating Expenses													
O & M	288,560	309,310	73,541	73,994	79,812	77,550	304,897	69,128	70,853	74,310	74,510	288,800	293,130
Depreciation	123,050	125,290	32,145	31,619	33,881	33,342	130,987	33,837	33,407	36,240	36,000	139,480	149,170
Amortization	3,480	3,447	450	528	389	654	2,021	189	127	390	660	1,370	1,370
Taxes other than Income	50,450	55,057	14,140	14,242	14,712	13,291	56,385	14,737	14,419	13,830	13,420	56,410	53,330
Operating Income	314,363	321,100	72,331	83,493	97,799	71,962	325,585	69,896	84,612	102,000	72,690	329,200	349,870
%	40.3%	39.4%	37.6%	41.0%	43.2%	36.6%	39.7%	37.2%	41.6%	45.0%	36.8%	40.4%	41.3%
Other Expense / (Income):													
Interest, net	76,400	76,536	19,853	20,115	20,168	20,458	80,594	21,326	21,387	21,140	21,270	85,120	88,070
AFUDC	(5,130)	(6,219)	(2,308)	(1,871)	(2,267)	(2,369)	(8,815)	(3,193)	(3,463)	(3,500)	(3,500)	(13,660)	(13,660)
(Gain) on Asset Sale	0	(468)	(207)	(121)	(62)	12	(378)	(269)	(10)	(100)	(110)	(490)	(410)
(Gain) on Debt Extinguish	0	(678)											
Equity (Earnings) / Loss from JV	3,990	35,177	249	229	(1,621)	167	(976)	30	161	150	200	540	(200)
Income Before Tax	239,103	216,752	54,744	65,141	81,581	53,694	255,160	52,002	66,537	84,310	54,830	257,690	276,070
Income Tax	25,219	14,962	3,007	5,515	8,411	4,045	20,978	2,930	5,569	8,910	2,480	19,890	26,980
%	10.5%	6.9%	5.5%	8.5%	10.3%	7.5%	8.2%	5.6%	8.4%	10.6%	4.5%	7.7%	9.8%
Net Income--Cont'd Ops	213,884	201,790	51,737	59,626	73,170	49,649	234,182	49,072	60,968	75,400	52,350	237,800	249,090
Net Income Avail to Common	\$233,239	\$201,790	\$51,737	\$59,626	\$73,170	\$49,649	\$234,182	\$49,072	\$60,968	\$75,400	\$52,350	\$237,790	\$249,090
EPS Disc Ops	\$0.11												
EPS Continuing Ops	\$1.20	\$1.14	\$0.29	\$0.33	\$0.41	\$0.28	\$1.32	\$0.28	\$0.34	\$0.42	\$0.29	\$1.34	\$1.40
EPS--Cont'd Ops; Ex-NonRecur	\$1.20	\$1.26	\$0.29	\$0.33	\$0.41	\$0.28	\$1.32	\$0.28	\$0.34	\$0.42	\$0.29	\$1.34	\$1.40
Diluted Avg Shares	177,763	177,763	177,819	178,084	177,817	177,880	177,846	177,969	178,045	178,079	178,113	178,052	178,198
Dividend	\$0.634	\$0.686	\$0.178	\$0.178	\$0.1913	\$0.1913	\$0.739	\$0.1913	\$0.1913	\$0.2047	\$0.2047	\$0.7920	\$0.8394
Rate of Change Analysis:													
Revenues	2.4%	4.4%	1.2%	-0.9%	2.5%	-0.1%	0.7%	-2.5%	-0.2%	0.1%	0.2%	-0.6%	3.9%
Op Income	4.2%	2.1%	1.6%	4.0%	2.9%	-3.6%	1.4%	-3.4%	1.3%	4.3%	1.0%	1.1%	6.3%
EPS--Cont'd Ops; Ex-Items	4.8%	4.5%	6.6%	3.8%	8.3%	-0.7%	4.8%	-5.2%	2.3%	2.9%	5.3%	1.5%	4.7%
EBITDA	3.6%	2.0%	2.4%	3.0%	3.3%	-1.2%	1.9%	-1.0%	2.2%	5.0%	3.2%	2.5%	6.5%
O&M Expense	1.8%	7.2%	0.5%	-7.2%	1.6%	-0.4%	-1.4%	-6.0%	-4.2%	-6.9%	-3.9%	-5.3%	1.5%
Margin Analysis:													
O&M	37.0%	38.0%	38.2%	36.3%	35.2%	39.4%	37.2%	36.8%	34.8%	32.8%	37.8%	35.4%	34.6%
Taxes other than Income	6.5%	6.8%	7.3%	7.0%	6.5%	6.8%	6.9%	7.8%	7.1%	6.1%	6.8%	6.9%	6.3%
Op Income	40.3%	39.4%	37.6%	41.0%	43.2%	36.6%	39.7%	37.2%	41.6%	45.0%	36.8%	40.4%	41.3%
Net Income	27.4%	24.8%	26.9%	29.2%	32.3%	25.2%	28.6%	26.1%	30.0%	33.2%	26.5%	29.2%	29.4%
Tax Rate	10.5%	6.9%	5.5%	8.5%	10.3%	7.5%	8.2%	5.6%	8.4%	10.6%	4.5%	7.7%	9.8%
							*FY 2016 EPS guide \$1.30-\$1.35					*FY 2017 EPS guide \$1.34-\$1.39	

Source: Company reports and Hilliard Lyons estimates

Aqua America, Inc.

Aqua America, Inc.													
Balance Sheet Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Cash	\$4,138	\$3,229	\$3,981	\$4,923	\$3,712	\$3,763	\$3,763	\$4,425	\$7,811	\$18,360	\$3,190	\$3,190	\$420
A/R	96,999	99,146	91,761	99,718	109,986	97,394	97,394	89,409	98,890	112,190	99,340	99,340	101,330
Other	51,385	25,995	26,991	27,791	27,703	27,493	27,493	28,629	31,390	28,260	28,040	28,040	28,600
Total Current Assets	152,522	128,370	122,733	132,432	141,401	128,650	128,650	122,463	138,091	158,810	130,570	130,570	130,350
Net PP&E	4,401,990	4,688,925	4,752,881	4,823,487	4,901,486	5,001,615	5,001,615	5,057,826	5,159,151	5,292,520	5,385,860	5,385,860	5,650,320
Regulatory Assets	725,591	830,118	859,830	887,135	911,455	948,647	948,647	974,853	1,003,808	1,003,810	1,003,810	1,003,810	1,005,810
Goodwill	31,184	33,866	42,304	42,234	41,921	42,208	42,208	42,266	42,266	42,270	42,270	42,270	42,370
Other	95,465	59,759	37,695	37,551	39,762	37,871	37,871	38,187	40,383	40,560	38,630	38,630	39,400
Total Assets	5,406,752	5,741,038	5,815,443	5,922,839	6,036,025	6,158,991	6,158,991	6,235,595	6,383,699	6,537,970	6,601,140	6,601,140	6,868,250
CP of LTD	58,615	35,593	29,096	38,212	83,777	150,671	150,671	119,296	143,567	175,092	54,051	54,051	94,797
Loans Payable	18,398	16,721	28,041	26,239	47,990	6,535	6,535	27,732	67,456	69,456	84,456	84,456	75,456
A/P	63,035	56,452	33,971	40,651	44,073	59,872	59,872	50,185	46,376	45,840	62,270	62,270	64,760
Other	85,287	84,433	83,235	74,118	76,158	84,458	84,458	80,387	75,148	77,680	86,150	86,150	87,870
Total Current Liab	225,335	193,199	174,343	179,220	251,998	301,536	301,536	277,600	332,547	368,068	286,927	286,927	322,883
LTD	1,560,655	1,743,612	1,744,108	1,775,874	1,726,493	1,737,605	1,737,605	1,797,511	1,822,581	1,793,715	1,914,756	1,914,756	1,894,010
Shareholders' Equity	1,655,383	1,725,930	1,760,707	1,791,163	1,832,200	1,850,068	1,850,068	1,867,227	1,896,530	2,146,550	2,157,370	2,157,370	2,430,930
Total Liab & SE	5,406,752	5,741,038	5,815,443	5,922,839	6,036,025	6,158,991	6,158,991	6,235,595	6,383,699	6,537,970	6,601,140	6,601,140	6,868,250
Cash Flow Analysis	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Net Income--Cont'd Ops	\$213,884	\$201,790	\$51,737	\$59,626	\$73,170	\$49,649	\$234,182	\$49,072	\$60,968	\$75,400	\$52,350	\$237,800	\$249,090
D&A	126,535	128,737	32,595	32,147	31,377	36,889	133,008	34,026	33,534	36,630	36,660	140,850	150,540
Deferred Income Tax	31,477	16,506	1,436	3,615	10,294	1,905	17,250	2,681	3,618	10,000	10,000	26,300	40,000
(Inc) / Dec in Working Cap	(25,333)	15,806	(17,290)	(11,194)	(4,718)	36,901	3,699	(6,909)	(21,290)	(8,174)	36,140	(233)	1,610
Operating CF	346,563	362,839	68,478	84,194	110,123	125,344	388,139	78,870	76,830	113,856	135,150	404,717	441,240
Cap ex	(328,605)	(364,689)	(72,984)	(95,603)	(101,432)	(112,977)	(382,996)	(94,562)	(113,910)	(120,000)	(105,000)	(433,472)	(395,000)
JV Investment	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	(112,106)	(121,248)	(31,513)	(31,558)	(33,923)	(33,929)	(130,923)	(33,945)	(33,975)	(36,453)	(36,460)	(140,833)	(149,580)
Release (Addition) of Const Funds	-	47	-	-	-	-	-	-	-	-	-	-	-
Free Cash Flow	(94,148)	(123,051)	(36,019)	(42,967)	(25,232)	(21,562)	(125,780)	(49,637)	(71,055)	(42,597)	(6,310)	(169,588)	(103,340)
FCF/Share													
Acquisitions	(14,616)	(28,989)	(4,461)	(1,165)	-	(3,797)	(9,423)	(220)	(5,545)	(50,000)	(25,000)	(80,770)	(20,000)
Divestitures	558	648	2,853	3,586	106	1,201	7,746	639	463	-	-	-	-
Proceeds from LT Debt	317,699	560,544	96,314	72,983	64,991	269,298	503,586	117,879	104,901	172,000	105,000	499,780	179,000
Repayments of LT Debt	(253,192)	(400,407)	(80,341)	(32,309)	(68,709)	(191,728)	(373,087)	(89,666)	(55,833)	(72,000)	(105,000)	(322,500)	(54,000)
Net Proceeds (Repayments) ST Debt	(18,342)	(1,677)	11,320	(1,802)	21,751	(41,455)	(10,186)	21,197	39,724	2,000	15,000	77,920	(9,000)
Net Change in Cash Overdraft	(322)	(739)	(17,250)	1,912	2,752	4,510	(8,076)	(2,403)	(10,213)	-	-	(12,620)	-
Repurchase of Common Stock	(15,756)	(25,247)	(2,827)	(32)	(46)	(123)	(3,028)	(2,053)	(40)	(3,358)	(3,358)	(8,809)	(13,432)
Net Cash Flow--Cont'd Ops	(70,823)	(10,701)	(27,263)	1,297	(613)	13,979	(12,600)	(2,368)	3,547	10,545	(15,168)	(4,546)	(2,772)
CF--Disc Ops	48,634	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	(22,189)	(10,701)	(27,263)	1,297	(613)	13,979	(12,600)	(2,368)	3,547	10,545	(15,168)	(4,546)	(2,772)
EBITDA	440,893	449,837	104,926	115,640	132,069	105,958	458,593	103,922	118,146	138,630	109,350	470,050	500,410
EBITDA margin	56.5%	55.2%	54.5%	56.7%	58.3%	53.8%	55.9%	55.3%	58.1%	61.1%	55.4%	57.7%	59.1%
EV / TTM EBITDA	14.4x	15.7x	16.4x	17.9x	15.7x	15.8x	15.8x	16.7x	17.1x	17.0x	16.9x	16.9x	15.9x
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17E	Q4'17E	FY'17E	FY'18E
Book Value	\$9.32	\$9.74	\$9.90	\$10.06	\$10.30	\$10.40	\$10.40	\$10.49	\$10.65	\$12.05	\$12.11	\$12.11	\$13.64
Tangible BV	\$9.14	\$9.55	\$9.66	\$9.82	\$10.07	\$10.16	\$10.16	\$10.25	\$10.41	\$11.82	\$11.88	\$11.88	\$13.40
Cap Ex / Depreciation	2.6x	2.8x	2.2x	3.0x	3.2x	3.1x	2.9x	2.8x	3.4x	3.3x	2.9x	3.1x	2.6x
Price / Book	2.9x	3.1x	3.2x	3.5x	3.0x	2.9x	2.9x	3.1x	3.1x	2.8x	2.8x	2.8x	2.5x
Total Net Debt/ Total Capital	49.7%	50.9%	50.5%	50.6%	50.3%	50.5%	50.5%	51.0%	51.6%	48.5%	48.7%	48.7%	45.9%
LT Debt/Total Capital	48.5%	50.3%	49.8%	49.8%	48.5%	48.4%	48.4%	49.0%	49.0%	45.5%	47.0%	47.0%	43.8%
ROE (TTM)--adj for Q4'15 JV chg	13.5%	13.1%	13.2%	13.1%	13.3%	13.1%	13.1%	12.7%	12.6%	12.3%	12.0%	12.0%	11.0%

Source: Company reports and Hilliard Lyons estimates

Analyst Certifications

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

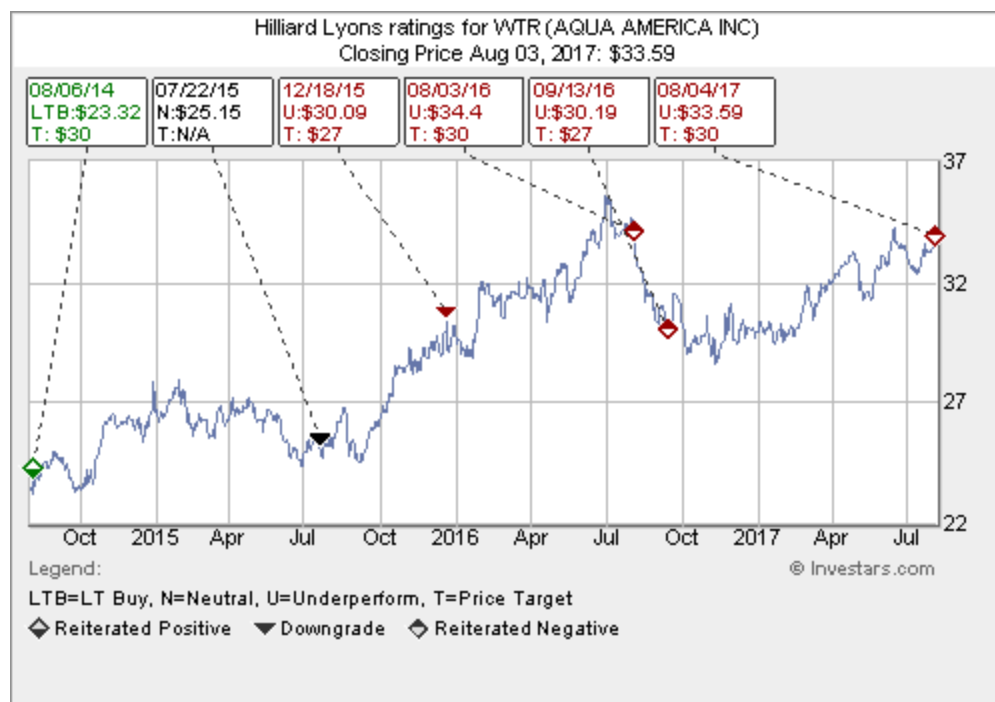
Investment Ratings

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

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