

# Investor Presentation



**American States**  
Water Company

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**NYSE: AWR**

# Forward-Looking Statement

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Certain matters discussed in this presentation are forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as the Company “believes,” “anticipates,” “expects” or words of similar import. Similarly, statements that describe the Company’s future plans, objectives, estimates or goals are also forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements.

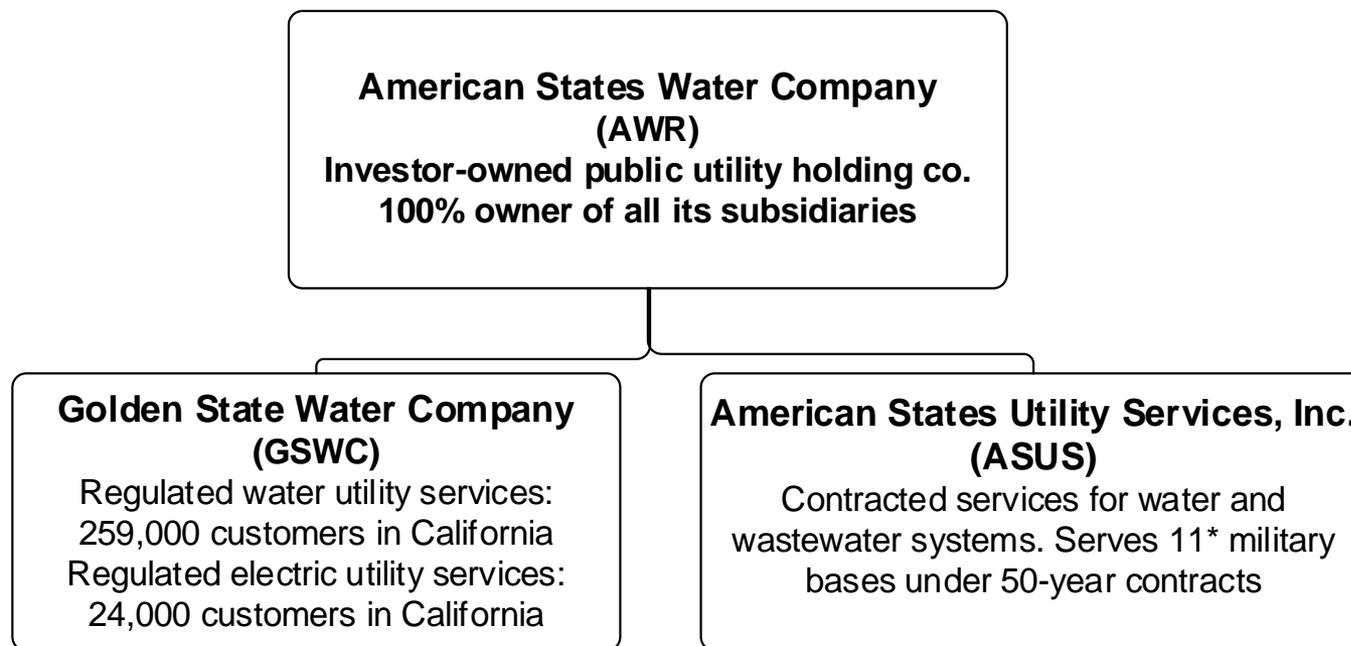
AWR is a low volatility water utility with a secure and growing dividend, operating in a constructive regulatory environment in California, along with a growing unregulated contracted services business serving military bases under 50-year contracts.

- ❑ Listed on the NYSE: “AWR”
- ❑ AWR debt rating → A+ Stable
- ❑ GSWC debt ratings → A+ Stable/A2 Stable
- ❑ As of November 29, 2017:
  - ~36.6 million common shares outstanding
  - Institutional Ownership → 67%
  - 52-week low/high → \$41.14/\$57.58<sup>(1)</sup>
  - Average daily volume → ~165,000 shares (3 months)<sup>(1)</sup>
  - Market capitalization → ~\$2.1 billion<sup>(1)</sup>
  - Dividend yield → 1.86%<sup>(1)</sup>



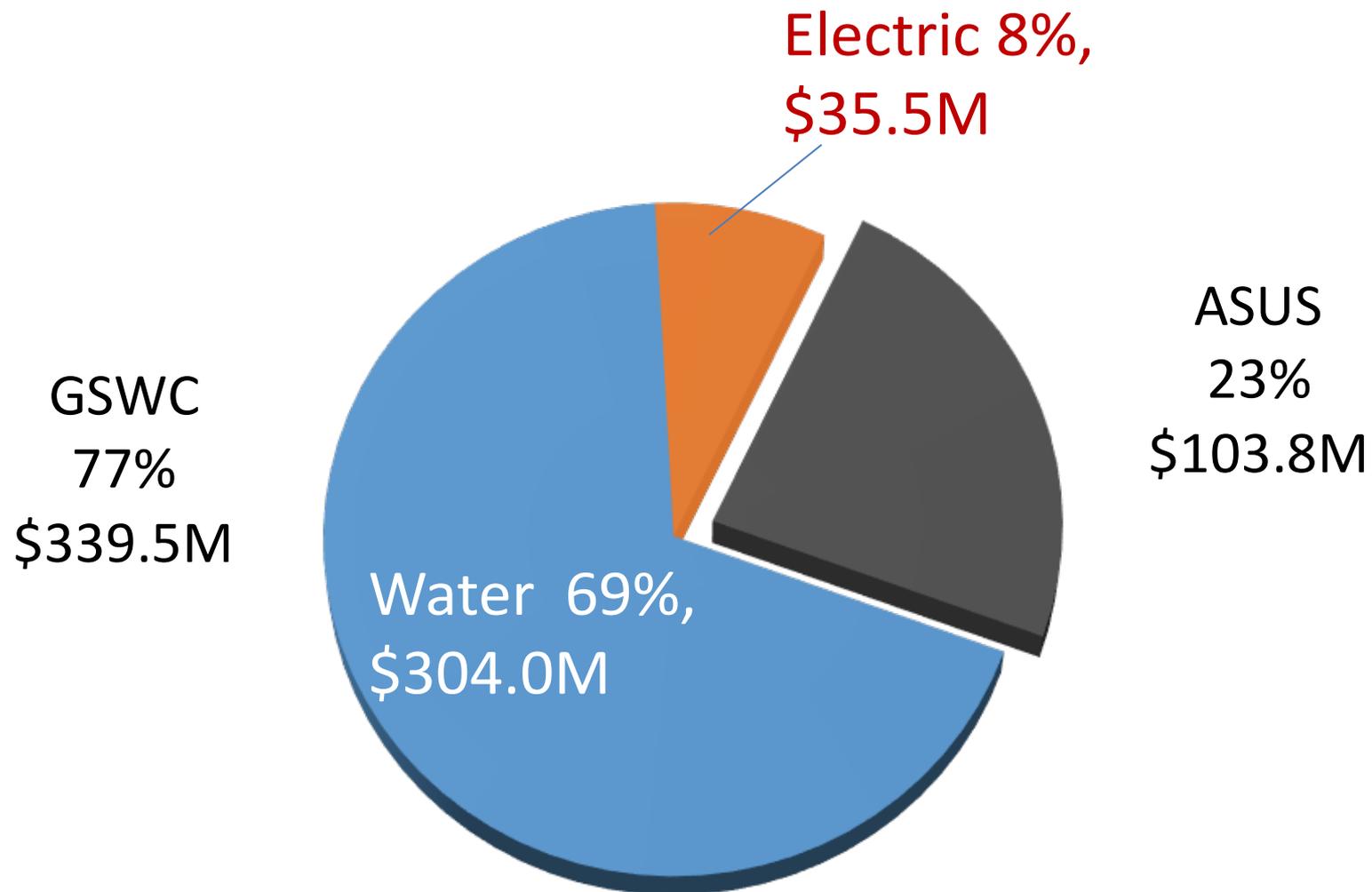
<sup>(1)</sup> Source: Yahoo! Finance

# Company Organizational Structure

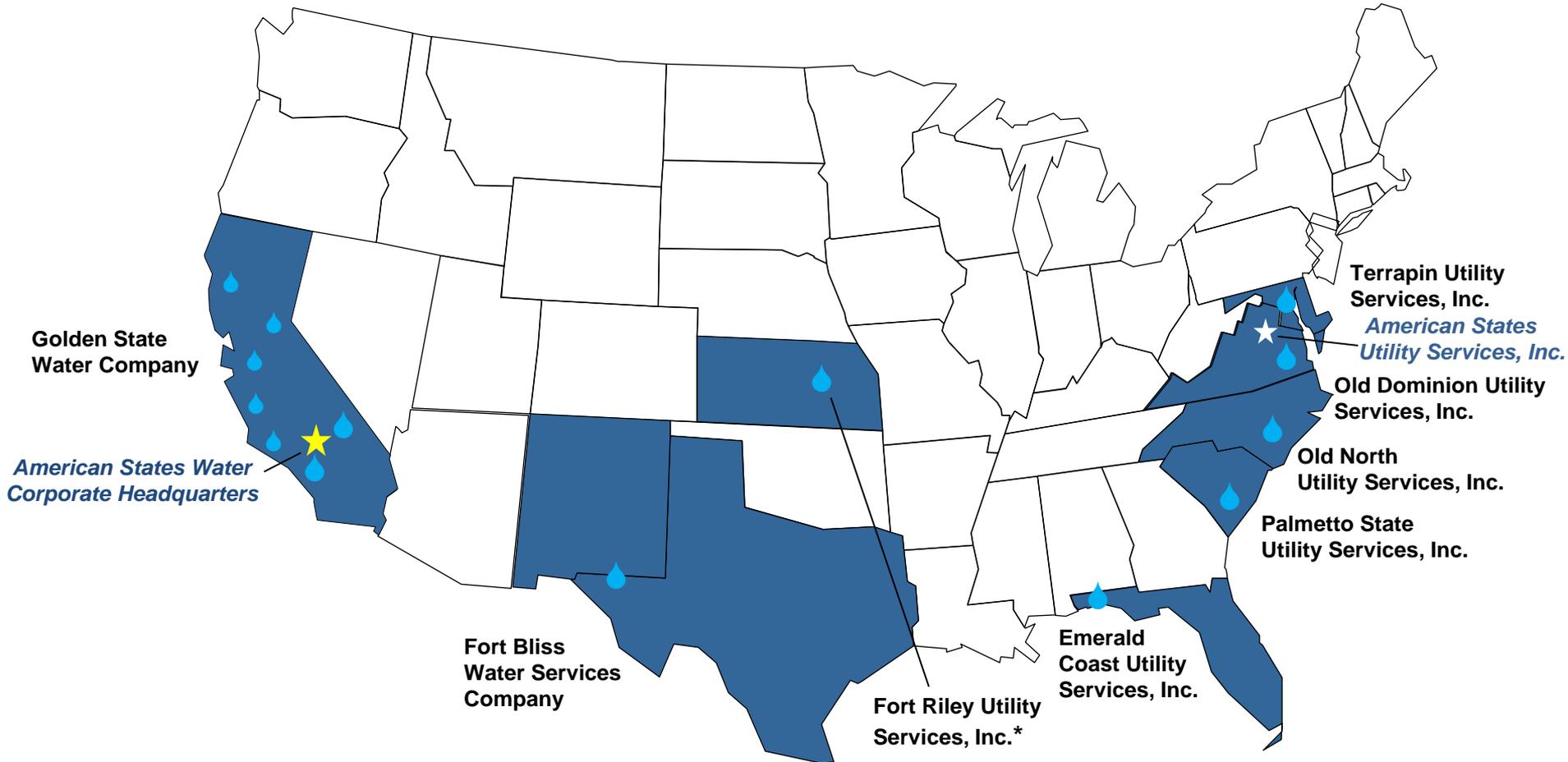


\* Includes Fort Riley awarded in September 2017 and expected to fully transition to ASUS operations by mid-2018

# TTM Q3 2017 Revenues by Segment

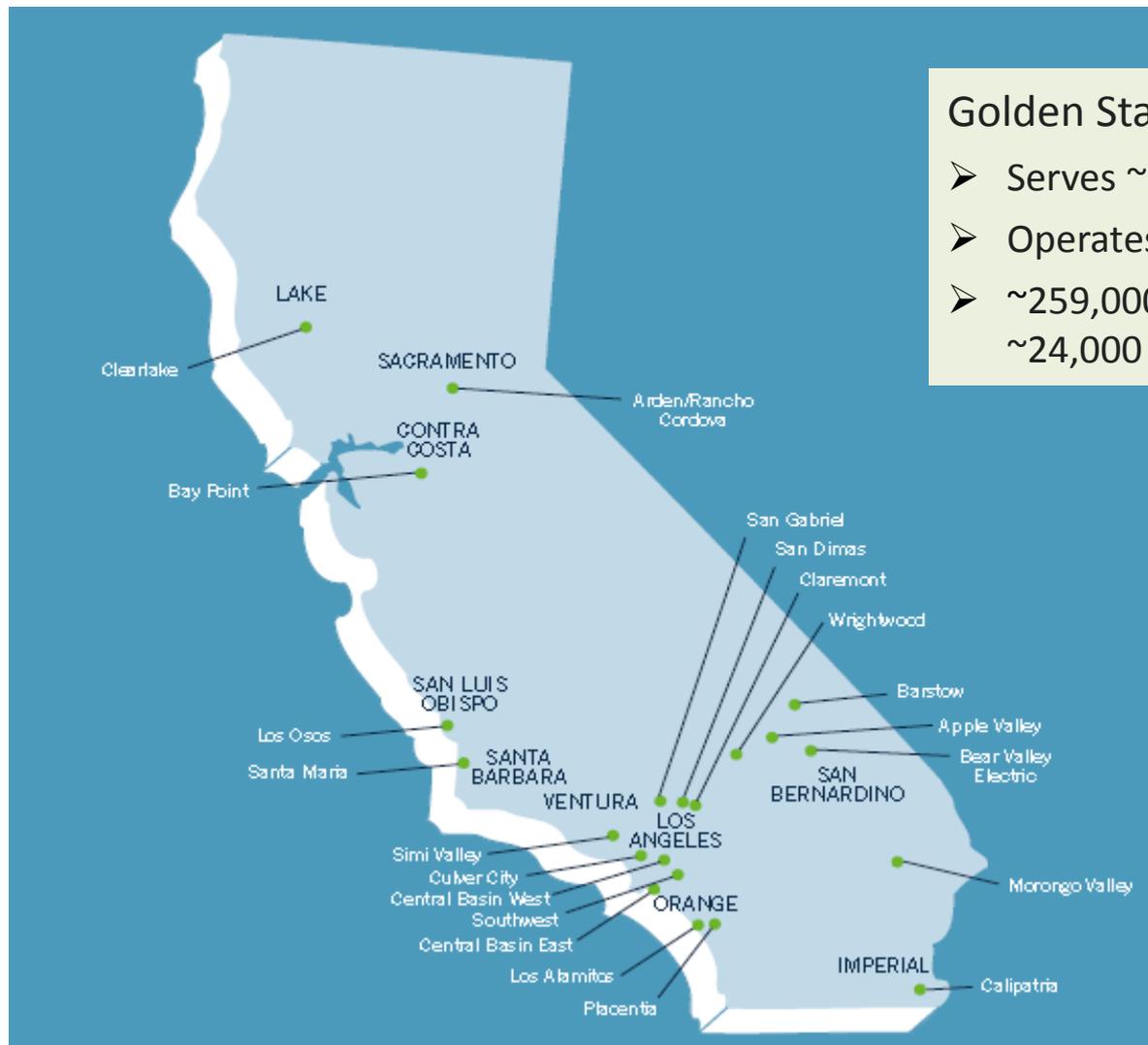


# AWR Service Area Map



\* Fort Riley was awarded in September 2017 and is expected to fully transition to ASUS operations by mid-2018

# GSWC Service Area Map



## Golden State Water Company

- Serves ~70 Cities in 10 Counties
- Operates 38 Water Systems
- ~259,000 Water Customers and ~24,000 Electric Customers

## ☐ **GSWC**, the Company's **regulated utilities**:

- Represented ~77% of AWR revenues and ~78% of net income for the TTM Q3 2017
- Has a stable customer base, with about 90% of water revenues derived from residential and commercial customers
- Is regulated by the California Public Utilities Commission (CPUC)
  - ✓ **Revenue Requirement includes:**
    - Dollar for dollar recovery of projected operating expenses, plus
    - Rate of return on rate base (including projected CapEx)
  - ✓ **GSWC recovers its capital investment from customers** over the life of the asset through annual depreciation and a return on its undepreciated capital assets

- ❑ **ASUS**, the Company's **contracted services subsidiary** was established in 1998 and is currently led by James C. Cotton, previously with the U.S. Department of Defense for 15 years. ASUS provides the company with:
  - A relatively low risk, growth investment
    - ✓ Allows AWR to capitalize on its competencies in operating water systems and in offering related services
  - Opportunities to improve companywide returns
  - A vehicle to diversify risk
    - ✓ By investing in high-growth states, similar to the way an investment manager diversifies risk by owning several different securities
  - A contributor to funding AWR's dividend to shareholders and covering the cost of being a publicly-traded company

- After the completion of a transition period at Fort Riley, **ASUS** will be operating and maintaining the water and wastewater systems at eleven military bases in eight states under 50-year privatization contracts with the U.S. government:
  - Fort Bliss in El Paso, Texas (parts in New Mexico)
  - Andrews Air Force Base in Maryland
  - Fort Lee in Virginia (wastewater only)
  - Joint Expeditionary Base Little Creek – Fort Story and Joint Base Langley Fort Eustis in Virginia
  - Fort Jackson in Columbia, South Carolina
  - Fort Bragg, Pope Army Airfield, and Camp Mackall in Fayetteville, North Carolina
  - Eglin Air Force Base in Florida – operations began in June 2017
  - Fort Riley in Kansas – was awarded in September 2017 and is expected to fully transition to ASUS operations by mid-2018
- Numerous military bases still to be privatized; active bids are currently in process. Significant water and wastewater contracts to be awarded over the next 5 years.

- ❑ Under each of the 50-year contracts with the U.S. government, ASUS has the following revenue stream:
  - **O&M Revenues** for operating and maintaining the systems
    - ✓ A fixed amount each month included under the 50-year contracts, subject to economic price adjustments (EPAs)
  - **Construction Revenues** for:
    - ✓ Renewal and Replacement of existing capital assets included under the 50-year contracts, subject to EPAs
    - ✓ Other Capital Upgrades are additional projects (including improvements and expansion to the existing water and wastewater infrastructure) that in many cases are outside the scope of the 50-year contracts and are granted through contract modifications
- ❑ Filings for EPAs and requests for equitable adjustment provide ASUS with **additional revenues and margin.**

## ☐ Strong dividend track record

- Third quarter 2017 dividend increased by 5.4% - **a 5-year CAGR of 9.4% from 2012 through 2017**
- Increased dividends to shareholders each calendar year for 63 consecutive years
- Paid dividends to shareholders every year since 1931
- Targeting a 5-year compound annual growth rate of at least 5% over the long term. Given AWR's earnings growth prospects, there is room to grow the dividend

## ☐ Growth potential in earnings

- TTM Q3 2017 Diluted EPS of \$1.70 per share (excluding \$0.13 per share gain on sale of the Ojai water system) with a **CAGR of 7.7% from 2011 through Q3 2017**
- Planned CapEx at 3.0 X Depreciation will increase rate base at the regulated utility businesses
- Significant growth prospects for the contracted services business due to new military base opportunities

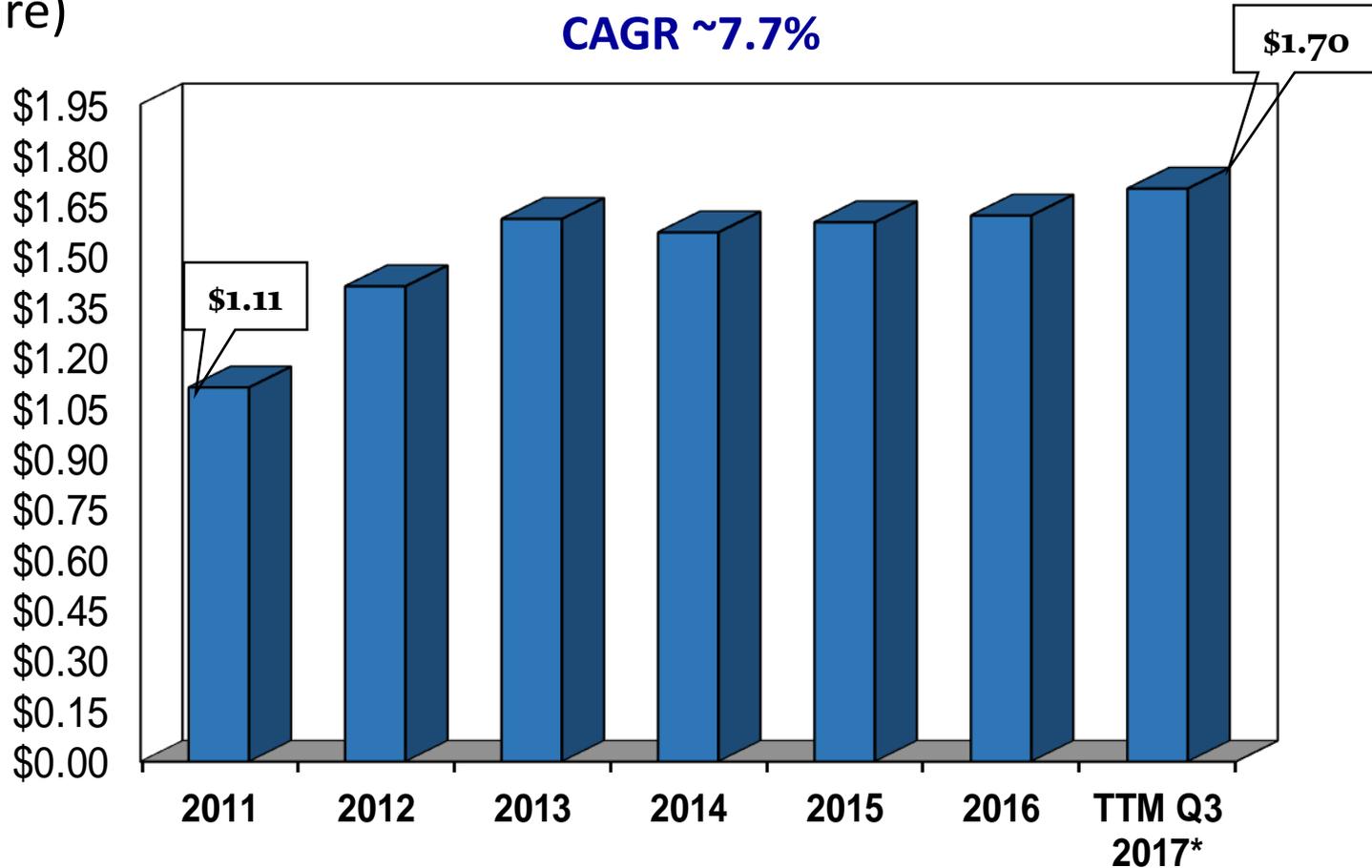
## ☐ Favorable regulatory environment in California

- Forward-looking (future) test years limit regulatory lag
- Recovery of / Return on Rate Base through the regulatory process
- Decouple revenue from sales to provide consistent returns through Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA)

- ❑ **Well-positioned for privatization and consolidation opportunities**
  - Highly fragmented industry; few publicly-traded players; high barriers to entry
- ❑ **Aggressive posture toward recovery of operating costs and CapEx**
- ❑ **Stable utility customer base**
- ❑ **Seasoned and committed management team and Board;** strong financial operators with >100 years collective utility experience
- ❑ **Strong balance sheet:** “A+/A2” ratings - one of the highest in the industry
- ❑ **Valuable water rights portfolio:** AWR owns ~74,300 acre-feet of adjudicated groundwater rights and a significant number of unadjudicated groundwater rights. In addition, AWR owns ~11,300 acre-feet of surface water rights

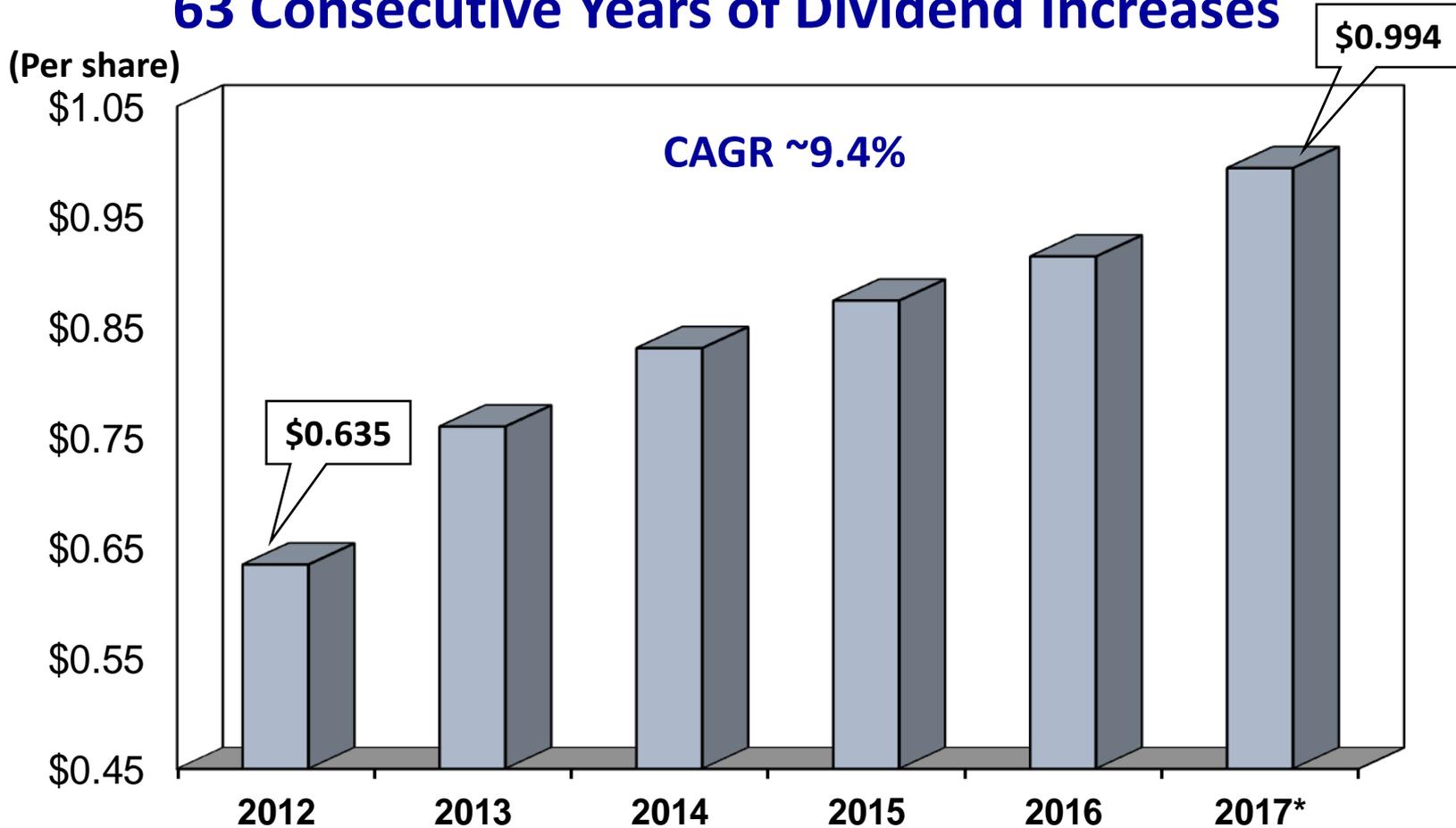
# Diluted EPS from Operations

(per share)



\*TTM Q3 2017 **excludes** \$0.13 per share gain on the sale of GSWC's Ojai water system.

## 63 Consecutive Years of Dividend Increases



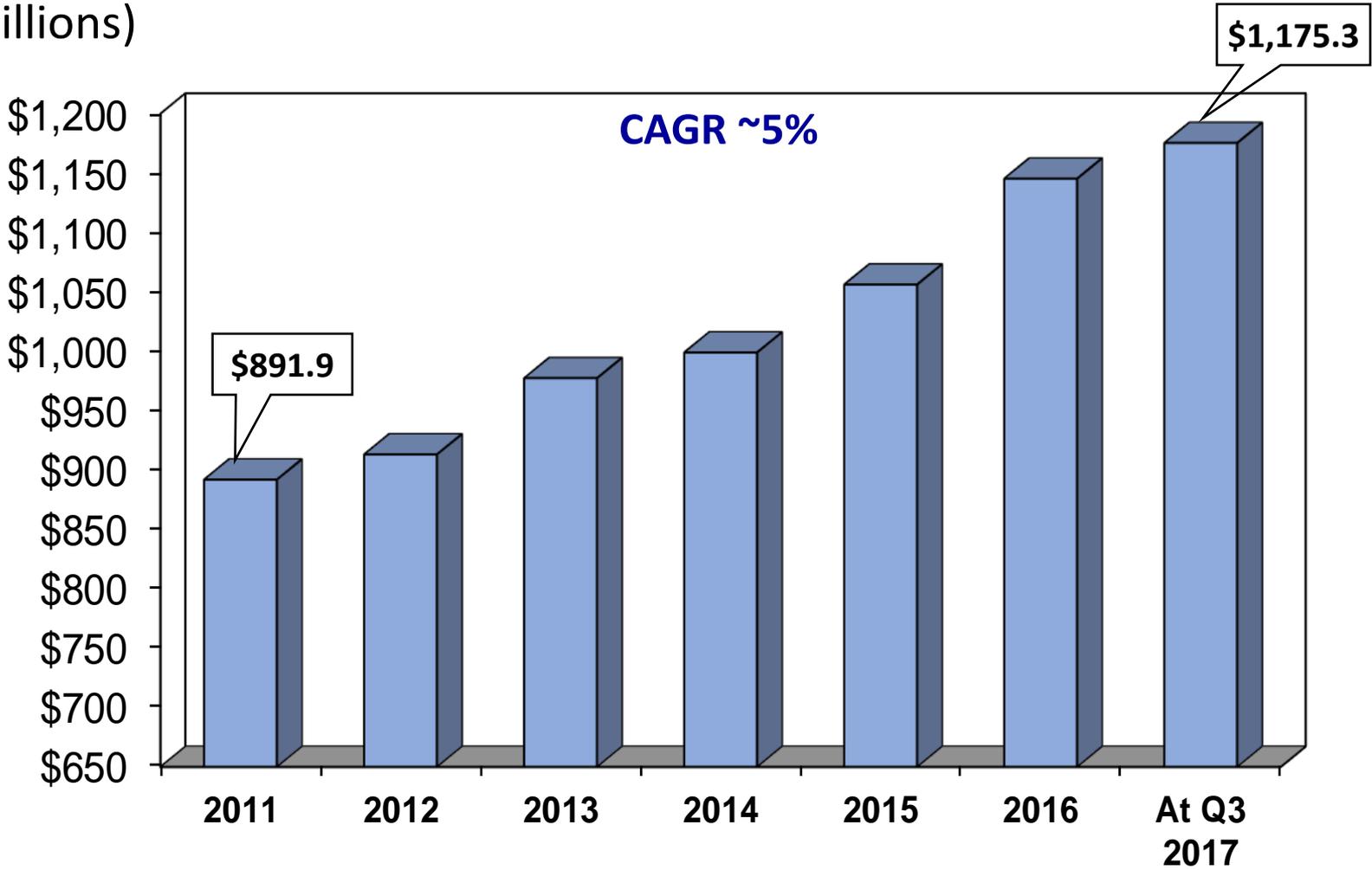
\*Includes 5.4% dividend increase announced on August 2.

***Targeting a dividend growth rate of at least 5% over the long term***

# Net Utility Plant from Regulated Utilities



(in millions)





- ❑ **August 2017:** A 5.4% increase in the third quarter cash dividend, resulting in an increase in the annual dividend from \$0.968 per share to \$1.02 per share. This is in addition to an 8% increase in 2016, a 5.2% increase in both 2015 and 2014, a 14.1% increase in 2013 and a 26.8% increase in 2012.
- ❑ **November 2016:** The 2020 Women on Boards organization, a national campaign targeting gender diversity at the corporate leadership level, recognized American States Water Company with its “CEO Champion” award for having three or more women directors on its corporate board.
- ❑ **2014-2015:** The Company repurchased 2.5 million shares, or 6% of the outstanding common shares as part of its stock repurchase program, returning \$90 million to shareholders.
- ❑ **2015:** AWR was named as one of the top 4 publicly-traded companies headquartered in California, for having females in leadership positions by the *UC Davis Study of California Women Business Leaders: A Census of Women Directors and Highest-Paid Executives*.

- ❑ **July 2017:** GSWC filed a general rate case for all of its water ratemaking areas and the general office to determine new rates for the years 2019-2021. Among other things, GSWC's requested budgets in this application average approximately \$125 million per year for the three-year rate cycle. Final decision is scheduled for end of 2018.
- ❑ **June 2017:** Pursuant to a settlement agreement, GSWC sold the operating assets of its 2,900-connection Ojai water system to Casitas Municipal Water District under eminent domain for approximately \$34.3 million in cash. Upon closing, GSWC recognized a pretax gain on the sale of approximately \$8.3 million, or \$0.13 per share, during Q2 2017.

- ❑ **May 2017:** GSWC filed a general rate case for its electric division for new rates in years 2018-2021.
  
- ❑ **April 2017:** GSWC filed a cost of capital application for its water segment. Decision scheduled for end of 2017, effective January 1, 2018. The following rates and capital structure will continue through December 31, 2017:
  - ROE of 9.43%
  - 55% equity / 45% debt
  - Return on rate base of 8.34%
  
- ❑ **March 2017:** The CPUC issued a final decision in GSWC's water general rate case, which set new rates for the years 2016 – 2018 (and was retroactive to January 1, 2016):
  - Allows GSWC to earn an 8.34% authorized return on rate base
  - Approved \$250 million in capital infrastructure spending

- ❑ **2016/2017** winter saw substantial rain and snowfall in most of California
  - **As of October 31, 2017**, the U.S. Drought Monitor estimated zero percent of California in the rank of “Severe Drought” and ~8% continued in the rank of “Moderate Drought,” which is a significant improvement from October 2016 when ~62% was ranked “Severe Drought.”
- ❑ **April 2017:** Governor of California ended the drought state of emergency in most of California in response to significantly improved water supply conditions.
- ❑ GSWC ended its Staged Mandatory Conservation and Rationing in most service areas.
- ❑ **February 2017:** The CPUC approved recovery of \$1.5 million in drought-related items, recorded as an increase to pretax income for Q1 of 2017.
- ❑ **GSWC continues to encourage conservation** and has mechanisms in place to decouple revenues from sales through tiered rates. Overall usage is down ~24% since implementing our tiered rates in 2008. Surcharges are in place to recover under-collections due to lower consumption.



- ❑ **September 2017:** The U.S. government awarded ASUS a new 50-year contract to operate, maintain, and provide construction management services for the water distribution and wastewater collection and treatment facilities at Fort Riley in Kansas. The initial value of the contract is **~\$601 million** over the 50-year period and is subject to inventory and annual economic price adjustments. ASUS will assume operations at Fort Riley following the completion of a six-to-twelve-month transition period.
  
- ❑ **June 2017:** ASUS assumed the operation of the water and wastewater systems at Eglin Air Force Base in Florida after completing a transition period and a detailed joint inventory study. The value of the 50-year contract is **~\$702 million**, subject to annual economic price adjustments.
  
- ❑ **Actively pursue** new military base privatizations for both the U.S. Army and the U.S. Air Force.

- ❑ **During the first nine months of 2017:** The U.S. government awarded ASUS ~\$20.1 million in new construction projects at the military bases we currently serve. The majority of the new construction projects are expected to be completed through 2018 (in 2016, ASUS was awarded ~\$24.0 million):
  - ASUS is also working to grow this business segment by developing significant opportunities for other new construction work on the bases we currently serve
  
- ❑ **Economic price adjustments** (EPAs) have been filed with the U.S. government for all bases served. Expect resolution of EPAs by end of 2017.

- ❑ Deliver outstanding customer service
- ❑ Focus on operational efficiency to minimize costs to customers
- ❑ Make prudent capital additions that enhance shareholder and customer value on a timely basis within approved rates:
  - In 2016, GSWC invested **~\$121 million** in company-funded capital, the highest in the company's history. GSWC expects to spend **~\$110-\$120 million** in 2017.
  - Net utility plant at the regulated utilities has grown at a CAGR of **~5%** from 2011 through Q3 2017.
- ❑ Earn the authorized return on equity and return on rate base

- ❑ Receive timely recovery of costs
- ❑ Maintain good working relationship with state regulatory commission
- ❑ Be proactive in managing resources and influencing policy
- ❑ Expand customer base through organic growth and acquisitions
- ❑ Employ management systems to conserve water and energy resources (see our *Corporate Social Responsibility Report* available at [www.aswater.com](http://www.aswater.com))
- ❑ Maintain a strong water supply portfolio

- ❑ Increase net income at the military bases currently served through:
  - Efficient operations
  - Requests for equitable adjustments
  - Economic Price Adjustments
  
- ❑ Increase the size and scope of our contracted services operations:
  - Further develop service opportunities on current military bases
  - Actively pursue numerous military bases still to be privatized; active bids are currently in process
  
- ❑ Earn higher returns on investment than the allowed returns for regulated utilities

- ❑ GSWC meets its customers' water demand on average with:
  - **~60%** from GSWC's own groundwater sources
    - ✓ GSWC has a significant portfolio of adjudicated water rights
  - **~35%** purchased principally from the Metropolitan Water District (MWD) and its member agencies, imported from:
    - ✓ California State Water Project
    - ✓ Colorado River
  - **~5%** from surface water under contracts with the United States Bureau of Reclamation and the Sacramento Municipal Utility District

## **We will continue to:**

- Focus on growing the regulated utility businesses through necessary infrastructure replacement and customer acquisition
- Improve efficiency of current operations at all business segments
- Pursue rate case and other regulatory filings timely
- Grow the contracted services business through additional military base privatizations and by developing significant opportunities for new construction work on the bases we currently serve
- Meet the needs of our customers and investors
- Be a leader in the industry by sticking to what we do best

***Providing value for investors and quality  
service to the customer***



# American States Water Company

<http://www.aswater.com>