



MEMO

July 21, 2017

TO: BOARD OF DIRECTORS
FROM: GEORGE TORRES, Corporate Controller
RE: Financial Review / Revenues and Usage

Attached is a review of the preliminary unaudited financial results for the six-months ended Jun 30, 2017. The following schedules are included:

- a. Comparative Consolidated Summary Level P&L
- b. Capital Expenditures Summary
- c. Pumpage Graph
- d. Comparative Balance Sheets
- e. Comparative Cash Flow Statements
- f. Selected Ratios and Metrics
- g. Debt Covenants
- h. YTD Price-Volume Analysis – Pennichuck Water Works (PWW)
- i. Comparative Summary Level P&L – PWW
- j. YTD Price-Volume Analysis – Pennichuck East Utility (PEU)
- k. Comparative Summary Level P&L – PEU
- l. YTD Price-Volume Analysis –Pittsfield Aqueduct Company (PAC)
- m. Comparative Summary Level P&L – PAC
- n. Comparative Summary Level P&L –Pennichuck Water Service Company (PWSC)
- o. Comparative Summary Level P&L –Southwood Corporation (TSC)
- p. Major Items of Expense Variance by Subsidiary Company
- q. Supplemental package of Comparative Detailed P&L's for PWW, PEU, and PAC

There are a few things to note, as you review the schedules:

Consolidated P&L

- As of the end of June, “Total Revenues” are currently above budget, but below prior year, being 3.8% above planned results and -4.5% below 2016 comparative results, respectively. The slight increase to plan can be attributed to a temporary rise in the Unbilled Water Sales accrual for the Regulated Companies in addition to Service Company Unplanned Revenues which had increased vs. the budget. The decrease in

revenues vs. prior year can be attributed to an overall decrease in consumption (core pumpage down year-over-year) at the regulated subsidiary level as well as Service Company decreases in their Unplanned Revenue activities.

- Water Utility Operations operating expense variations year-to-date, which are currently slightly below plan, are primarily related to usage variances. These same operating expenses, which are negative versus prior year can be attributed to increased property taxes, and maintenance related expenses as detailed in the financial presentation on operating expense variances. The variance in costs for the Service Company relate to contract service requirements and requests by the contracted customers, as well as some variances related to unplanned maintenance activities for which there is revenue coverage.
- The Tax Benefit of -\$964K in the Actual column is the normal provision on the loss for the year, including the recognition of certain permanent book/tax differences for GAAP tax accounting purposes. The effective rate as of June 30, 2017 is 22.5% versus the statutory rate of 39.41%.
- For the month ended 6/30/2017, we are approximately \$775K above target (-\$1.9M below 2016) for Normalized EBITDA, less principal and interest payments made on the note payable to the City and other external debt. The variance is primarily attributable to the variance to budget for revenues and expenses, as cited above.

Consolidated Balance Sheets

- Our current operating cash balances (excluding restricted cash) were approximately \$600K above budgeted expectations at June 30th, giving consideration to our current borrowing position under the line of credit (which currently remains at \$0), versus budgeted expectations. The difference between budgeted and actual levels of cash on hand as of 6/30/2017 can be attributed to variations in certain budgeted items versus actual experience (i.e., A/R balances, A/P balances, prepaid balances and accrual balances) that are budgeted based upon historical trends, and estimated expectations, which inherently can create certain timing variations, with regards to actual results have also contributed to this shortfall.
- The restricted cash balance-RSF has decreased slightly to \$6.3M, from the \$6.5M balance as of December 31, 2016. This balance is required, based on the structure and methodology underlying the Rate Stabilization Fund (“RSF”), per the NHPUC merger order. Deficient or excess revenues earned year-to-date versus the City Bond Fixed Revenue Requirement (“CBFRR”) is transferred from or into this restricted cash account, throughout the year. The excess or deficient amount (versus the \$5.0 million imprest balance) is subject to return or collection to rate payers over the succeeding three year period of time, as of the rate order issued with the next promulgated rate case filing. For the year ended June 30, 2017, approximately \$241K of the current revenue deficit for PWW, compared to required CBFRR revenues, has been drawn from the RSF.
- Long Term Debt is approximately \$5.0M below budgeted expectations as of June 30, 2017, which is related to two factors: \$4.4M related to Unamortized Debt Expense

now deducted from LTD, in compliance with the FASB's recent ASU, whereas it is accounted for separately in the budget. Secondly, actual SRF balances have varied slightly from the YTD budgeted amounts.

Selected Ratios and Metrics

- The Return on Estimated Rate Base ("ROI") for two of the three regulated utility subsidiaries; PWW and PAC, continue to remain in excess of the most recent allowed return values from the NHPUC, based on the existing rate structure. PEU is currently below the NHPUC's allowed return (2.42% vs. 3.69%); however, their performance against their allowed return should improve as we progress into the summer months of historically increased consumption.

Capital Expenditures

- We have incurred approximately \$2.28M on Capital Projects for the year-to-date as of June 30, 2017 which is currently below the budgeted level of \$6.5M. As a reminder, any remaining prior year budgeted projects that were not completed or initiated in 2016 have been budgeted as carryover projects in the 2017 capital budget.
- As a reminder, the term CIAC means Contributions in Aid of Construction, and represents assets contributed to the Company by developers, for which a liability is recorded on the balance sheet of equal value, included in the amounts on the liability side of the Balance Sheet, titled "CIAC, net." The \$4.5M in CIAC assets shown on the Capital Expenditures – Summary, has been recorded year-to-date for 2017, with the corresponding assets included in our gross fixed assets.
- For the month ended June 30, 2017, \$0K has been earned year-to-date for AFUDC (Allowance for Funds Used During Construction) for certain qualifying capital projects at the allowed rate of return.

Pumpage and Water Revenues

- Pumpage for the year ended 6/30/17 was 100.3% of budgeted expectations and 86.2% of prior year pumpage as shown on the enclosed Pumpage chart.
- Revenues for the three regulated utilities are at 103.4% of budgeted expectations, and 95.6% of prior year results for the month ended 6/30/17 (as discussed above).

As always, I hope these points are helpful in your review of this data. I and other members of the management team will be available to answer any questions on the data presented.

Thank you.

Financial Review
Unaudited Results through June 30, 2017
And
Revenues and Usage through June
As of July 21, 2017

Pennichuck Corporation
YTD Income Statement

Business: Consolidated

6/30/2017
(S000's)

	YTD						
	Actual vs. Prior and Budget						
	Prior	Change		Actual	Change		Budget
Revenues:							
Water Utility Operations	\$ 17,603	\$ (775)	-4.4%	\$ 16,828	\$ 556	3.4%	\$ 16,272
Water Management Services	1,801	(99)	-5.5%	1,702	123	7.8%	1,579
Real Estate Operations	-	6	0.0%	6	6	0.0%	-
Other	-	-	0.0%	-	-	0.0%	-
Total Revenues	19,404	(868)	-4.5%	18,536	685	3.8%	17,851
Operating Expenses:							
Water Utility Operations	14,763	(908)	-6.2%	15,671	43	0.3%	15,714
Water Management Services	1,921	127	6.6%	1,794	(50)	-2.9%	1,744
Real Estate Operations	22	-	0.0%	22	1	4.3%	23
Other	(43)	5	-11.6%	(48)	23	92.0%	(25)
Total Operating Expenses	16,663	(776)	-4.7%	17,439	17	0.1%	17,456
PWW Management Fee Allocation	-	-	0.0%	-	-	0.0%	-
Holding Co. Mgmt. Fee Allocation	-	-	0.0%	-	-	0.0%	-
Net Operating Expenses	16,663	(776)	-4.7%	17,439	17	0.1%	17,456
Operating Income (Loss)	2,741	(1,644)	-60.0%	1,097	702	177.7%	395
% of Revenue	14.1%			5.9%			2.2%
Eminent Domain & Merger (Costs)	-	-	0.0%	-	-	0.0%	-
Equity Method Net Earnings (Loss)	-	-	0.0%	-	-	0.0%	-
Other Income (Expense)	710	(712)	100.3%	(2)	1	33.3%	(3)
AFUDC Income (Expense)	120	(120)	100.0%	-	-	0.0%	-
Interest Income	47	(47)	100.0%	-	-	0.0%	-
Interest (Expense)	(5,333)	(49)	-0.9%	(5,382)	111	2.0%	(5,493)
Pre-tax Income (Loss)	(1,715)	(2,572)	-150.0%	(4,287)	814	16.0%	(5,101)
% of Revenue	-8.8%			-23.1%			-28.6%
Provision for Income Taxes	(256)	708	276.6%	(964)	(260)	-21.2%	(1,224)
Effective Tax Rate %	14.9%			22.5%			24.0%
Net Income (Loss)	(1,459)	(1,864)	-127.8%	(3,323)	554	14.3%	(3,877)
EBITDA	6,874	(1,912)	-27.8%	4,962	775	18.5%	4,187
Add Back: Extraordinary Items	-	-	0.0%	-	-	0.0%	-
Normalized EBITDA	6,874	(1,912)	-27.8%	4,962	775	18.5%	4,187
Less: Principal and Interest on External Debt	(3,861)	(907)	-23.5%	(4,768)	3,103	39.4%	(7,871)
Less: Principal and Interest on Note Payments to City	(4,242)	-	0.0%	(4,242)	-	0.0%	(4,242)
Net Remainder	(1,229)	(2,819)	-229.4%	(4,048)	3,878	48.9%	(7,926)

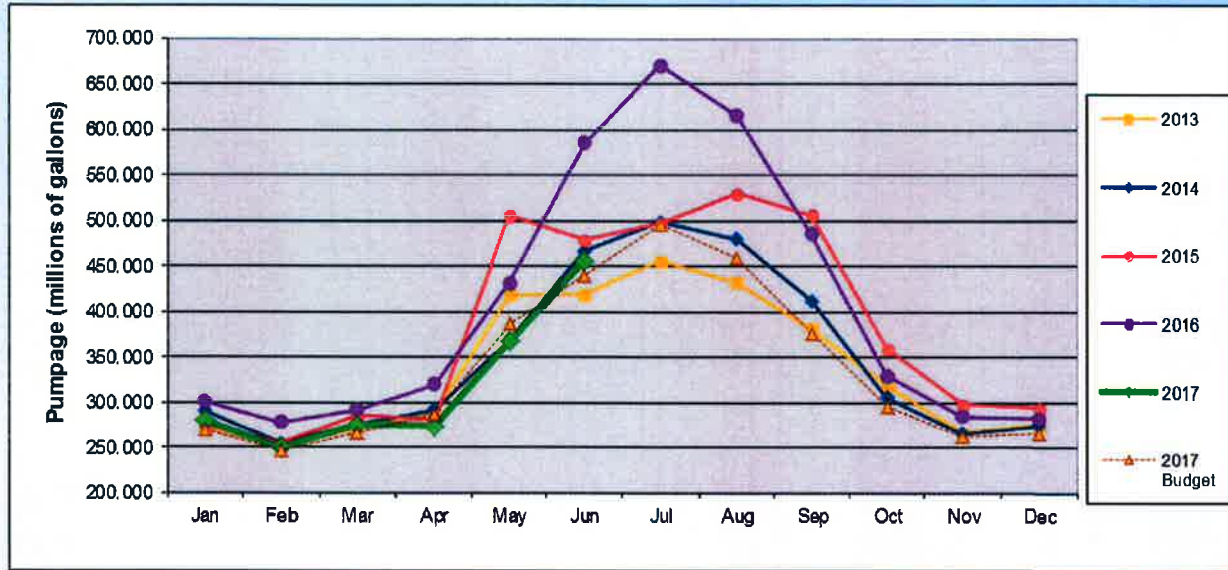
**Pennichuck Corporation
Capital Expenditures - Summary**

6/30/2017
(\$000's)

<u>QTD</u>				<u>YTD</u>		
<u>Prior</u>	<u>Actual</u>	<u>Budget</u>		<u>Prior</u>	<u>Actual</u>	<u>Budget</u>
\$ 4,206	\$ 971	\$ 3,735	PWW	\$ 5,832	\$ 1,594	\$ 5,493
239	144	688	PEU	351	638	928
-	42	85	PAC	73	51	104
-	-	-	PWSC	-	-	-
-	-	-	Southwood Corp.	-	-	-
-	-	-	Holding Company	-	-	-
<u>\$ 4,445</u>	<u>\$ 1,157</u>	<u>\$ 4,508</u>	Subtotal	<u>\$ 6,256</u>	<u>\$ 2,283</u>	<u>\$ 6,525</u>
81	-	-	AFUDC	120	-	-
301	4,391		CIAC	437	4,511	-
<u>\$ 4,827</u>	<u>\$ 5,548</u>	<u>\$ 4,508</u>	Total	<u>\$ 6,813</u>	<u>\$ 6,794</u>	<u>\$ 6,525</u>

**Pennichuck Corporation
PWV Pumpage**

6/30/2017
(S000's)



Pumpage Data (millions of gallons)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Totals
2013	271.598	251.530	270.310	287.902	417.950	419.280	455.300	432.310	381.320	318.700	265.880	275.370	4,047.450
2014	289.730	253.750	275.460	291.780	367.720	465.900	497.640	478.960	411.680	305.600	265.030	274.390	4,177.640
2015	274.890	253.900	285.910	281.040	504.440	478.850	496.730	529.140	506.020	359.060	297.530	294.560	4,562.070
2016	300.130	277.350	291.250	319.540	430.760	584.950	670.110	614.830	484.920	329.410	284.400	282.010	4,869.660
2017	279.330	249.500	274.680	273.160	366.790	455.660							1,899.120

Pumpage Data - Budget (millions of gallons)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Totals
2017 Budget	269.255	246.203	264.976	286.678	386.822	440.318	495.238	458.976	376.559	295.958	261.560	265.590	4,048.133

Pennichuck Corporation
Consolidated Balance Sheets

6/30/2017
(\$000's)

<u>ASSETS</u>	<u>Jun-17</u>		
	<u>Dec-16</u>	<u>Actual</u>	<u>Budget</u>
Land	\$ 3,079	\$ 3,140	\$ 3,079
Buildings	61,450	65,163	62,633
Equipment & software	191,849	201,219	196,520
	<u>256,378</u>	<u>269,522</u>	<u>262,232</u>
Accumulated depreciation	(64,701)	(67,377)	(68,866)
	<u>191,677</u>	<u>202,145</u>	<u>193,366</u>
Work in process	10,021	3,238	11,643
Net Plant and Equipment	<u>201,698</u>	<u>205,383</u>	<u>205,009</u>
Current Assets:			
Cash	2,446	729	130
Restricted cash - 2014 Bond Project Fund	6,166	-	-
Restricted cash - 2015 Bond Project Fund	1,402	-	-
Restricted cash -RSF	6,530	6,289	6,450
Accounts receivable-billed, net	4,165	3,703	3,043
Accounts receivable-unbilled, net	1,921	2,241	1,987
Accounts receivable-other	-	23	42
Inventory	666	654	624
Prepaid expenses	531	580	460
Prepaid property taxes	1,163	1,160	1,515
Prepaid income taxes	352	417	-
Total Current Assets	<u>25,342</u>	<u>15,796</u>	<u>14,251</u>
Other Assets:			
Deferred land costs	2,248	2,248	2,248
Debt issuance expenses	-	-	4,437
Investment in partnerships	104	102	101
Acquisition Premium and other	85,203	84,094	84,337
Total Other Assets	<u>87,555</u>	<u>86,444</u>	<u>91,123</u>
Total Intercompany Accounts	-	-	-
TOTAL ASSETS	<u>\$ 314,595</u>	<u>\$ 307,623</u>	<u>\$ 310,383</u>

Pennichuck Corporation
Consolidated Balance Sheets

6/30/2017
(\$000's)

<u>EQUITY AND LIABILITIES</u>	<u>Dec-16</u>	<u>Actual</u>	<u>Budget</u>
Stockholders' Equity:			
Common stock		\$ -	\$ -
Paid in capital	30,561	30,561	30,424
Accumulated other comprehensive income	257	267	258
Retained earnings	(10,241)	(13,704)	(14,282)
Treasury stock and other	-	-	-
Total Stockholders' Equity	20,577	17,124	16,400
Long Term Debt:			
Bonds, notes and mortgages	200,758	198,509	203,585
Total Long Term Debt	200,758	198,509	203,585
Current Liabilities:			
Line of credit	-	-	3,900
Current portion of long term debt	5,162	5,368	4,119
Accounts payable	6,300	3,575	1,186
Deferred revenue watertight	63	95	-
Accrued interest payable	1,704	150	131
Other accrued expenses	942	1,271	2,805
Income taxes payable	(16)	(16)	(16)
Customer deposits & other	806	189	424
Total Current Liabilities	14,961	10,632	12,549
Other Liabilities and Deferred Credits:			
Deferred income taxes	20,870	19,940	20,395
Accrued liability pension	9,010	9,024	9,204
Unamortized debt premium	3,082	3,023	-
Unamortized ITC	537	520	520
Regulatory Liability	759	749	236
Accrued Post Retirement Benefits	2,578	2,653	2,578
Customer Advances	84	84	552
CIAC, net	40,364	44,380	40,155
Other liability: derivative instrument	453	437	453
Other long-term liabilities	562	548	3,756
Total Other Liabilities and Deferred Credits	78,299	81,358	77,849
TOTAL LIABILITIES AND EQUITY	\$ 314,595	\$ 307,623	\$ 310,383

Pennichuck Corporation
Consolidated Cash Flow Statements

6/30/2017
(\$000's)

	<u>OTD</u>	<u>YTD</u>
Operating Activities:		
Net Income (Loss)	\$ (1,922)	\$ (3,323)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,934	3,867
Amortization of original issue discount	-	-
Gain on sale of property, plant and equipment	-	(31)
Gain on forgiveness of long term debt	-	-
Amortization of deferred investment tax credits	(9)	(17)
Provision for deferred income taxes	48	(936)
Equity component of AFUDC	-	-
Undistributed loss (earnings) in real estate partnerships	1	2
Special shareholder distribution	-	-
Stock based compensation expense	-	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable and unbilled revenue	(1,708)	119
(Increase) decrease in income taxes payable	-	-
(Increase) decrease in materials and supplies	54	12
(Increase) decrease in prepaid expenses	(1,182)	(111)
(Increase) decrease in deferred charges and other assets	110	235
Increase (decrease) in accounts payable and accrued expenses	985	(4,246)
Increase (decrease) in other	(381)	(224)
Net cash provided by (used in) operating activities	(2,070)	(4,653)
Investing activities:		
Purchases of property, plant and equipment, including debt component of AFUDC	(1,252)	(2,615)
Proceeds from sales of property, plant and equipment	-	37
(Increase) decrease in restricted cash	2,863	7,809
Sales of investment securities	-	-
Purchase of investment securities	-	-
Proceeds from sales of land	-	-
Distributions in excess of earnings in investment in real estate partnership	-	-
Net change in deferred land costs	-	-
Payments made in connection with merger related activities	-	-
Net cash provided by (used in) investing activities	1,611	5,231
Financing activities:		
Advances (repayments) on line of credit	-	-
Payments on long term debt	(768)	(3,628)
Contributions in aid of construction	16	18
Proceeds from long-term borrowings	393	1,439
Debt issuance costs	15	15
Proceeds from issuance of common stock and dividend reinvestment plan	-	-
Dividends paid	(69)	(139)
Net cash provided by (used in) financing activities	(413)	(2,295)
Increase (decrease) in cash	(872)	(1,717)
Cash and cash equivalents at beginning of period	1,601	2,446
Cash and cash equivalents at end of period	\$ 729	\$ 729