



Pennichuck Corporation

Quarterly Report to the

**Sole Shareholder
(City of Nashua Board of Aldermen)**

Quarter Ended March 31, 2019

Executive Summary

- Revenues for the first quarter of 2019 were 1.0% greater than the prior year (\$9.43 million versus \$9.34 million).
- Operating Income for the first quarter of 2019 was 50.6% higher than the prior year (\$0.38 million versus \$0.25 million) due to increased revenue levels for the regulated utilities year-over-year.
- Pre-Tax Loss for the first quarter of 2019 was 2.9% lower than the prior year loss (\$2.31 million versus \$2.38 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2019 were 10.6% higher than the prior year (\$2.49 million versus \$2.25 million).
- As expected, during the quarter, the Company paid approximately \$2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt.
- Capital expenditures for the first quarter of 2019 were \$0.67 million compared to \$0.53 million in the first quarter of 2018.
- The Annual Meeting of Sole Shareholder was held at the DoubleTree by Hilton in Nashua on Saturday, May 4, 2019.

We remain focused on the Company’s primary mission, in that we continue to provide clean water and excellent service to our customers and operate within the confines of the budgeted and planned levels of operating and capital expenditures.

Unaudited Financial Highlights

Financial highlights on a Generally Accepted Accounting Principles (“GAAP”) basis for the first quarter of 2019 as compared to the first quarter of 2018 are as follows:

	(000’s)	
	Quarter Ended March 31, 2019 (Unaudited)	Quarter Ended March 31, 2018 (Unaudited)
Revenues		
Regulated Utilities	\$ 8,783	\$ 8,396
Other	<u>645</u>	<u>941</u>
Total	\$ 9,428	\$ 9,337
Operating Expenses		
Regulated Utilities	\$ 8,413	\$ 8,161
Other	<u>640</u>	<u>927</u>
Total	\$ 9,053	\$ 9,088
Operating Income	\$ 375	\$ 249
Non-Operational Income (Expense)	17	(1)
Other Income	8	9
Net Interest Expense	<u>(2,711)</u>	<u>(2,637)</u>
Pre-Tax (Loss)	\$ (2,311)	\$ (2,380)
Income Tax Benefit	<u>(93)</u>	<u>(866)</u>
Net (Loss)	\$ <u>(2,218)</u>	\$ <u>(1,514)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>2,488</u>	\$ <u>2,250</u>

Revenues from the water utility operations increased approximately 4.6%. The increase is mainly attributable to the revenues generated by Pennichuck East Utility, Inc., which benefited from Permanent and Step rate increases which were approved by the PUC on Order No. 26,136, and became effective in May and October of 2018, respectively. However, revenues from the unregulated water service business decreased 31.4% from the prior year due to: (1) decreases in their Unplanned Revenue activities, (2) non-renewal of the town of Hudson contract as of July 2018 which eliminated those revenues beginning at that time, and (3) the implementation of ASU 2014-09, *Revenue from Contracts with Customers*, which recognizes revenue when goods and/or services are transferred to the customer, as opposed to the ratable amortization of a planned revenue contract which was in use prior to the new FASB pronouncement.

Operating Expenses have decreased approximately 0.4% year-over-year. The decrease is attributable to a significant reduction in Pennichuck Water Service expenses primarily from the non-renewal of the town of Hudson contract, coupled with lower unplanned maintenance expenses which move in concert with the reduced Unplanned Revenues. These reductions more than offset the timing related increases in service and maintenance activities experienced by the regulated utilities, due to the relatively mild winter.

Operating Income has increased year-over-year as a result of the revenue gains offset by the increased operating costs.

Interest Expense increased slightly year-over-year by 2.8% due to interest costs associated with the additional financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives.

The income tax benefit in the current year reflects the tax treatment for the Municipal Acquisition Regulatory Asset (MARA), which is not deductible for tax purposes, and the inclusion of CIAC taxable income, due to the elimination of an exemption in the Tax Cuts and Jobs Act. Depending on year-to-date profitability levels, compared to the value of that non-deductible amount, this can impact the actual rate on earned amounts in a positive or negative manner, throughout the year. As of the end of the first quarter, the tax benefit rate is 4.0% versus the statutory rate benefit of 27.08%.

The first quarter pre-tax loss for 2019 is lower than the pre-tax loss for 2018. Typically, the first quarter is the lowest quarter from a profitability perspective, as water usage is at the lowest level for the year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is 10.6% higher than EBITDA for the same period last year due to increased revenues year-over-year, and lower operating expenses, excluding depreciation and interest expenses.

Balance Sheet

	(000's)	
	As of March 31, 2019 (Unaudited)	As of December 31, 2018 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ <u>221,725</u>	\$ <u>221,860</u>
Current Assets:		
Cash	1,844	1,575
Restricted Cash	4,523	3,428
Restricted Cash – Bond Project Funds	9	3,337
Accounts Receivable	5,907	6,348
Inventory	591	611
Other Current Assets ^{Note 1}	<u>704</u>	<u>1,631</u>
Total Current Assets	<u>13,578</u>	<u>16,930</u>
Other Assets:		
Acquisition Premium	70,770	71,268
Other Assets	<u>12,936</u>	<u>13,075</u>
Total Other Assets	<u>83,706</u>	<u>84,343</u>
TOTAL ASSETS	\$ <u>319,009</u>	\$ <u>323,133</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>6,131</u>	\$ <u>8,410</u>
Bonds, Notes and Mortgages	<u>197,009</u>	<u>200,225</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	10,314	6,626
Current Portion of Long-Term Debt	6,199	6,019
Other Current Liabilities ^{Notes 3 & 4}	<u>5,249</u>	<u>8,388</u>
Total Current Liabilities	<u>21,762</u>	<u>21,033</u>
Other Long-Term Liabilities:		
CIAC, net	52,642	51,961
Deferred Income Taxes	14,010	14,110
Accrued Pension Liability ^{Note 5}	10,045	10,021
Other Long-Term Liabilities	<u>17,410</u>	<u>17,373</u>
Total Other Long-Term Liabilities	<u>94,107</u>	<u>93,465</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>319,009</u>	\$ <u>323,133</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2018, approximately \$1,021,000 of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2019, relating to taxes paid in November and December of 2018 for the second half of the property tax year ended March 31, 2019. The balance of prepaid property taxes as of March 31, 2019 is \$0.

Note 2 (Lines of Credit) – At March 31, 2018, approximately \$10,292,000 of this balance was comprised of the borrowed balance against the Fixed Asset Lines of Credit. This balance has been significantly reduced since that date, and currently has a balance of \$1,984,000, due to the payoff of the PWW FALOC with the proceeds brought into the Company from the April 4, 2019 issuance of bonds by Pennichuck Water Works, Inc., as a reimbursement of capital expenditures funded during 2018.

Note 3 (Other Current Liabilities) – At March 31, 2019, approximately \$2,899,000 of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2019.

Note 4 (Other Current Liabilities) – At March 31, 2019, approximately \$905,000 of this balance is comprised of accrued interest. These interest costs are associated with the financed amounts for capital projects which have been incurred for ongoing infrastructure replacement, in conformity with the Company's key mission objectives.

Note 5 (Accrued Pension Liability) – During the first quarter of 2019, \$237,000 was contributed into the Pension Plan, while approximately \$170,400 in benefit payments were made to participants and approximately \$26,500 of investment income and appreciation was earned in the plan.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the first quarter of 2019 as compared to the first quarter of 2018 is as follows:

	(000's)	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>
	(Unaudited)	(Unaudited)
Operating Activities:		
Net Income (Loss)	\$ <u>(2,218)</u>	\$ <u>(1,514)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,097	2,002
Provision for Deferred Taxes	(86)	(858)
Other	(29)	(11)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	440	483
(Increase) Decrease in Inventory	(19)	(54)
(Increase) Decrease in Other Assets	1,102	1,198
Increase (Decrease) in Accounts Payable	(2,425)	(409)
Increase (Decrease) in Other Liabilities	<u>(629)</u>	<u>(664)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,729)</u>	<u>173</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(781)	(493)
(Increase) Decrease in Restricted Cash	-	-
Purchase of Marketable Securities	-	-
Proceeds from Sale of Property	23	-
Change in Deferred Land Costs and Interest in Real Estate Partnerships	<u>2</u>	<u>(11)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(756)</u>	<u>(504)</u>
Financing Activities:		
Borrowings (Repayments) on Line of Credit	3,697	171
Payments on Long-term Debt	(3,142)	(2,995)
Contributions in Aid of Construction	2	1
Proceeds from Long-term Borrowings	34	12
Debt Issuance Costs	-	-
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>521</u>	<u>(2,881)</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,964)	(3,212)
Cash and Cash Equivalents at Beginning of Period	<u>8,340</u>	<u>9,236</u>
Cash and Cash Equivalents at End of Period	\$ <u><u>6,376</u></u>	\$ <u><u>6,024</u></u>

Financial information is available on the Company's website (www.Pennichuck.com) under the "Management and Financial Information" caption.

Capital Expenditures

Capital Expenditures in the first quarter of 2019 were \$0.67 million as compared to \$0.53 million in the first quarter of 2018. Major expenditures in the first quarter of 2019 included:

Chase Street Main Replacement	\$ 150,000
Locke Lake Treatment Design	\$ 100,000
Meter Replacements	\$ 94,000
Northwest Water Main Improvements	\$ 66,000
Locke Lake Main Replacements, Georgetown Drive	\$ 42,000
Merrimack River Intake	\$ 30,000
Renewed Services	\$ 29,000

Financing

On August 28, 2018, Pennichuck East Utility, Inc. filed a petition with the New Hampshire Public Utilities Commission (NHPUC) for approval to borrow \$4,240,000 for a 30-year term from the State of New Hampshire’s Drinking Water Revolving Loan Fund Program, to be used to finance the cost of the Locke Lake New Groundwater Source project in Barnstead, NH. The financing was approved by the Pennichuck Corporation and the Pennichuck East Utility, Inc. Boards of Directors, and by the City of Nashua, as sole shareholder of Pennichuck Corporation. On November 6, 2018, the NHPUC issued Order No. 26,189 approving this financing. The loan closing was completed on February 12, 2019, with the funds to be drawn-down for this project during the 2019 and 2020 calendar years.

On August 29, 2018, Pennichuck Water Works, Inc. filed a petition with the NHPUC for approval to borrow \$3,375,000 for a 30-year term from the State of New Hampshire’s Drinking Water and Groundwater Trust Fund, to be used to finance the cost of the Pennichuck Core Water Main Replacement project. The financing was approved by the Pennichuck Corporation and the Pennichuck Water Works, Inc. Boards of Directors, and by the City of Nashua, as sole shareholder of Pennichuck Corporation. On December 3, 2018, the NHPUC issued Order No. 26,197 approving this financing. The loan closing was completed on February 12, 2019, with the entire project scheduled to be completed within 2019.

Subsequent Events

On April 4, 2019, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$8.3 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2018 capital improvements in PWW’s water supply, distribution and support systems. The bond issuance was approved by the Pennichuck Board of Directors and the Sole Shareholder. This issuance had previously received NHPUC approval on Order No. 26,101, dated February 2, 2018, which authorized up to \$32.5 million in bonds via multiple issuances for the years 2018 – 2021.

On May 3, 2019, the Company's Pennichuck Water Works, Inc. subsidiary received NHPUC approval on Order No. 26,247 which authorizes PWW to borrow up to \$5.5 million from the Drinking Water and Ground Water Trust Fund (DWGTF). The proposed loan will be used to finance the design and construction of a new deep river intake in the Merrimack River, which will provide water to PWW's water treatment plant in Nashua.

Flushing of Mains

As in prior years, we have commenced the flushing of the water mains in critical areas of our systems. The process is conducted annually to flush impurities built up in the mains during the year. The flushing program is expected to be completed by mid-June.

Annual Meeting

The Annual Meeting of Sole Shareholder was held at the DoubleTree by Hilton in Nashua on Saturday, May 4, 2019. At the Annual Meeting, C. George Bower, Jay N. Lustig, John D. McGrath and Preston J. Stanley, Jr. were re-elected to the Board of Directors for three-year terms, and Deborah Novotny was elected to the Board of Directors for a one-year term.