



Pennichuck Corporation

**Quarterly Report to the
Sole Shareholder
(City of Nashua Board of Aldermen)**

Quarter Ended June 30, 2020

Executive Summary

- Revenues for the second quarter of 2020 were 13.2% higher than the prior year (\$12.0 million for 2020 versus \$10.6 million for 2019). Revenues on a year-to-date basis were also 8.5% higher when compared to the prior year (\$21.7 million for the six months in 2020 versus \$20.0 million in 2019). Both are primarily due to increased consumption in 2020 versus 2019, as the regulated utilities were positively impacted by (1) weather related factors as the dry weather from late Spring has continued throughout the month of June and (2) increases in overall residential usage that have offset decreases in commercial/industrial consumption levels, which were impacted by N.H. Governor Sununu's Stay At Home Order for all non-essential residents earlier this year.
- Operating Income for the second quarter of 2020 was 200% higher than the prior year (\$2.4 million for 2020 versus \$0.8 million for 2019). Operating Income on a year-to-date basis is 163.6% higher than the prior year (\$2.9 million for 2020 versus \$1.1 million for 2019). Both of which are attributed to the increased revenue levels coupled with lower operating expenses, primarily driven by the Service Company, associated with decreased Unplanned Maintenance activities year-over-year.
- Pre-Tax Loss for the second quarter of 2020 was \$0.5 million versus the pre-tax loss of \$2.0 million for 2019. On a year-to-date basis, the pre-tax loss was \$2.7 million for 2020 versus \$4.3 million for 2019.
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the second quarter of 2020 was 55.2% higher than the prior year (\$4.5 million in 2020 versus \$2.9 million for 2019). On a year-to-date basis, EBITDA was 33.3% higher than the prior year (\$7.2 million for 2020 versus \$5.4 million for 2019).
- During the quarter, the Company paid \$2.1 million to the City in principal, interest and dividends to fund the City Acquisition Debt. Year-to-date, the Company has paid \$4.2 million to the City in principal, interest and dividends to fund the City Acquisition Debt.
- Capital expenditures for the second quarter of 2020 were \$2.2 million compared to \$1.9 million in the second quarter of 2019. On a year-to-date basis, capital expenditures for 2020 were \$3.0 million compared to \$2.5 million in 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 second quarter of 2020 as compared to the second quarter of 2019, and the six months of 2020 as compared to the six months of 2019, are as follows:

	(000’s)			
	<u>Quarter Ended</u>		<u>Year-to-Date</u>	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Revenues				
Regulated Utilities	\$ 11,275	\$ 9,764	\$ 20,310	\$ 18,547
Other	<u>683</u>	<u>842</u>	<u>1,400</u>	<u>1,487</u>
Total	\$ 11,958	\$ 10,606	\$ 21,710	\$ 20,034
Operating Expenses				
Regulated Utilities	\$ 8,982	\$ 9,087	\$ 17,554	\$ 17,500
Other	<u>589</u>	<u>747</u>	<u>1,273</u>	<u>1,387</u>
Total	\$ 9,571	\$ 9,834	\$ 18,827	\$ 18,887
Operating Income	\$ 2,387	\$ 772	\$ 2,883	\$ 1,147
Non-Operational Income (Expense)	(3)	(9)	6	16
Net Interest Expense	<u>(2,883)</u>	<u>(2,786)</u>	<u>(5,605)</u>	<u>(5,497)</u>
Pre-Tax Income (Loss)	\$ (499)	\$ (2,023)	\$ (2,716)	\$ (4,334)
Income Tax Benefit (Expense)	<u>(140)</u>	<u>91</u>	<u>(749)</u>	<u>184</u>
Net Income (Loss)	\$ <u>(639)</u>	\$ <u>(1,932)</u>	\$ <u>(3,465)</u>	\$ <u>(4,150)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>4,527</u>	\$ <u>2,871</u>	\$ <u>7,165</u>	\$ <u>5,359</u>

Revenues from water utility operations increased 15.3% in the quarter and 9.7% on a year-to-date basis, versus last year, as discussed in the “Executive Summary.” Revenues include actual billed amounts through and including the June billing cycles, plus an accrual of unbilled amounts through the end of the month (based upon trailing consumption patterns). Revenues from the unregulated water service business have decreased 19.0% in the second quarter as compared to the second quarter of last year, primarily due to lower revenues for Unplanned, Water-Tight and Backflow sales. On a year-to-date basis, the unregulated water service revenues are down by 6.7%, for the same reason.

Operating Expenses have decreased approximately 2.0% in the second quarter and 0.5% on a year-to-year basis. The decrease is mainly attributable to lower Unplanned Maintenance expenses in the Service Company, driven by the decrease in the overall Unplanned Revenue activity.

Operating Income has increased year-over-year as a result of the variations in revenue and operating expense levels recognized for the quarter and year-to-date.

Interest Expense increased in the second quarter by approximately 3.6% over the second quarter of last year; and, year-to-date versus last year by approximately 1.8%, resulting from the interest costs 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.

The second quarter pre-tax loss and year-to-date pre-tax loss for 2020 are both lower than the pre-tax levels for 2019 due to the revenue and expense variations discussed above.

The income tax expense 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 second quarter, the tax expense rate is 27.6% versus the statutory rate benefit of 27.08%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) are higher than EBITDA for the same periods last year due to increased revenues, coupled with lower operating expense levels than 2019.

Balance Sheet

	(000's)	
	As of June 30, 2020 (Unaudited)	As of December 31, 2019 (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ <u>236,327</u>	\$ <u>237,182</u>
Current Assets:		
Cash	5,079	4,885
Restricted Cash	301	1,963
Restricted Cash – Bond Project Funds	6	3,426
Accounts Receivable	7,112	5,631
Inventory	652	648
Other Current Assets ^{Note 1}	<u>2,025</u>	<u>1,418</u>
Total Current Assets	<u>15,175</u>	<u>17,971</u>
Other Assets:		
Acquisition Premium	68,234	69,263
Other Assets	<u>13,533</u>	<u>13,727</u>
Total Other Assets	<u>81,767</u>	<u>82,990</u>
TOTAL ASSETS	\$ <u>333,269</u>	\$ <u>338,143</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(968)</u>	\$ <u>2,739</u>
Bonds, Notes and Mortgages	<u>217,070</u>	<u>212,296</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	4,679	9,283
Current Portion of Long-Term Debt	11,407	6,582
Other Current Liabilities ^{Notes 3 and 4}	<u>3,590</u>	<u>6,722</u>
Total Current Liabilities	<u>19,676</u>	<u>22,587</u>
Other Long-Term Liabilities:		
CIAC, net	54,375	54,770
Deferred Income Taxes	15,127	14,427
Accrued Pension Liability ^{Note 5}	12,573	12,971
Other Long-Term Liabilities	<u>15,416</u>	<u>18,353</u>
Total Other Long-Term Liabilities	<u>97,491</u>	<u>100,521</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>333,269</u>	\$ <u>338,143</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2019, approximately \$992,460 of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2020, relating to taxes paid in November and December of 2019 for the second half of the property tax year ended March 31, 2020. The balance of prepaid property taxes as of June 30, 2020 is \$1,051,734.

Note 2 (Lines of Credit) – At June 30, 2020, approximately \$2,304,000 of this balance was comprised of the corporate Working Capital Line of Credit which is periodically drawn upon in support of our operations. The remaining \$2,375,431 balance relates to Pennichuck Water Works, Inc. and Pennichuck East Utility, Inc. Fixed Asset Lines of Credit (FALOC), which are used to fund Construction Work in Progress on capital projects which will be refinanced into long-term debt obligations or bond indebtedness annually.

Note 3 (Other Current Liabilities) – At June 30, 2020, approximately \$1,464,000 of this balance is comprised of accounts payable which relates to activities that were performed in the second quarter of 2020.

Note 4 (Other Current Liabilities) – At June 30, 2020, approximately \$306,000 of this balance was comprised of accrued interest. These interest costs are associated with the financed amounts for support of corporate operations and 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 six months of 2020, \$967,000 was contributed into the Pension Plan, while approximately \$394,000 in benefit payments were made to participants and approximately \$54,000 of investment income and appreciation was earned in the plan.

Unaudited Cash Flow Statement

Cash Flow on a GAAP basis for the second quarter of 2020 as compared to the second quarter of 2019, and the year-to-date 2020 versus 2019, are as follows:

	(000's)			
	Quarter Ended		Year-to-Date	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating Activities:				
Net Income (Loss)	\$ (639)	\$ (1,932)	\$ (3,465)	\$ (4,150)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization	2,142	2,097	4,276	4,194
Provision for Deferred Taxes	147	(84)	763	(170)
Other	(9)	(13)	(17)	(42)
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(2,039)	(1,066)	(1,481)	(626)
(Increase) Decrease in Inventory	(13)	(8)	(4)	11
(Increase) Decrease in Other Assets	(458)	(1,483)	382	(381)
Increase (Decrease) in Accounts Payable	219	1,799	(2,032)	(626)
Increase (Decrease) in Other Liabilities	<u>(1,630)</u>	<u>(622)</u>	<u>(2,029)</u>	<u>(1,251)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(2,280)</u>	<u>(1,312)</u>	<u>(3,607)</u>	<u>(3,041)</u>
Investing Activities:				
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(2,134)	(1,813)	(2,826)	(2,594)
Proceeds from Sale of Property, Plant & Equipment	-	-	-	23
(Increase) Decrease in Restricted Cash	-	-	-	-
Sale of Investment Securities	-	-	-	-
Change in Deferred Land Costs	<u>-</u>	<u>(31)</u>	<u>-</u>	<u>(29)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(2,134)</u>	<u>(1,844)</u>	<u>(2,826)</u>	<u>(2,600)</u>
Financing Activities:				
Borrowings (Repayments) on Lines of Credit	(6,179)	(4,024)	(4,603)	(327)
Payments on Long-term Debt	(1,297)	(992)	(4,883)	(4,134)
Contributions in Aid of Construction	17	17	19	19
Proceeds from Long-term Borrowings	10,794	9,056	11,152	9,090
Debt Issuance Costs	-	293	-	293
Dividends Paid	<u>(70)</u>	<u>(70)</u>	<u>(140)</u>	<u>(140)</u>
Net Cash Provided by (Used in) Financing Activities	<u>3,265</u>	<u>4,280</u>	<u>1,545</u>	<u>4,801</u>
Increase (Decrease) in Cash and Cash Equivalents	(1,149)	1,124	(4,888)	(840)
Cash and Cash Equivalents at Beginning of Period	<u>6,535</u>	<u>6,376</u>	<u>10,274</u>	<u>8,340</u>
Cash and Cash Equivalents at End of Period	<u>\$ 5,386</u>	<u>\$ 7,500</u>	<u>\$ 5,386</u>	<u>\$ 7,500</u>

Financial information is available on the Company's website (www.Pennichuck.com).

Capital Expenditures

Capital Expenditures in the second quarter of 2020 were \$2.2 million as compared to \$1.9 million in the second quarter of 2019. Capital Expenditures for the year-to-date were \$3.0 million as compared to \$2.5 million in 2019.

Major expenditures in the first half of 2020 included:

Locke Lake Raw Water Pipeline	\$535,000
Carbon Media Replacement at Water Treatment Plant	\$495,000
Locke Lake Main Replacement	\$222,000
Merrimack River Intake	\$220,000
Locke Lake New Water Source	\$185,000
CMMS Replacement of Synergen/WAM Workorder System	\$126,000

Financing

On April 23, 2020, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$7.5 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2019 capital improvements in Pennichuck Water Works’ 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 6, 2020, the NHPUC issued Order No. 26,354 which permitted Pennichuck Water Works, Inc. to borrow up to \$2,563,662 from the federal Small Business Administration Paycheck Protection Program. This loan includes a 2-year maturity at an interest rate of 1 percent, which includes a provision in which a portion or all of the loan can be forgiven if all employees are kept on the payroll for eight weeks upon disbursement of the loan proceeds. The loan proceeds were disbursed by TD Bank, Inc., on behalf of the SBA on May 8, 2020.

Subsequent Events

On August 26, 2020, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$73.6 million of taxable bonds through the NH Business Finance Authority to: (1) advance refund and refinance Pennichuck Water Works’ series 2014A, 2015A, and 2015B bonds, early retire an AULI bank loan set to mature on March 1, 2021 with a “bullet” maturity due at that date, (3) complete the replenishment of the MOERR RSF for PWW back to its authorized imprest value, and (4) to repay the line-of-credit for monies borrowed to bolster the MOERR RSF at PWW while awaiting rate relief from this bonding event and the current PWW Rate Case. 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. 26,383 dated July 24, 2020, which authorized up to \$75.0 million in bonds.