



**Pennichuck Corporation**

**Quarterly Report to the**

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

**Quarter Ended March 31, 2020**

**Executive Summary**

- Revenues for the first quarter of 2020 were 3.5% greater than the prior year (\$9.75 million versus \$9.42 million).
- Operating Income for the first quarter of 2020 was 31.6% higher than the prior year (\$0.50 million versus \$0.38 million) due to increased revenue levels for the regulated utilities year-over-year.
- Pre-Tax Loss for the first quarter of 2020 was 3.9% lower than the prior year loss (\$2.22 million versus \$2.31 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2020 were 6% higher than the prior year (\$2.64 million versus \$2.49 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 2020 were \$0.75 million compared to \$0.67 million in the first quarter of 2019.
- The Annual Meeting of Sole Shareholder was held virtually via Microsoft Teams on Saturday, May 2, 2020.

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 2020 as compared to the first quarter of 2019 are as follows:

	(000’s)	
	Quarter Ended March 31, 2020	Quarter Ended March 31, 2019
	(Unaudited)	(Unaudited)
Revenues		
Regulated Utilities	\$ 9,035	\$ 8,783
Other	<u>717</u>	<u>645</u>
Total	\$ 9,752	\$ 9,428
Operating Expenses		
Regulated Utilities	\$ 8,572	\$ 8,413
Other	<u>684</u>	<u>640</u>
Total	\$ 9,256	\$ 9,053
Operating Income	\$ 496	\$ 375
Non-Operational Income (Expense)	9	17
Other Income	-	8
Net Interest Expense	<u>(2,722)</u>	<u>(2,711)</u>
Pre-Tax (Loss)	\$ (2,217)	\$ (2,311)
Income Tax Provision (Benefit)	<u>609</u>	<u>(93)</u>
Net (Loss)	\$ <u>(2,826)</u>	\$ <u>(2,218)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>2,638</u>	\$ <u>2,488</u>

Revenues from the water utility operations increased year-over-year approximately 2.9%. The increase is attributable to increased Jobbing Revenues from billable work in the Pennichuck Water Works and Pennichuck East Utility systems. Revenues from the unregulated water service business increased 11.2% from the prior year due to increases in their Unplanned Revenue activities.

Operating Expenses have increased approximately 2.2% year-over-year. The increase is attributable to increased transmission & distribution costs attributed to maintenance activities, as well as general administrative costs which include wage, health and retirement benefits. 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.

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 0.4% 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 provision 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 provision rate is -27.5% versus the statutory rate benefit of 27.08%.

The first quarter pre-tax loss for 2020 is lower than the pre-tax loss for 2019, for reasons as discussed in this quarterly report. 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 6.0% higher than EBITDA for the same period last year due to the increased revenues year-over-year.

**Balance Sheet**

	(000's)	
	As of March 31, 2020 (Unaudited)	As of December 31, 2019 (Audited)
<b><u>Assets</u></b>		
Property, Plant & Equipment, Net	\$ <u>236,128</u>	\$ <u>237,182</u>
Current Assets:		
Cash	6,150	4,885
Restricted Cash	386	1,963
Restricted Cash – Bond Project Funds	-	3,426
Accounts Receivable	5,072	5,631
Inventory	639	648
Other Current Assets <sup>Note 1</sup>	<u>736</u>	<u>1,418</u>
Total Current Assets	<u>12,983</u>	<u>17,971</u>
Other Assets:		
Acquisition Premium	68,751	69,263
Other Assets	<u>13,623</u>	<u>13,727</u>
Total Other Assets	<u>82,374</u>	<u>82,990</u>
TOTAL ASSETS	\$ <u>331,485</u>	\$ <u>338,143</u>
<b><u>Shareholders' Equity and Liabilities</u></b>		
Shareholders' Equity	\$ <u>(257)</u>	\$ <u>2,739</u>
Bonds, Notes and Mortgages	<u>210,167</u>	<u>212,296</u>
Current Liabilities:		
Lines of Credit <sup>Note 2</sup>	10,859	9,283
Current Portion of Long-Term Debt	8,690	6,582
Other Current Liabilities <sup>Notes 3 &amp; 4</sup>	<u>3,991</u>	<u>6,722</u>
Total Current Liabilities	<u>23,540</u>	<u>22,587</u>
Other Long-Term Liabilities:		
CIAC, net	54,657	54,770
Deferred Income Taxes	14,979	14,427
Accrued Pension Liability <sup>Note 5</sup>	12,992	12,971
Other Long-Term Liabilities	<u>15,407</u>	<u>18,353</u>
Total Other Long-Term Liabilities	<u>98,035</u>	<u>100,521</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>331,485</u>	\$ <u>338,143</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2019, approximately \$992,000 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 March 31, 2020 is \$0.

Note 2 (Lines of Credit) – At March 31, 2020, approximately \$8,234,000 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 \$1,787,000, due to the payoff of the PWW FALOC with the proceeds brought into the Company from the April 23, 2020 issuance of bonds by Pennichuck Water Works, Inc., as a reimbursement of capital expenditures funded during 2019.

Note 3 (Other Current Liabilities) – At March 31, 2020, approximately \$1,253,000 of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2020.

Note 4 (Other Current Liabilities) – At March 31, 2020, approximately \$789,000 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 2020, \$264,000 was contributed into the Pension Plan, while approximately \$183,500 in benefit payments were made to participants and approximately \$30,300 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 2020 as compared to the first quarter of 2019 is as follows:

	(000's)	
	<u>March 31, 2020</u>	<u>March 31, 2019</u>
	(Unaudited)	(Unaudited)
Operating Activities:		
Net Income (Loss)	\$ <u>(2,826)</u>	\$ <u>(2,218)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,134	2,097
Provision for Deferred Taxes	616	(86)
Other	(8)	(29)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	558	440
(Increase) Decrease in Inventory	9	(19)
(Increase) Decrease in Other Assets	840	1,102
Increase (Decrease) in Accounts Payable	(2,251)	(2,425)
Increase (Decrease) in Other Liabilities	<u>(399)</u>	<u>(629)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,327)</u>	<u>(1,729)</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(692)	(781)
(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>-</u>	<u>2</u>
Net Cash Provided by (Used in) Investing Activities	<u>(692)</u>	<u>(756)</u>
Financing Activities:		
Borrowings (Repayments) on Line of Credit	1,576	3,697
Payments on Long-term Debt	(3,584)	(3,142)
Contributions in Aid of Construction	2	2
Proceeds from Long-term Borrowings	358	34
Debt Issuance Costs	-	-
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(1,720)</u>	<u>521</u>
Increase (Decrease) in Cash and Cash Equivalents	(3,739)	(1,964)
Cash and Cash Equivalents at Beginning of Period	<u>10,274</u>	<u>8,340</u>
Cash and Cash Equivalents at End of Period	\$ <u><u>6,535</u></u>	\$ <u><u>6,376</u></u>

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

### **Capital Expenditures**

Capital Expenditures in the first quarter of 2020 were \$0.75 million as compared to \$0.67 million in the first quarter of 2019. Major expenditures in the first quarter of 2020 included:

Merrimack River Intake	\$169,000
CMMS Replacement	\$61,000
SCADA Software Upgrade	\$43,000
Kessler Farm Tank Design	\$42,000
Locke Lake New Water Source	\$42,000
Meter Replacements	\$40,000

### **Financing**

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 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 Work'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.

### **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 virtually via Microsoft Teams conference platform on Saturday, May 2, 2020. At the Annual Meeting, James P. Dore, Elizabeth A. Dunn, H. Scott Flegal and Deborah Novotny were elected to the Board of Directors for three-year terms.