



Pennichuck Corporation

Quarterly Report to the

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

Quarter Ended March 31, 2021

Executive Summary

- Revenues for the first quarter of 2021 were 4.7% greater than the prior year (\$10.21 million versus \$9.75 million).
- Operating Income for the first quarter of 2021 was 25.0% lower than the prior year (\$0.40 million versus \$0.50 million) due to increased operating expenses for the regulated utilities year-over-year.
- Pre-Tax Loss for the first quarter of 2021 was 42.8% higher than the prior year loss (\$3.17 million versus \$2.22 million).
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2021 were 2.7% lower than the prior year (\$2.57 million versus \$2.64 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 2021 were \$1.34 million compared to \$0.75 million in the first quarter of 2020.
- The Annual Meeting of Sole Shareholder was held virtually via Microsoft Teams Platform and teleconference on Saturday, May 8, 2021.

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 2021 as compared to the first quarter of 2020 are as follows:

	(000’s)	
	Quarter Ended March 31, 2021	Quarter Ended March 31, 2020
	(Unaudited)	(Unaudited)
Revenues		
Regulated Utilities	\$ 9,550	\$ 9,035
Other	<u>663</u>	<u>717</u>
Total	\$ 10,213	\$ 9,752
Operating Expenses		
Regulated Utilities	\$ 9,243	\$ 8,572
Other	<u>591</u>	<u>684</u>
Total	\$ 9,834	\$ 9,256
Operating Income	\$ 379	\$ 496
Non-Operational Income (Expense)	(8)	9
Net Interest Expense	<u>(3,544)</u>	<u>(2,722)</u>
Pre-Tax (Loss)	\$ (3,173)	\$ (2,217)
Income Tax Provision (Benefit)	<u>(468)</u>	<u>609</u>
Net (Loss)	\$ <u>(2,705)</u>	\$ <u>(2,826)</u>
Earnings Before Interest, Taxes, Depreciation and Amortization	\$ <u>2,568</u>	\$ <u>2,638</u>

Revenues from the water utility operations increased year-over-year approximately 5.7%. The increase is attributable to (1) slightly increased consumption levels over the prior year in conjunction with (2) an approved overall rate increase of 11.85% for the Company’s PWW subsidiary, which was granted by the NHPUC on November 24, 2020. This increase was effective for services rendered back to April 14, 2020. Revenues from the unregulated water service business decreased 7.6% from the prior year due to decreases in their Unplanned Revenue activities, somewhat affected by the COVID-19 pandemic limitations.

Operating Expenses have increased approximately 5.4% year-over-year. The increase is attributable to increases in property taxes, 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 decreased year-over-year as a result of the revenue gains offset by the increased operating costs.

Interest Expense increased year-over-year by 42.8% due to (1) increased debt amortization costs associated with the write-off to maturity of 2014 and 2015 escrow deposits required to facilitate the advanced refunding of existing debt, which resulted from the issuance of \$73.6 million of taxable bonds by Pennichuck Water Works on August 26, 2020; (2) interest costs associated with a \$2.5 million Paycheck Protection Program Loan which was received on May 7, 2020 as part of the Coronavirus Aid, Relief and Economic Security Act; and (3) interest costs associated with the additional financed amounts during the last 12 months 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 14.7% versus the statutory rate benefit of 27.08%.

The first quarter pre-tax loss for 2021 is higher than the pre-tax loss for 2020, 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 2.7% lower than EBITDA for the same period last year due to the increased operating expenses year-over-year, as previously discussed.

Balance Sheet

	(000's)	
	As of <u>March 31, 2021</u> (Unaudited)	As of <u>December 31, 2020</u> (Audited)
<u>Assets</u>		
Property, Plant & Equipment, Net	\$ 242,315	\$ 242,469
Current Assets:		
Cash	561	310
Restricted Cash	8,809	8,885
Restricted Cash – Bond Project Funds	23	237
Accounts Receivable	7,544	8,785
Inventory	656	598
Other Current Assets ^{Note 1}	<u>816</u>	<u>1,797</u>
Total Current Assets	<u>18,409</u>	<u>20,612</u>
Other Assets:		
Acquisition Premium	66,676	67,202
Other Assets	<u>16,787</u>	<u>17,014</u>
Total Other Assets	<u>83,463</u>	<u>84,216</u>
TOTAL ASSETS	\$ <u>344,187</u>	\$ <u>347,297</u>
<u>Shareholders' Equity and Liabilities</u>		
Shareholders' Equity	\$ <u>(2,300)</u>	\$ <u>412</u>
Bonds, Notes and Mortgages	<u>226,647</u>	<u>226,912</u>
Current Liabilities:		
Lines of Credit ^{Note 2}	6,776	5,480
Current Portion of Long-Term Debt	6,124	6,020
Other Current Liabilities ^{Notes 3 & 4}	<u>4,277</u>	<u>5,474</u>
Total Current Liabilities	<u>17,177</u>	<u>16,974</u>
Other Long-Term Liabilities:		
CIAC, net	56,648	56,536
Deferred Income Taxes	14,514	14,931
Accrued Pension Liability ^{Note 5}	15,457	15,424
Other Long-Term Liabilities	<u>26,518</u>	<u>16,108</u>
Total Other Long-Term Liabilities	<u>102,663</u>	<u>102,999</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	\$ <u>344,187</u>	\$ <u>347,297</u>

Notes to Balance Sheet

Note 1 (Other Current Assets) – At December 31, 2020, approximately \$1.3 million of this balance was comprised of prepaid property taxes, which were expensed in the first quarter of 2021, relating to taxes paid in November and December of 2020 for the second half of the property tax year ended March 31, 2021. The balance of prepaid property taxes as of March 31, 2021 is \$0.

Note 2 (Lines of Credit) – At March 31, 2021, \$6.7 million 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 \$2.0 million, due to the payoff of the PWW FALOC with the proceeds brought into the Company from the April 2, 2021 issuance of bonds by Pennichuck Water Works, Inc., as a reimbursement of capital expenditures funded during 2020.

Note 3 (Other Current Liabilities) – At March 31, 2021, approximately \$2.1 million of this balance is comprised of accounts payable which relates to activities that were performed in the first quarter of 2021.

Note 4 (Other Current Liabilities) – At March 31, 2021, approximately \$364,000 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 2021, \$293,000 was contributed into the Pension Plan, while approximately \$238,000 in benefit payments were made to participants and approximately \$31,000 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 2021 as compared to the first quarter of 2020 is as follows:

	(000's)	
	<u>March 31, 2021</u> (Unaudited)	<u>March 31, 2020</u> (Unaudited)
Operating Activities:		
Net Income (Loss)	\$ <u>(2,705)</u>	\$ <u>(2,826)</u>
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,196	2,134
Provision for Deferred Taxes	(461)	616
Other	(8)	(8)
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,242	558
(Increase) Decrease in Inventory	(58)	9
(Increase) Decrease in Other Assets	1,959	840
Increase (Decrease) in Accounts Payable	(895)	(2,251)
Increase (Decrease) in Other Liabilities	<u>(218)</u>	<u>(399)</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,052</u>	<u>(1,327)</u>
Investing Activities:		
Purchases of Property, Plant & Equipment, including the Debt Component of AFUDC	(1,406)	(692)
(Increase) Decrease in Restricted Cash	-	-
Purchase of Marketable Securities	-	-
Proceeds from Sale of Property	-	-
Change in Deferred Land Costs and Interest in Real Estate Partnerships	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Investing Activities	<u>(1,406)</u>	<u>(692)</u>
Financing Activities:		
Borrowings (Repayments) on Line of Credit	1,296	1,576
Payments on Long-term Debt	(1,543)	(3,584)
Contributions in Aid of Construction	-	2
Proceeds from Long-term Borrowings	632	358
Debt Issuance Costs	-	-
Dividends Paid	<u>(70)</u>	<u>(70)</u>
Net Cash Provided by (Used in) Financing Activities	<u>315</u>	<u>(1,720)</u>
Increase (Decrease) in Cash and Cash Equivalents	(39)	(3,739)
Cash and Cash Equivalents at Beginning of Period	<u>9,432</u>	<u>10,274</u>
Cash and Cash Equivalents at End of Period	\$ <u><u>9,393</u></u>	\$ <u><u>6,535</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 2021 were \$1.3 million as compared to \$0.75 million in the first quarter of 2020. Major expenditures in the first quarter of 2021 included:

Kessler Farm Tank Replacement	\$693,000
Locke Lake Surface Water Treatment	\$211,000
Airstrip Station Decommissioning	\$74,000

Subsequent Events

Financing

On April 2, 2021, the Company’s Pennichuck Water Works, Inc. subsidiary issued approximately \$5.2 million of tax-exempt and taxable bonds through the NH Business Finance Authority as reimbursement for its 2020 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 and teleconference on Saturday, May 8, 2021. At the Annual Meeting, David P. Bernier, Stephen D. Genest and Thomas J. Leonard were re-elected to the Board of Directors for three-year terms.