



Research Report

Prepared For:	<i>Paul Lowham</i>	Request Date:	<i>11/9/2015</i>
Business Name:	<i>Vista West Water Co.</i>	Promised Date:	<i>12/4/2015</i>
Counselor:	<i>Lisa daCosta</i>	Delivery Date:	<i>12/3/2015</i>
Organization:	<i>SBDC</i>	Hours Spent:	<i>6</i>
Information Requested:	<ol style="list-style-type: none"> 1) <i>Information on valuation of water systems and</i> 2) <i>Any info on what kinds of equity deals and on what terms might have been done recently on other private water systems in the US</i> 		
Description of Material Delivered:	<i>As requested but we could not find specifically disclosed valuations on recent acquisitions.</i>		
WMRC Resources Used:	<i>IBISWorld, Frost and Sullivan, Internet</i>		

Thank you for the opportunity to assist you. The information contained in this report is deemed accurate. However, as with any research, the results contained here should be weighed against the experience and personal knowledge of the individual

business person. If you have any questions, or if I can be of further service, please feel free to contact me or the Economic Development Professional who referred you to the Wyoming Market Research Center.

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Report Contents:

- 1. Information on valuation of water systems**
- 2. Any info on what kinds of equity deals and on what terms might have been done recently on other private water systems in the US**

Information on valuation of water systems

We examined the valuation and return metrics of the leading, publicly-traded water systems companies—American Water, Connecticut Water, Aqua America and Consolidated Water. Their valuation multiples of enterprise value to trailing earnings before interest, taxes, depreciation and amortization (EBITDA) or (EV/TTM EBITDA) ranged from 9.99x to 15.49x.

Looking at dividend yield and the five year compound annual growth of these water companies, their total returns to investors have varied between 8% and 19% per year. This data is contained on the table below:

Valuations of Publicly Traded Water Companies			EV/TTM	EV/TTM		Stock Price Returns		5 Yr Cumm
Name	TKR	Stock Price	Revenue	EBITDA	Div Yield	Last 12 month	Five Year	Annual Return
American Water	AWK	58.18	5.32	11.15	2.3%	10.4%	17.0%	19.3%
Connecticut Water	CTWS	36.25	6.12	14.78	3.0%	-1.2%	6.6%	9.6%
Aqua America	WTR	29.64	8.55	15.49	2.4%	3.4%	11.3%	13.8%
Consolidated Water	CWCO	11.84	2.20	9.99	2.5%	5.4%	5.6%	8.1%
Data collected from yahoo! Finance, Morningstar and corporate press releases								

The publicly-traded players have included acquisition as an element of their growth strategy, because they can use their higher valued stock and cash to buy private players. According to IBISWorld, a leading provider of market research, the Water Supply and Irrigation Industry has experienced growth as private companies have increasingly purchased the rights to operate public water utilities and rolled up smaller, less efficient distribution systems, bolstering operating efficiency and improving profitability.¹

¹ IBISWorld Industry Report 22131, Water Supply and Irrigation Systems in the US, Darryle Ulama, July 2015

Any info on what kinds of equity deals and on what terms might have been done recently on other private water systems in the US

According to an Ernst and Young consulting report entitled, “The US Water Sector on the Verge of Transformation,” the high fragmentation of the water sector has been an inhibitor to investment. Of the 52,000 EPA registered water systems in the US, 8% of them serve 82% of the total US population. The rest are frequently small, serving fewer than 3,300 people (56% of these water systems serve fewer than 500 people²) and, as a result, they are inefficient, with marginal economic viability.³ These smaller systems cannot access capital to make costly repairs or upgrades, as they do not have the professional assistance they need to get funding, they may not negotiate an adequate rate increase to service the capital raised. Moreover, small systems are subject to many operating inefficiencies, suffer from the most EPA violations per customer, and do not have purchasing power when it comes to making repairs and improvements.⁴

These small systems are being consolidated by tuck-in acquisitions with larger, contiguous water systems. Private equity acquisitions of water systems have been limited in the US, again, due to the fragmented and localized nature of small systems, that reduces profit potential and limits scalability. The long investment periods with major project finance requirements have limited appeal to private equity investors.⁵

² Challenges in the Water Industry: Fragmented Water Systems, Maureen Duffy, American Water White Paper

³ The US Water Sector on the Verge of Transformation, Gil Forer and Christine Staub, EY Consulting, and Eylon Javetz, Simul Consulting, 2013

⁴ Challenges in the Water Industry: Fragmented Water Systems, Maureen Duffy, American Water White Paper

⁵ The US Water Sector on the Verge of Transformation, Gil Forer and Christine Staub, EY Consulting, and Eylon Javetz, Simul Consulting, 2013

The trend toward tuck-in acquisitions can be seen in this table from the most recent American Water investor deck, showing closed and pending water acquisitions—which shows size as measured by numbers of customers (primarily waste-water, rather than water service customers.) It does not however, disclose purchase price or valuation.⁶

Reconciliation Table: Closed & Pending Regulated Acquisitions

Acquisitions				
2015 Closed Acquisitions				
State	No of Acquisitions	Water Customers	Waste Water Customers	Total Customers
IN	2	546	—	546
MO	2	25	9,296	9,321
NJ	1	4,500	4,500	9,000
PA	2	55	245	300
Total	<u>7</u>	<u>5,126</u>	<u>14,041</u>	<u>19,167</u>
Announced Pending Acquisitions**				
<i>(As of November 5, 2015)</i>				
State	No of Acquisitions	Water Customers	Waste Water Customers	Total Customers
CA	5	2,590	253	2,843
IL	1	135	—	135
MO	4	254	399	653
NJ	2	104	5,300	5,404
NY	1	35	—	35
PA	3	196	4,060	4,256
Total	<u>16</u>	<u>3,314</u>	<u>10,012</u>	<u>13,326</u>

**Announced pending defined as awaiting financial close, municipal and/or regulatory approval.

American Water disclosed in its 2014 annual report, it intends to invest \$6 billion in its business over the five years of 2015-2019, of which, only about \$800 million will be used for acquisitions and strategic capital, and \$100 million of this is allocated for 2015.⁷

⁶ American Water Institutional Investor Presentation, November 2015

⁷ American Water Works Company Inc., US SEC form 10-K

Leonard Holler, the certified business appraiser for the Wyoming SBDC, indicated that in a recent valuation he did of a small, private water system, his research identified 23 transactions completed between 2009 and 2012, with mean to median price-to-gross sales ratios of .28 to .31. These values are dramatically lower than those of the publicly-traded water companies show above, distinguishing the deep discount for private systems.

We have attached, for your review and reference, most of the reports mentioned in this report in Addendum 1.

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Addendum 1

Tax Lawyer Article:



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EY Consulting Report:



Cleantech-Water-W
hitepaper.pdf

American Water White Paper:



fragmentedwatersy
stems012609.pdf

American Water SEC Form 10-K:



American Water
2014 10K.pdf

American Water Institutional Investor Presentation:



American Water
Investor Deck.pdf

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Addendum 1

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