

# Financial Results Call Presentation

## Second Quarter 2023



**American States**  
Water Company

**August 8, 2023**

**NYSE: AWR**

# Today's Presenters

**Robert J. Sprowls**

President & CEO



**Eva G. Tang**

SVP – Finance & CFO



# Forward-Looking Statement

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Certain matters discussed during this conference call may be forward-looking statements intended to qualify for the “safe harbor” from liability established by the Private Securities Litigation Reform Act of 1995. Please review a description of the company’s risks and uncertainties in our most recent Form 10-K and Form 10-Q on file with the Securities and Exchange Commission (SEC).

# Non-GAAP Financial Measures

This conference call includes a discussion of certain measures that are not prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States, and constitute "non-GAAP financial measures" under SEC rules. These non-GAAP financial measures are derived from consolidated financial information but are not presented in our financial statements that are prepared in accordance with GAAP.

The non-GAAP financial measures discussed in this conference call include a discussion of diluted earnings per share by business segment and adjusted diluted earnings per share. The gains and losses generated on the investments held to fund one of the Company's retirement plans during the three and six months ended June 30, 2023 and 2022 have been excluded when communicating the results to help facilitate comparisons of AWR's performance from period to period. Also, the impact of retroactive rates related to the full year 2022 recorded during the six months ended June 30, 2023, resulting from the final decision on the water general rate case, and the impact from the estimates recorded in 2022 and changes in estimates recorded in 2023, following the receipt in June of 2023 of a final cost of capital decision, have been excluded when communicating AWR's consolidated and water segment's results for the three and six months ended June 30, 2023 and 2022 to help facilitate comparisons of AWR's performance from period to period.

These non-GAAP financial measures supplement our GAAP disclosures and should not be considered as alternatives to the GAAP measures. Furthermore, the non-GAAP financial measures may not be comparable to similarly titled non-GAAP financial measures of other registrants. The company uses these non-GAAP measures in evaluating its operating results and believes these measures are useful internal benchmarks in evaluating the performance of its operating segments. The company reviews these measures regularly and compares them to historical periods and to the operating budget. The computations and reconciliations of non-GAAP measures to the most directly comparable GAAP measures are provided in this presentation.

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# Q2 2023 Highlights

- ✓ Productive and positive quarter
- ✓ Two final decisions were adopted by the CPUC
  - 1) GSWC's general rate case application
  - 2) Cost of capital proceeding
- ✓ Recorded diluted earnings per share increased \$0.50, or a \$0.19 per share increase as adjusted comparing Q2 2023 to Q2 2022. Increase to recorded diluted earnings include:
  - 1) Favorable variance of \$0.21 per share resulting from the reversal of previously recorded revenues subject to refund of \$0.18 per share in Q2 2023, of which \$0.03 per share was recorded in Q2 2022
  - 2) Favorable variance of \$0.10 per share from gains on investments held to fund a retirement plan in Q2 2023 compared to losses in Q2 2022
- ✓ Strong earnings at ASUS with \$0.02 per share favorable variance and is on track to contribute \$0.45-\$0.49 per share for 2023
- ✓ **An 8.2% increase in the quarterly cash dividend** approved last week, which marks the 69th consecutive calendar year of dividend increases

# Q2 Diluted EPS by Segment

	Q2 2023	Q2 2022	Variance
Water	\$ 0.91	\$ 0.40	\$ 0.51
Electric	0.03	0.04	(0.01)
Contracted Services	0.12	0.10	0.02
AWR (Parent)	(0.02)	-	(0.02)
<b>Consolidated Diluted EPS as reported</b>	<b>\$ 1.04</b>	<b>\$ 0.54</b>	<b>\$ 0.50</b>
<b>Adjustments:</b>			
Impact related to final cost of capital proceeding <sup>(1)</sup>	(0.18)	0.03	(0.21)
(Gains) losses on investments held for a retirement plan recorded to water segment <sup>(2)</sup>	(0.03)	0.07	(0.10)
<b>Consolidated Diluted EPS as adjusted</b>	<b>\$ 0.83</b>	<b>\$ 0.64</b>	<b>\$ 0.19</b>
<b>Water Diluted EPS as adjusted</b>	<b>\$ 0.70</b>	<b>\$ 0.50</b>	<b>\$ 0.20</b>

- (1) Q2 2023 includes the reversal of revenues subject to refund due to a change in estimates from what had been recorded in 2022 and Q1 2023, of which \$0.03 per share was recorded in Q2 2022.
- (2) EPS for Q2 2023 includes gains of \$1.5 million on investments held to fund a retirement plan, or \$0.03 per share, compared to losses of \$3.5 million for Q2 2022, or \$0.07 per share.

# Q2 Operating Revenues by Segment



(amounts in millions)	Q2 2023	Q2 2022	Variance
<b>Water*</b>	\$116.9	\$90.9	\$26.0
<b>Electric</b>	8.8	8.2	0.6
<b>Contracted Services</b>	31.7	23.5	8.2
<b>Total Operating Revenues</b>	\$157.4	\$122.6	\$34.8

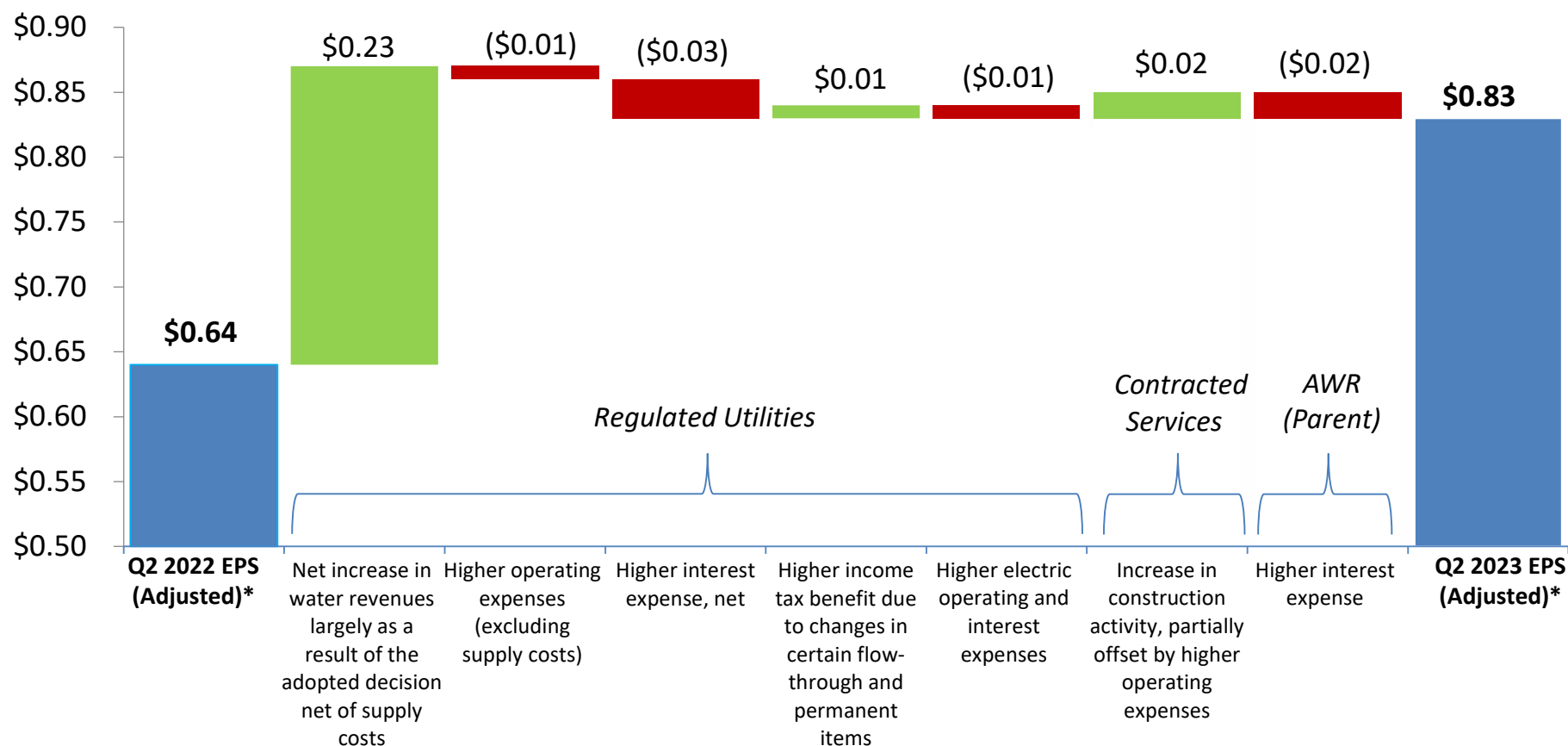
\* Water revenues in Q2 2023 includes \$9.3 million to reverse regulatory liability for revenues subject to refund recorded from 2022 and through end of Q1 2023 as a result of changes in estimates and circumstances. Lower revenues recorded during Q2 2022 totaled \$1.7 million as estimates of revenues subject to refund at that time.

# Q2 Expenses (Excluding income taxes)

(amounts in millions)	Q2 2023	Q2 2022	Variance
Water and Electric Supply Costs	\$31.6	\$28.6	\$3.0
Other Operation	9.7	9.7	-
Administrative and General	21.5	20.5	1.0
Depreciation and Amortization	10.3	10.2	0.1
Maintenance	3.8	3.6	0.2
Property and Other Taxes	5.6	5.4	0.2
ASUS Construction	16.0	10.3	5.7
<b>Total Operating Expenses</b>	<b>\$98.5</b>	<b>\$88.3</b>	<b>\$10.2</b>
Interest Expense, net of Interest Income	\$8.9	\$5.9	\$3.0
Other Income, net of Other Expense*	\$1.7	(\$2.3)	\$4.0

\* Includes \$1.5 million of gains in Q2 2023 and \$3.5 million of losses in Q2 2022 on investments held to fund one of the company's retirement plans.

# Adjusted EPS Bridge Q2 2022 to Q2 2023



\* Adjusted EPS excludes i) the impact of estimates and changes in estimates resulting from revenues subject to refund in connection with the cost of capital proceeding of \$0.18 per share recorded in Q2 2023 to reverse the regulatory liability for revenues subject to refund and lower revenues recorded during Q2 2022 of \$0.03 per share related to revenues subject to refund estimate and ii) the gains on investments held to fund a retirement plan of \$0.03 per share and losses of \$0.07 per share for Q2 2023 and 2022, respectively.

# YTD Diluted EPS by Segment



	YTD 2023	YTD 2022	Variance
<b>Water</b>	\$ 1.65	\$ 0.63	\$ 1.02
<b>Electric</b>	0.09	0.12	(0.03)
<b>Contracted Services</b>	0.27	0.18	0.09
<b>AWR (Parent)</b>	(0.04)	(0.01)	(0.03)
<b>Consolidated Diluted EPS as reported</b>	<b>\$ 1.97</b>	<b>\$ 0.92</b>	<b>\$ 1.05</b>
<b>Adjustments:</b>			
Impact of retroactive rates from the proposed decision in the water general rate case related to the full year of 2022 <sup>(1)</sup>	(0.38)	-	(0.38)
Impact related to final cost of capital proceeding <sup>(2)</sup>	(0.13)	0.06	(0.19)
(Gains) losses on investments held for a retirement plan recorded to water segment <sup>(3)</sup>	(0.06)	0.10	(0.16)
<b>Consolidated Diluted EPS as adjusted</b>	<b>\$ 1.40</b>	<b>\$ 1.08</b>	<b>\$ 0.32</b>
<b>Water Diluted EPS as adjusted</b>	<b>\$ 1.08</b>	<b>\$ 0.79</b>	<b>\$ 0.29</b>

(1) Approximately \$0.19 per share of the total \$0.38 per share relates to YTD 2022.

(2) YTD 2023 includes the reversal of revenues subject to refund, recorded in Q2 2023, due to a change in estimates from what had been recorded in 2022 and Q1 2023, of which \$0.06 per share was recorded in the first half of 2022.

(3) EPS for YTD 2023 includes gains of \$3.1 million on investments held to fund a retirement plan, or \$0.06 per share, compared to losses of \$5.2 million for YTD 2022, or \$0.10 per share.

- Operating cash flows were \$17.8 million for YTD 2023, as compared to \$56.9 million for YTD 2022
  - ✓ GSWC filed for implementation of new 2023 rate increases that will be effective July 31, 2023 and will file for recovery through a surcharge of all retroactive revenues accumulated since 2022 through July 2023
- Investing Activities:
  - ✓ Regulated utilities to spend \$140-\$160 million in infrastructure investments in 2023
- Financing Activities:
  - ✓ In June 2023, AWR and GSWC each executed new unsecured revolving credit facilities for a combined total of \$350 million to replace AWR's previous credit facility of \$280 million
    - AWR borrowing capacity of \$150 million; capacity may be expanded for \$75 million
    - GSWC borrowing capacity of \$200 million; capacity may be expanded for \$75 million
  - ✓ BVES amended its credit agreement to increase its borrowing capacity to \$50 million
- Credit ratings:
  - ✓ S&P: A and A+ credit ratings for AWR and GSWC, respectively, with stable outlook for both companies
  - ✓ Moody's: A2 rating with a stable outlook for GSWC

# Regulatory Activity

- On June 29, 2023, CPUC adopted a final decision in GSWC's general rate case application for all water regions and its general office determining new water rates for the years 2022–2024. The final decision is consistent in all material respects with the proposed decision issued in April 2023.
  - ✓ Authorizes \$404.8 million in capital infrastructure over the 3-year period
  - ✓ Increases 2022 adopted revenues by \$30.3 million and increases 2022 adopted supply costs by \$9.6 million as compared to the 2021 adopted levels, or combined \$0.40 per share
  - ✓ Adopts new operating expense levels for 2022 including higher depreciation expense of \$790,000, or \$0.02 per share, resulting from overall higher composite depreciation rates
  - ✓ Allows for additional increases in adopted revenues for 2023 and 2024 subject to an earnings test and changes to the forecasted inflationary index values
- In process of preparing next water general rate case to be filed in Q3 2023 for water rates in 2025-2027



Regulated Utilities - Customer Service Areas

# Regulatory Activity (Continued)

- On June 29, 2023, the CPUC adopted a final decision that:
  - ✓ adopts GSWC's requested capital structure and cost of debt of 5.1% filed in the application;
  - ✓ adopts a return on equity of 8.85% for GSWC as compared to 8.9% previously authorized;
  - ✓ allows for the continuation of the Water Cost of Capital Mechanism ("WCCM") through December 31, 2024; and
  - ✓ adopts the new cost of capital for the three-year period January 1, 2022 through December 31, 2024.
- Cost of capital decision
  - In Q1 2023 and 2022, we recorded a reduction to revenues to reflect our best estimate at that time of the potential impact from the pending cost of capital application, which included the effects of GSWC's lower cost of debt requested in its application.
  - Based on an assessment of the final decision issued in June, all adjustments to rates are to be prospective and not retroactive. As a result, a reversal of revenues subject to refund due to a change in estimate and circumstances was recorded in Q2 2023 of \$9.3 million, or \$0.18 per share.
  - For the period from October 1, 2021 through September 30, 2022, the Moody's Aa utility bond rate increased by 102.8 basis points from the benchmark, which triggered the WCCM adjustment
    - ✓ On June 30, 2023, GSWC filed an advice letter to establish the WCCM for 2023, which will increase GSWC's 8.85% adopted return on equity in the decision to 9.36% effective July 31, 2023.

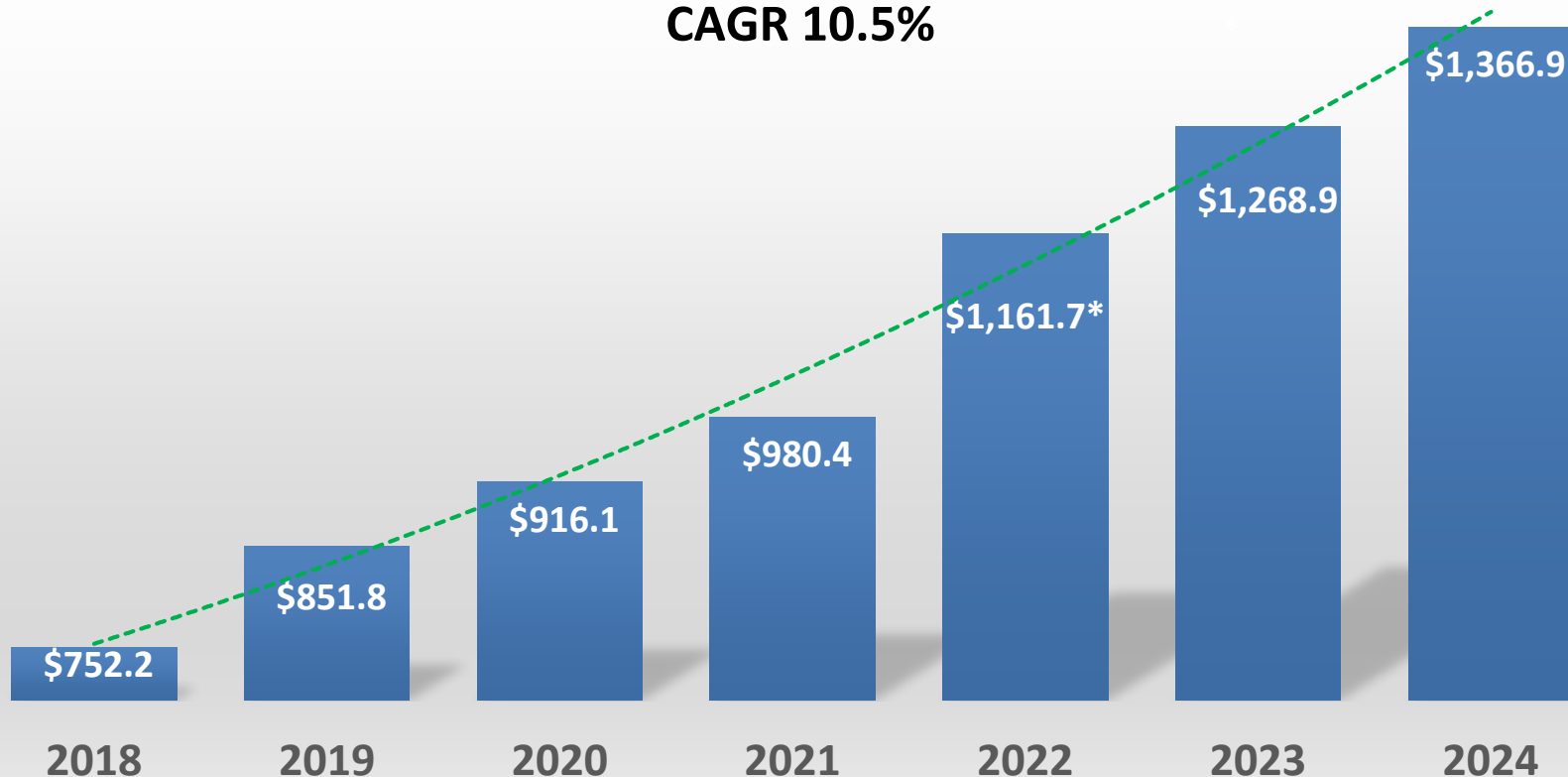
# Regulatory Activity (Continued)

- On August 30, 2022, BVES filed a general rate case to set new rates for the years 2023-2026. In addition, BVES requested:
  - ✓ capital budget of \$68.2 million
  - ✓ a capital structure of 61.8% equity and 38.2% debt
  - ✓ a return on equity of 11.25%
  - ✓ an embedded cost of debt of 5.51%
  - ✓ a return on rate base of 9.05%
  - ✓ recovery of more than \$22 million in capital spend related to wildfire mitigation plans.

# GSWC Adopted Average Water Rate Base

(in millions)

**CAGR 10.5%**



\* Based on the final decision in the current general rate case plus includes approximately \$9.4 million in advice letter projects.

# Contracted Services (ASUS)

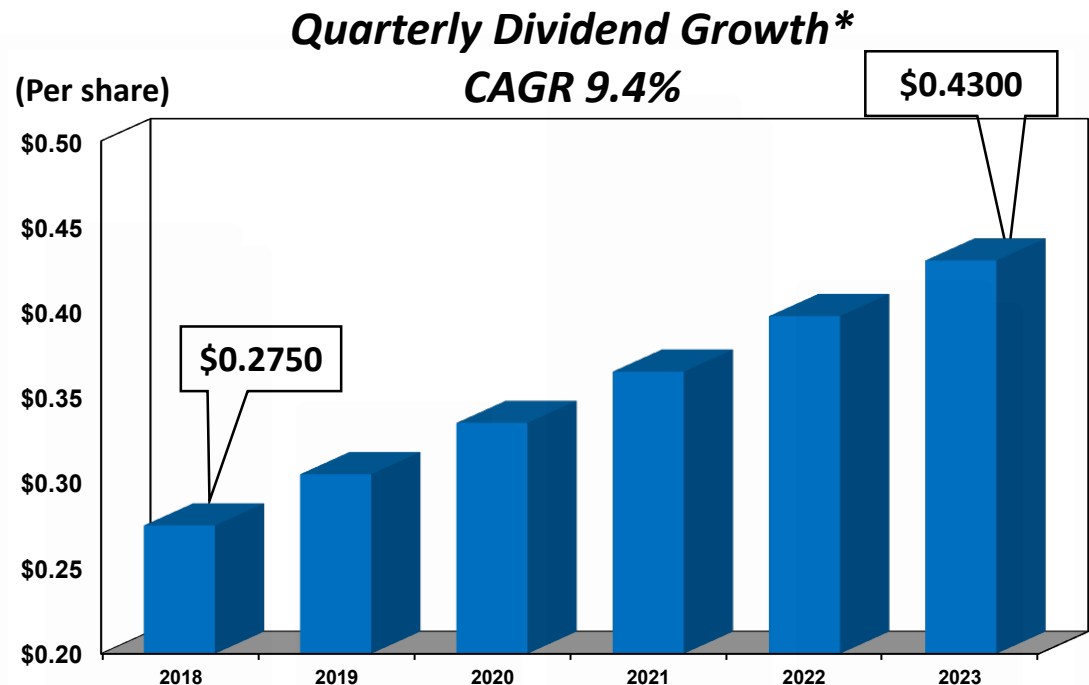
- Earnings for Q2 2023 were \$0.12 per share as compared to \$0.10 per share in Q2 2022. The increase was largely due to an increase in construction activity during the current quarter as compared to the same period in 2022 due to timing differences of when construction work was performed
- We project that ASUS will contribute \$0.45-\$0.49 per share for 2023
- We are confident that we can effectively compete for new military base contract awards in the future, based on our strong history and expertise
- The completion of filings for economic price adjustments, requests for equitable adjustment, asset transfers and contract modifications awarded for new projects provide ASUS with additional revenues and dollar margin



*Serving Those Who Serve®*

# Dividends

- Board of Directors approved an 8.2% increase in the 2023 third quarter cash dividend from \$0.3975 to \$0.4300 per share
- Dividend policy: CAGR of more than 7% over the long term
- Dividends paid every year since 1931
- Increased dividend every calendar year for 69 consecutive years



\*Increases to quarterly dividends have been announced in the third quarter of each year.

# Questions and Answers

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# Computations and Reconciliations of Non-GAAP Financial Measure



Below are the computations and reconciliations of diluted earnings per share from the measure of operating income by business segment to AWR's consolidated diluted earnings per share for the three and six months ended June 30, 2023 and 2022:

	Water		Electric		Contracted Services		AWR (Parent)		Consolidated (GAAP)	
<i>In 000's except per share amounts</i>	<u>Q2 2023</u>	<u>Q2 2022</u>	<u>Q2 2023</u>	<u>Q2 2022</u>	<u>Q2 2023</u>	<u>Q2 2022</u>	<u>Q2 2023</u>	<u>Q2 2022</u>	<u>Q2 2023</u>	<u>Q2 2022</u>
Operating income	\$ 50,524	\$ 27,711	\$ 2,103	\$ 2,038	\$ 6,354	\$ 4,571	\$ (36)	\$ (3)	\$ 58,945	\$ 34,317
Other income and expense	5,057	7,720	645	218	357	(138)	1,161	361	7,220	8,161
Income tax expense (benefit)	11,934	5,103	247	215	1,506	1,108	(483)	(221)	13,204	6,205
Net income (loss)	<u>\$ 33,533</u>	<u>\$ 14,888</u>	<u>\$ 1,211</u>	<u>\$ 1,605</u>	<u>\$ 4,491</u>	<u>\$ 3,601</u>	<u>\$ (714)</u>	<u>\$ (143)</u>	<u>\$ 38,521</u>	<u>\$ 19,951</u>
Weighted Average Number of Diluted Shares	<u>37,067</u>	<u>37,039</u>	<u>37,067</u>	<u>37,039</u>	<u>37,067</u>	<u>37,039</u>	<u>37,067</u>	<u>37,039</u>	<u>37,067</u>	<u>37,039</u>
Diluted earnings per share	<u>\$ 0.91</u>	<u>\$ 0.40</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.12</u>	<u>\$ 0.10</u>	<u>\$ (0.02)</u>	<u>\$ —</u>	<u>\$ 1.04</u>	<u>\$ 0.54</u>

	Water		Electric		Contracted Services		AWR (Parent)		Consolidated (GAAP)	
<i>In 000's except per share amounts</i>	<u>YTD 2023</u>	<u>YTD 2022</u>	<u>YTD 2023</u>	<u>YTD 2022</u>	<u>YTD 2023</u>	<u>YTD 2022</u>	<u>YTD 2023</u>	<u>YTD 2022</u>	<u>YTD 2023</u>	<u>YTD 2022</u>
Operating income	\$ 90,763	\$ 44,710	\$ 5,734	\$ 5,636	\$ 13,650	\$ 8,341	\$ (37)	\$ (5)	\$ 110,110	\$ 58,682
Other income and expense	8,923	13,463	1,205	188	614	(309)	2,484	561	13,226	13,903
Income tax expense (benefit)	20,844	7,792	948	1,167	3,191	2,052	(1,027)	(345)	23,956	10,666
Net income (loss)	<u>\$ 60,996</u>	<u>\$ 23,455</u>	<u>\$ 3,581</u>	<u>\$ 4,281</u>	<u>\$ 9,845</u>	<u>\$ 6,598</u>	<u>\$ (1,494)</u>	<u>\$ (221)</u>	<u>\$ 72,928</u>	<u>\$ 34,113</u>
Weighted Average Number of Diluted Shares	<u>37,058</u>	<u>37,029</u>	<u>37,058</u>	<u>37,029</u>	<u>37,058</u>	<u>37,029</u>	<u>37,058</u>	<u>37,029</u>	<u>37,058</u>	<u>37,029</u>
Diluted earnings per share	<u>\$ 1.65</u>	<u>\$ 0.63</u>	<u>\$ 0.09</u>	<u>\$ 0.12</u>	<u>\$ 0.27</u>	<u>\$ 0.18</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ 1.97</u>	<u>\$ 0.92</u>