

# Financial Results Call Presentation

## First Quarter 2023



**American States**  
Water Company

**May 11, 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. Furthermore, the gains and losses generated on the investments held to fund one of the Company's retirement plans during the three month periods ended March 31, 2023 and 2022 and the impact of retroactive rates related to the full year 2022 recorded in the three months ended March 31, 2023 resulting from the proposed decision on the water general rate case have been excluded when communicating AWR's consolidated and water segment's results for the three month periods ended March 31, 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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# Q1 2023 Highlights

Recorded diluted earnings per share increased \$0.55, or a \$0.13 per share increase as adjusted:

- ✓ Received proposed decision on the water general rate case that sets new water rates for the years 2022-2024 retroactive to January 1, 2022
  - Quarter results reflect the impact of retroactive rates from the proposed decision for GSWC's general rate case that sets new rates effective January 1, 2022 reflecting \$0.36 per share for full year 2022 recorded in Q1 2023
- ✓ Strong earnings at ASUS with \$0.07 per share favorable variance and is on track to contribute \$0.45-\$0.49 per share for 2023
- ✓ On pace to spend \$140-\$160 million this year in infrastructure investments at our regulated utilities and performed \$18.9 million in construction work at ASUS during Q1 2023

# Q1 Diluted EPS by Segment

	Q1 2023	Q1 2022	Variance
Water	\$ 0.74	\$ 0.23	\$ 0.51
Electric	0.06	0.07	(0.01)
Contracted Services	0.15	0.08	0.07
AWR (Parent)	(0.02)	-	(0.02)
<b>Consolidated Diluted EPS as reported</b>	<b>\$ 0.93</b>	<b>\$ 0.38</b>	<b>\$ 0.55</b>
<b>Adjustments:</b>			
(Gains) losses on investments held for a retirement plan recorded to water segment <sup>(1)</sup>	(0.03)	0.03	(0.06)
Impact of retroactive rates from the proposed decision in the water general rate case related to the full year of 2022 <sup>(2)</sup>	(0.36)	-	(0.36)
<b>Consolidated Diluted EPS as adjusted</b>	<b>\$ 0.54</b>	<b>\$ 0.41</b>	<b>\$ 0.13</b>
<b>Water Diluted EPS as adjusted</b>	<b>\$ 0.35</b>	<b>\$ 0.26</b>	<b>\$ 0.09</b>

- (1) EPS for Q1 2023 includes gains of \$1.6 million on investments held to fund a retirement plan, or \$0.03 per share, and losses of \$1.7 million for Q1 2022, or \$0.03 per share.
- (2) Approximately \$0.08 per share of the total \$0.36 per share recorded in Q1 2023 represents the impact of retroactive rates from the proposed decision in the water GRC related to Q1 2022.

# Q1 Operating Revenues by Segment

(amounts in millions)	Q1 2023	Q1 2022	Variance
<b>Water*</b>	\$112.7	\$73.9	\$38.8
<b>Electric</b>	12.9	11.9	1.0
<b>Contracted Services</b>	35.8	22.8	13.0
<b>Total Operating Revenues</b>	\$161.4	\$108.6	\$52.8

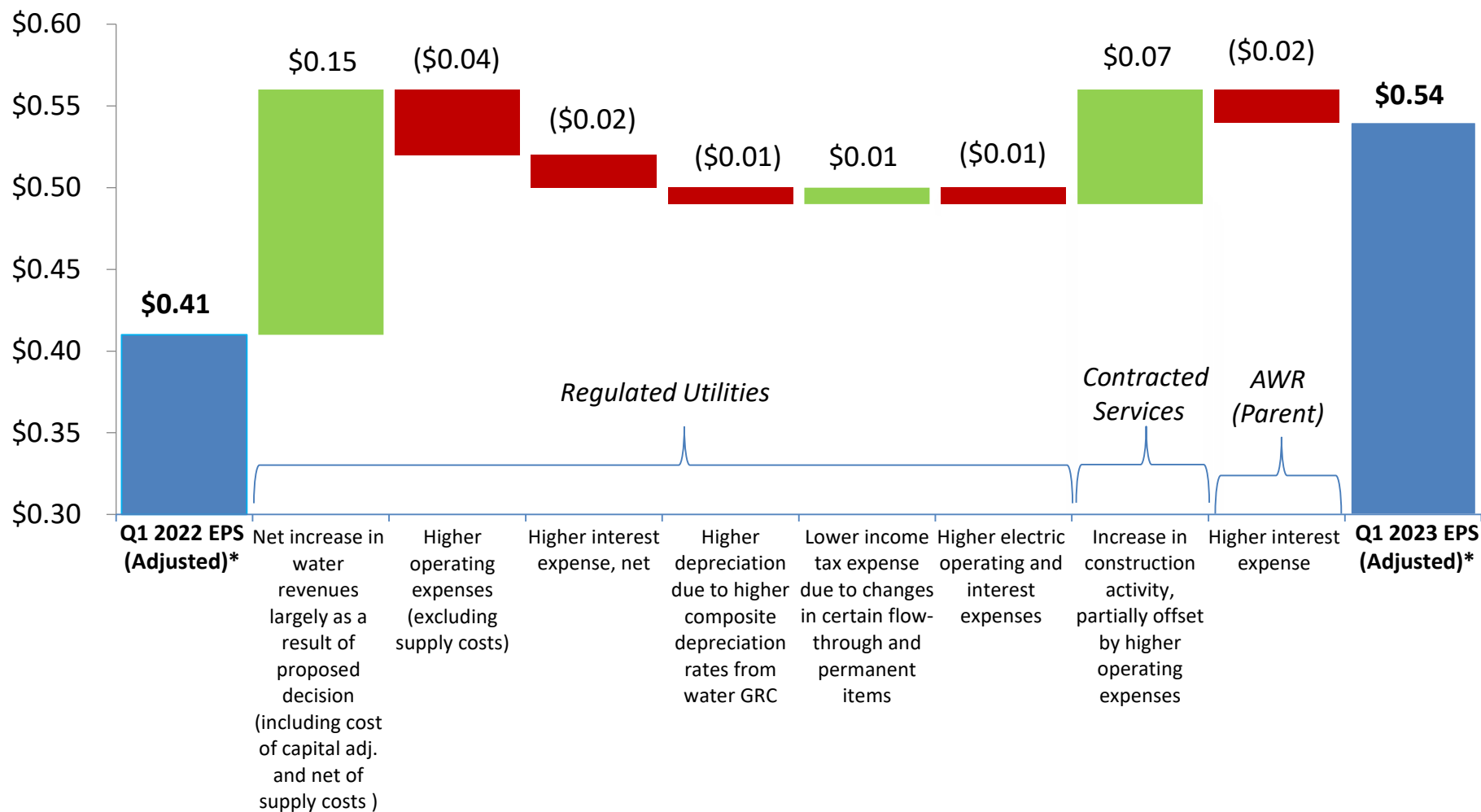
\* Water revenues recorded during Q1 2023 include the impact of retroactive rates for the full year of 2022 of \$30.3 million and the estimated 2023 revenue increases for the three months ended March 31, 2023 of \$8.7 million.

# Q1 Expenses (Excluding income taxes)

(amounts in millions)	Q1 2023	Q1 2022	Variance
Water and Electric Supply Costs	\$37.1	\$23.2	\$13.9
Other Operation	10.1	8.7	1.4
Administrative and General	23.5	23.0	0.5
Depreciation and Amortization	11.2	10.1	1.1
Maintenance	3.2	3.1	0.1
Property and Other Taxes	6.3	5.9	0.4
ASUS Construction	18.9	10.2	8.7
<b>Total Operating Expenses</b>	<b>\$110.3</b>	<b>\$84.2</b>	<b>\$26.1</b>
Interest Expense, net of Interest Income	\$7.6	\$5.3	\$2.3
Other Income, net of Other Expense*	\$1.6	(\$0.4)	\$2.0

\* Includes \$1.6 million of gains in Q1 2023 and \$1.7 million of losses in Q1 2022 on investments held to fund one of the company's retirement plans.

# Adjusted EPS Bridge Q1 2022 to Q1 2023



\* Adjusted EPS excludes i) the gains on investments held to fund a retirement plan of \$0.03 per share and losses of \$0.03 per share for Q1 2023 and 2022, respectively, and ii) the impact of retroactive rates from the proposed decision in the water general rate case related to the full year of 2022 recorded in Q1 2023 of \$0.36 per share.

- Operating cash flows were \$7.0 million for Q1 2023, as compared to \$38.0 million for Q1 2022
  - ✓ During Q1 2022, GSWC and BVES received COVID relief funds from state of CA totaling \$9.5 million and \$321,000, respectively
  - ✓ GSWC will request recovery through a surcharge of all retroactive revenues accumulated since 2022 and second-year rate increases for 2023 once a final decision on the water GRC is received
- Financing Activities:
  - ✓ In December 2022, GSWC executed a note purchase agreement for issuance of \$130 million; proceeds received in January 2023 were used to pay down intercompany borrowings with AWR as well as fund operations and capital expenditures for GSWC
- Credit ratings:
  - ✓ S&P: A+ credit rating for both AWR and GSWC, with negative outlook
  - ✓ Moody's: A2 rating with a stable outlook for GSWC

# Regulatory Activity

- On April 13, 2023, GSWC received a proposed decision on the water general rate case with rates retroactive to January 1, 2022 and resolves all matters from the settlement agreement
  - ✓ 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 and reduction to revenue of \$1.1 million, or \$0.02 per share to reflect incremental impact of revenues subject to refund from new 2022 rates as a result of the pending cost of capital proceeding
  - ✓ 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 May 9, 2023, GSWC received a proposed decision from the assigned administrative law judge at the CPUC on the cost of capital proceeding. The proposed decision:
  - ✓ 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"); and
  - ✓ adopts the new cost of capital for the three-year period January 1, 2022 through December 31, 2024.
- Cost of debt analysis
  - In Q1 2023 and 2022, we recorded a reduction to revenues to reflect our best estimate at this time of the potential impact from the pending cost of capital application, which includes the effects of GSWC's lower cost of debt requested in its application
  - Additional reduction to revenues of \$1.1 million, or \$0.02 per share, related to the full year of 2022 was recorded and included in the impact of retroactive new rates for the full year of 2022 in arriving at the \$0.36 adjustment for the incremental impact of revenues subject to refund related to the cost of capital proceeding
- For the period from October 1, 2021 through September 30, 2022, the Moody's Aa utility bond rate increased by more than 100 basis points from the benchmark, which triggers the WCCM adjustment. The proposed decision continues the WCCM for the years 2023 and 2024.

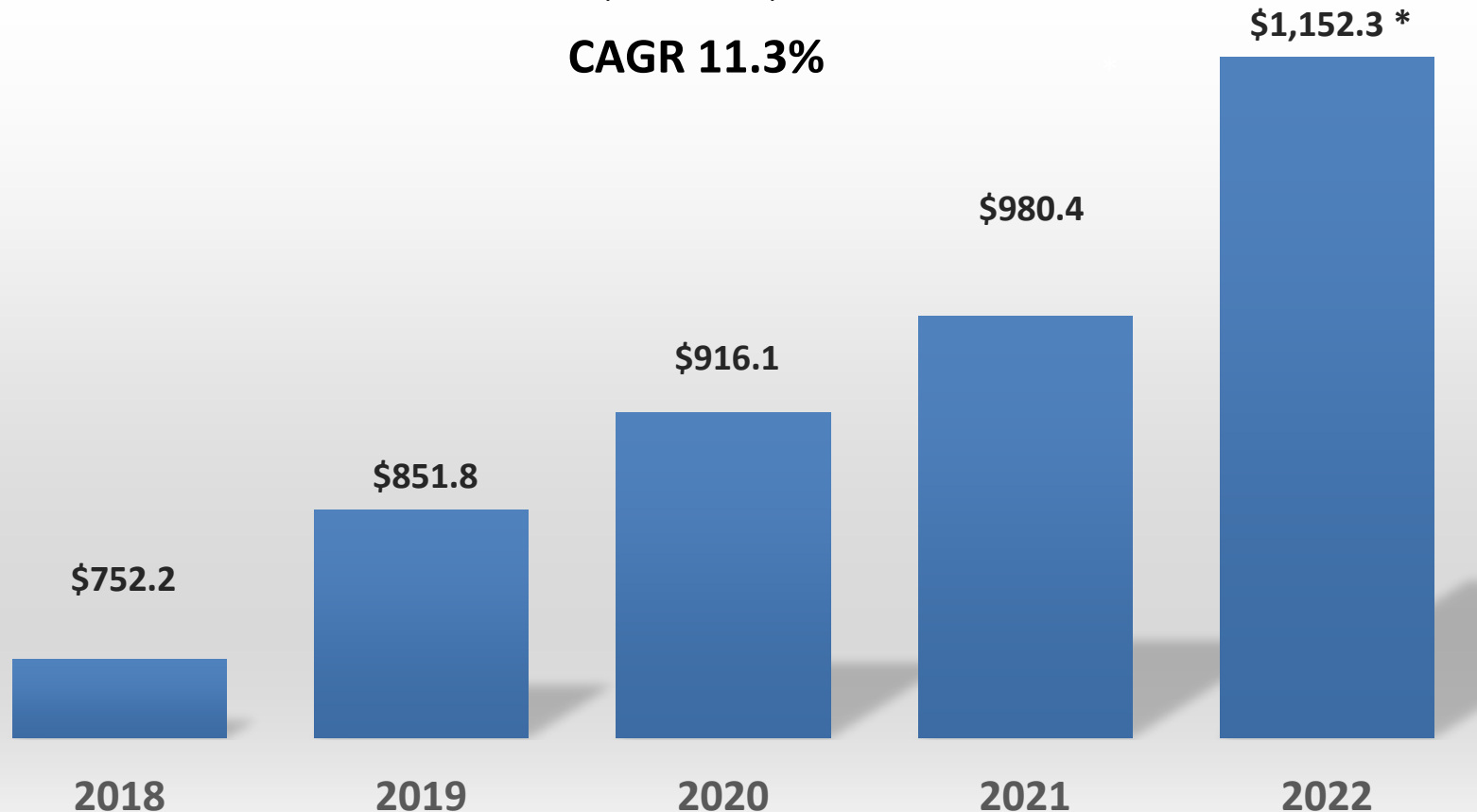
# Regulatory Activity (Continued)

- 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%
  - ✓ requested recovery of more than \$22 million in capital spend related to wildfire mitigation plans

# Adopted Average Water Rate Base

(in millions)

**CAGR 11.3%**



\* Based on settlement agreement approved and adopted by the proposed decision received in April 2023, the rate base amount does not include \$9.4 million in advice letter projects

# Contracted Services (ASUS)

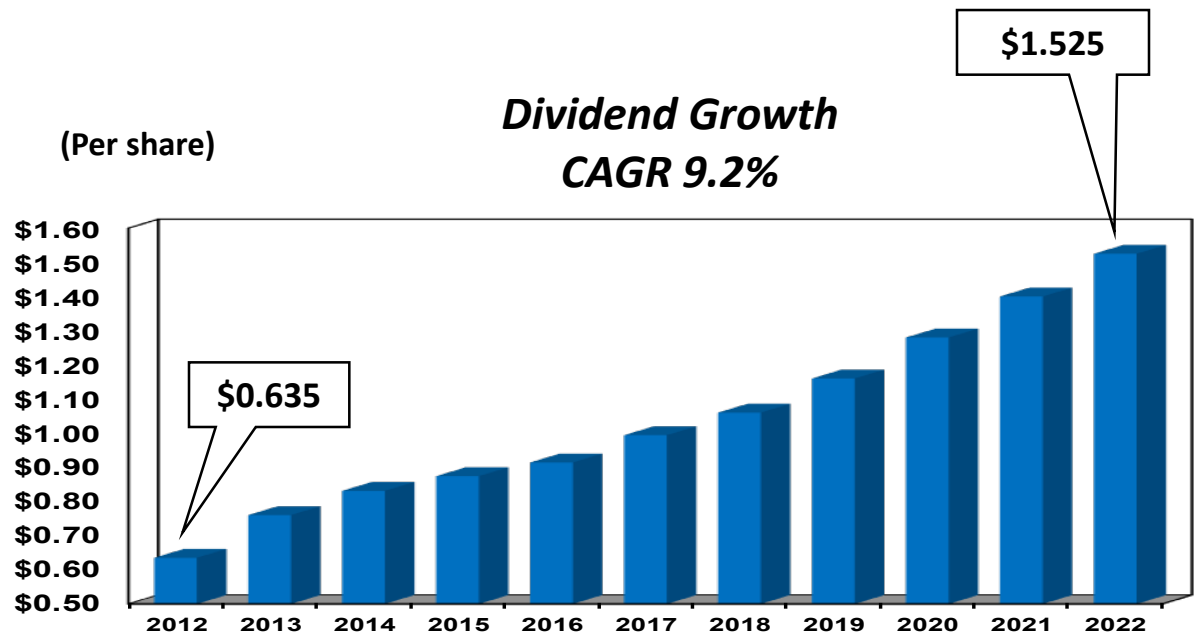
- Earnings for Q1 2023 were \$0.15 per share as compared to \$0.08 per share in Q1 2022. The increase was largely due to an increase in construction activity during the current quarter as compared to the same period in 2022 due to timing differences of when construction work was performed
- We project 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

- The Board of Directors approved a second quarter 2023 cash dividend of \$0.3975 per Common Share
- Annual dividend has grown at a CAGR of 9.2% over the last ten years
- Dividend policy: CAGR of **more than 7%** over the long term
- Dividends paid every year since 1931
- Increased dividend every calendar year for **68 consecutive years**



# 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 months ended March 31, 2023 and 2022:

In 000's except per share amounts	Water		Electric		Contracted Services		AWR (Parent)		Consolidated (GAAP)	
	Q1 2023	Q1 2022	Q1 2023	Q1 2022	Q1 2023	Q1 2022	Q1 2023	Q1 2022	Q1 2023	Q1 2022
Operating income (loss)	\$ 40,239	\$ 16,999	\$ 3,631	\$ 3,598	\$ 7,296	\$ 3,770	\$ (1)	\$ (2)	\$ 51,165	\$ 24,365
Other (income) expense	3,866	5,743	560	(30)	257	(171)	1,323	200	6,006	5,742
Income tax expense (benefit)	8,910	2,689	701	952	1,685	944	(544)	(124)	10,752	4,461
Net income (loss)	<u>\$ 27,463</u>	<u>\$ 8,567</u>	<u>\$ 2,370</u>	<u>\$ 2,676</u>	<u>\$ 5,354</u>	<u>\$ 2,997</u>	<u>\$ (780)</u>	<u>\$ (78)</u>	<u>\$ 34,407</u>	<u>\$ 14,162</u>
Weighted Average Number of Diluted Shares	<u>37,047</u>	<u>37,019</u>	<u>37,047</u>	<u>37,019</u>	<u>37,047</u>	<u>37,019</u>	<u>37,047</u>	<u>37,019</u>	<u>37,047</u>	<u>37,019</u>
Diluted earnings per share	<u>\$ 0.74</u>	<u>\$ 0.23</u>	<u>\$ 0.06</u>	<u>\$ 0.07</u>	<u>\$ 0.15</u>	<u>\$ 0.08</u>	<u>\$ (0.02)</u>	<u>\$ -</u>	<u>\$ 0.93</u>	<u>\$ 0.38</u>