Unitil

First Quarter 2020

# EARNINGS CONFERENCE CALL

April 30th, 2020

# **SAFE HARBOR PROVISION &** SUPPLEMENTAL INFORMATION

This presentation contains “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included in this presentation are forward-looking statements. These forward-looking statements include statements regarding Unitil Corporation’s (“Unitil”) financial condition, results of operations, capital expenditures, business strategy, regulatory strategy, market opportunities, and other plans and objectives. In some cases, forward-looking statements can be identified by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue”, the negative of such terms, or other comparable terminology.

These forward-looking statements are neither promises nor guarantees, but involve risks and uncertainties that could cause the actual results to differ materially from those set forth in the forward-looking statements. Those risks and uncertainties include: the novel coronavirus (COVID-19) pandemic, which could adversely impact Unitil’s business, financial conditions, results of operations and cash flows, including by disrupting Unitil’s employees’ and contractors’ ability to provide ongoing services to Unitil, by reducing customer demand for electricity or natural gas, or by reducing the supply of electricity or natural gas; Unitil’s regulatory and legislative environment (including laws and regulations relating to climate change, greenhouse gas emissions and other environmental matters); fluctuations in the supply of, demand for, and the prices of gas and electric energy commodities and transmission capacity and Unitil’s ability to recover energy supply costs in its rates; customers’ preferred energy sources; severe storms and Unitil’s ability to recover storm costs in its rates; declines in the valuation of capital markets, which could require Unitil to make substantial cash contributions to cover its pension obligations, and Unitil’s ability to recover pension obligation costs in its rates; general economic conditions, which could adversely affect (i) Unitil’s customers and, consequently, the demand for Unitil’s distribution services, (ii) the availability of credit and liquidity resources and (iii) certain of Unitil’s counterparty’s obligations (including those of its insurers and lenders); Unitil’s ability to obtain debt or equity financing on acceptable terms; increases in interest rates, which could increase Unitil’s interest expense; restrictive covenants contained in the terms of Unitil’s and its subsidiaries’ indebtedness, which restrict certain aspects of Unitil’s business operations; variations in weather , which could decrease demand for Unitil’s distribution services; long-term global climate change, which could adversely affect customer demand or cause extreme weather events that could disrupt Unitil’s electric and natural gas distribution services; cyber-attacks, acts of terrorism, acts of war, severe weather, a solar event, an electromagnetic event, a natural disaster, the age and condition of information technology assets, human error, or other reasons could disrupt Unitil’s operations and cause Unitil to incur unanticipated losses and expense; outsourcing of services to third parties, which could expose Unitil to substandard quality of service delivery or substandard deliverables, which may result in missed deadlines or other timeliness issues, non-compliance (including with applicable legal requirements and industry standards) or reputational harm, which could negatively impact our results of operations; catastrophic events; numerous hazards and operating risks relating to Unitil’s electric and natural gas distribution activities; Unitil’s ability to retain its existing customers and attract new customers; increased competition; and other risks detailed in Unitil's filings with the Securities and Exchange Commission, including those appearing under the caption "Risk Factors" in Unitil's Annual Report on Form 10-K for the year ended December 31, 2019.

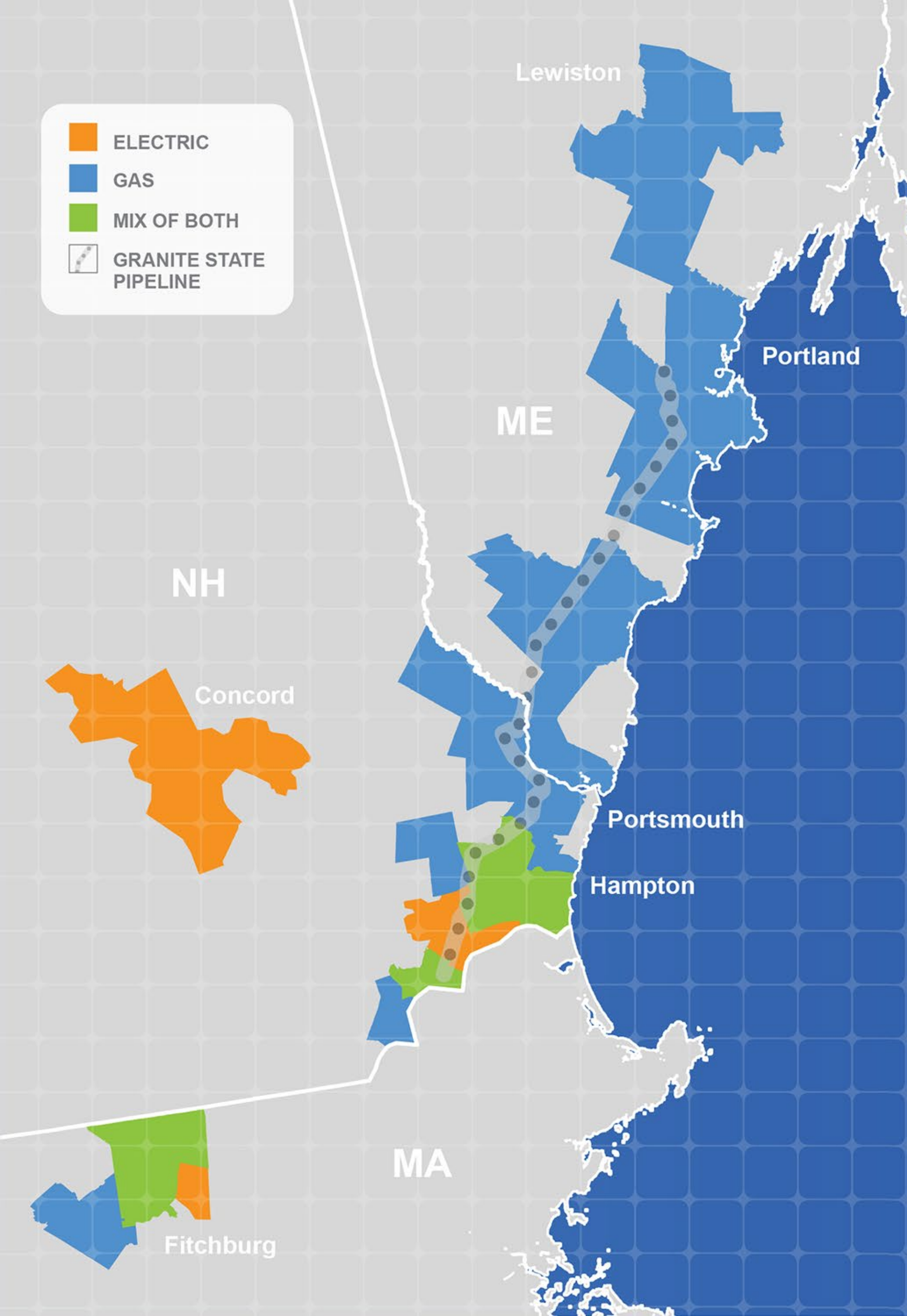
Readers should not place undue reliance on any forward looking statements, which speak only as of the date they are made. Except as may be required by law, Unitil undertakes no obligation to update any forward-looking statements to reflect any change in Unitil’s expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

This presentation contains non-GAAP measures. The Company’s management believes these measures are useful in evaluating its performance. Reconciliations of non-GAAP financial measures to the most directly comparable GAAP financial measures can be found herein.

# **MANAGEMENT** UPDATE

**Laurence M. Brock**
Senior Vice President, Chief Financial Officer and Treasurer

- Laurence M. Brock appointed Senior Vice President, Chief Financial Officer and Treasurer
  - 25 years of experience with Unitil, most recently as Chief Accounting Officer and Controller
- Daniel Hurstak, CPA, elected as Controller
  - 20 years of Accounting experience, most recently serving as the Vice President, Corporate Accounting for Fidelity Investments and previously 15 years with PwC



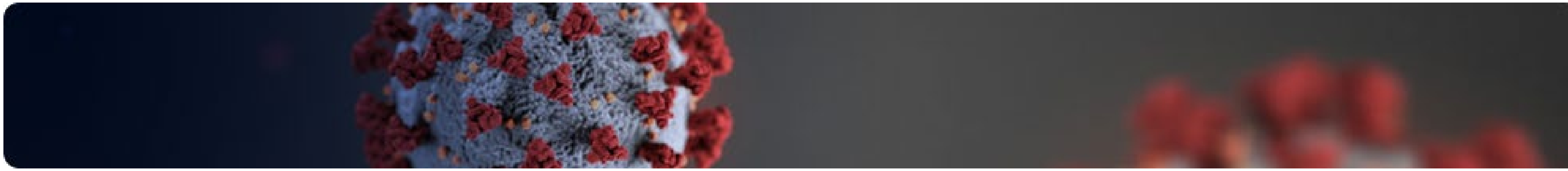

Unitil energy for life

## About Unitil

Unitil Corporation is a public utility holding company whose mission is to safely and reliably deliver **energy** for life and provide our customers with affordable and sustainable energy solutions

- Investment grade utility
- Diversified Net Utility Plant of more than $1.1 billion
  - Gas 64%, Electric 36%
  - NH 46%, ME 28%, MA 26%
- Growing customer base

# COVID-19 EMERGENCY RESPONSE



## STATE RESPONSE – MA, NH, ME

- States-of-Emergency; Stay-at-Home Orders; Social Distancing
- Closure of schools, bars & restaurants, non-essential businesses

## COMPANY RESPONSE

### EMPLOYEES

- Safety of employees is our highest priority
- Enhanced safety protocols
  - Strict social distancing
  - Work from home (office)
  - Staggered shifts; direct job-site reporting (field)
  - Hygiene, PPE
- Proactive self-quarantining and contact tracing
- No active COVID-19 cases

### CUSTOMERS

- Customer calls unaffected; no degradation in service levels
- Non-critical, in-home work suspended
- Customer disconnects suspended, late fees waived
- U-CARE Fund, customer and community financial assistance for COVID-19; $225K in donations
- Employee fundraising campaign with Company match

### OPERATIONS

- Implemented Crisis Response Plan; Incident Command System
- No impact on ability to provide safe & reliable service
  - Rapid service restoration following two storm events
- Construction & maintenance work continuing on-schedule
- No material impact on 2020 construction anticipated
- Unions very supportive

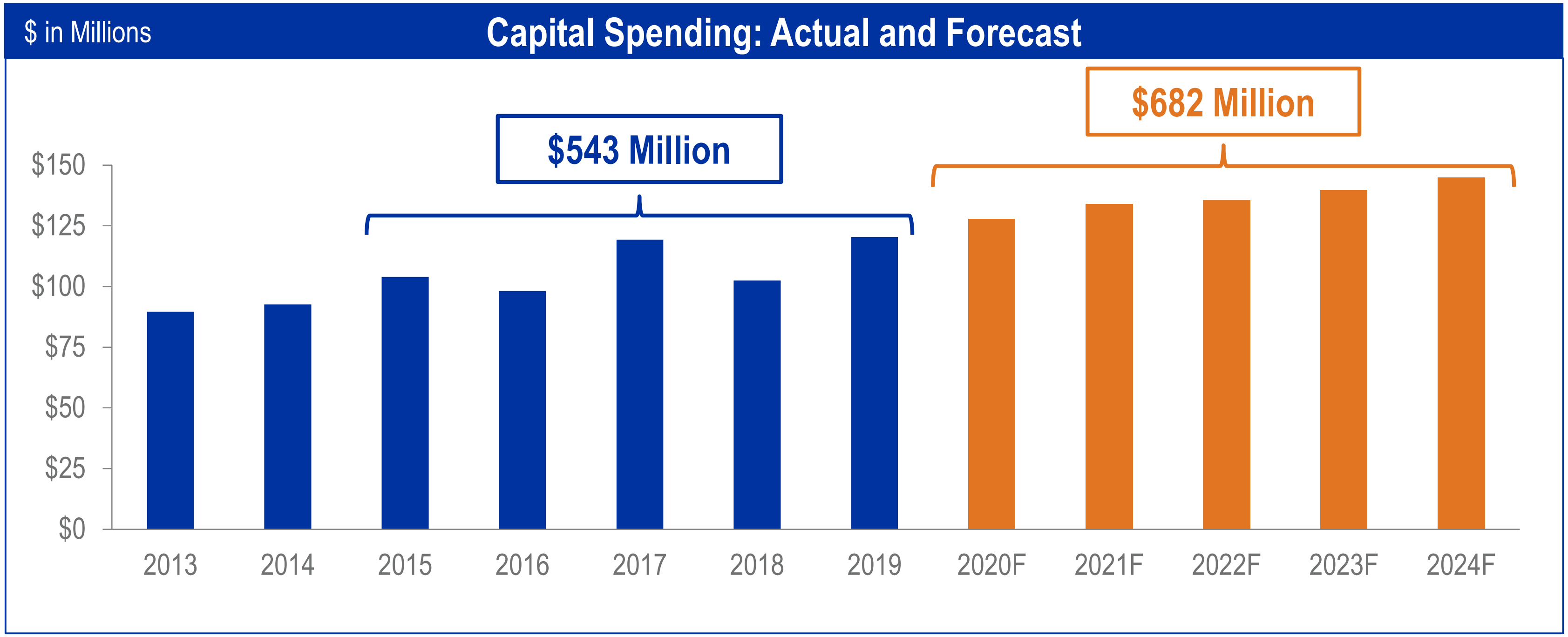
# Q1 2020 FINANCIAL RESULTS

- For the three months ended March 31, 2020 Net Income of $15.2 million or $1.02 per share
  - Decrease of $11.3 million or $0.76 per share compared to 2019, largely driven by a gain on divestiture of $9.8 million recognized in 2019
  - Excluding the divestiture gain Net Income is down $1.5 million or $0.10 per share
  - Warmer than normal winter weather impacted Net Income by an estimated $3.1 million or $0.20 per share in the first quarter of 2020

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| Net Income (in millions) | $15.2 | $26.5 |
| Earnings Per Share | $1.02 | $1.78 |

# INVESTMENT OUTLOOK

- Construction work to support gas system growth and system modernization is continuing on-schedule
- Capital spending forecast of over $125 million in 2020
  - No material impact to 2020 construction program currently anticipated
- Forecasting rate base growth of 7.5% to 8.5% over the next 5 years

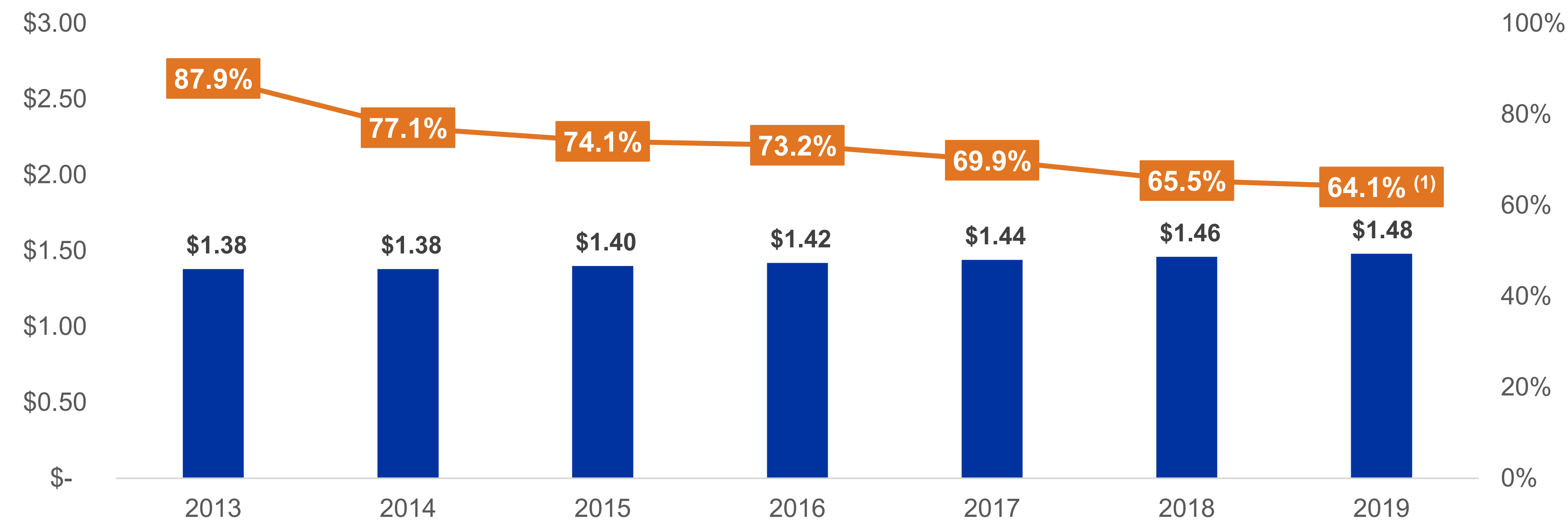


# **DIVIDEND** POLICY

**No change in dividend policy anticipated as a result of the COVID-19 Emergency**

| DPS | Payout Ratio |
|---|---|
| $1.50/share (annual) | Target 55%-65% |

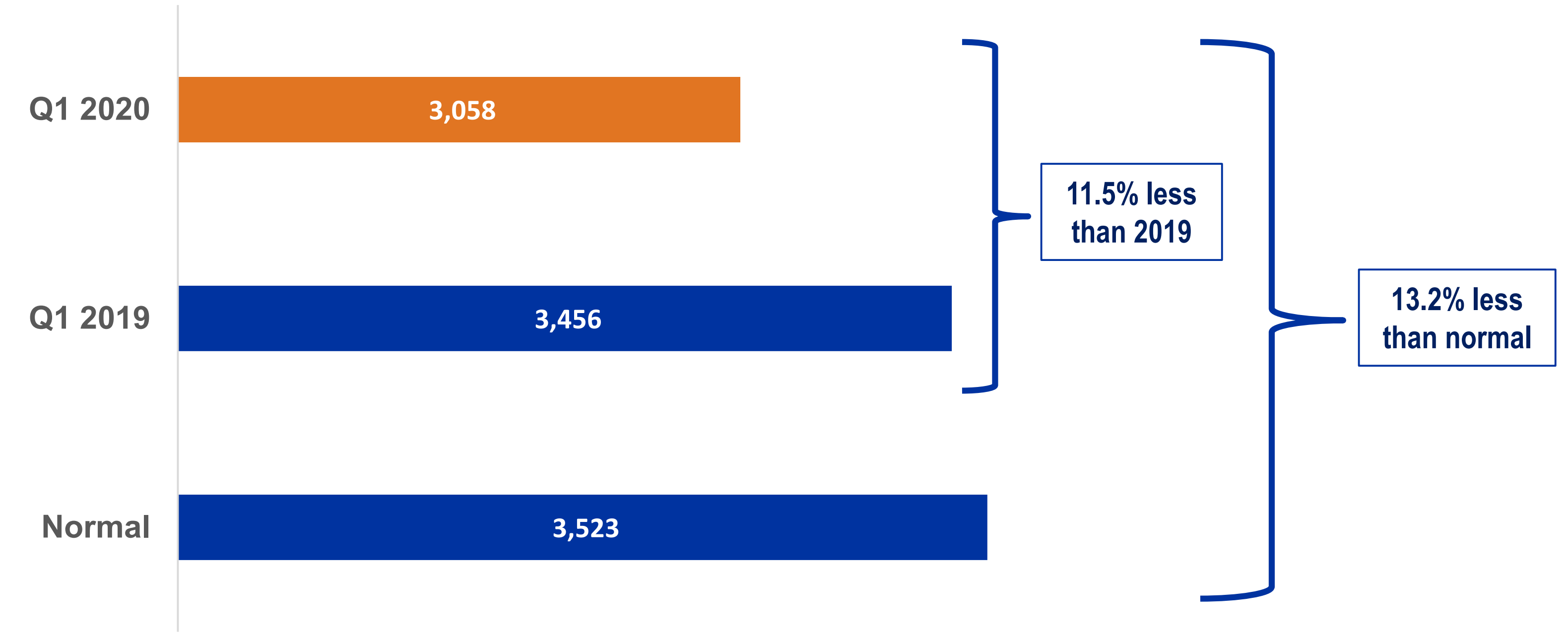
## Dividend and Payout Ratio




(1) 2019 payout ratio excludes the Usource divestiture gain of $0.66 per share

# Q1 2020 WEATHER IMPACT

## Degree Day Analysis




**One of the warmest New England winters on record, reducing Net Income an estimated $3.1 million, or $0.20 per share compared to normal**

# GAS SALES & MARGIN $42.4M[1]

| Unit Sales | Weather Normal Unit Sales [2] | Customers | Margin [1] |
|---|---|---|---|
| 2020 v. 2019<br>6.7%<br>DECREASE | 2020 v. 2019<br>1.0%<br>INCREASE | 2020 v. 2019<br>1.3%<br>INCREASE | 2020 v. 2019<br>2.5%<br>DECREASE |

## Unit Sales Down 1.0%

- Decrease reflects historically warm winter weather
- 1,082 additional customers served than compared to prior year

## Sales Margin Down $1.1 million

- $1.4 million increase due to higher natural gas distribution rates
- $3.2 million decrease as a result of lower units sales due to warmer winter weather, partially offset by customer growth $0.7 million

(1) Reflects a non-GAAP measurement. Reconciliation from Non-GAAP to GAAP measures are included at the end of this presentation
(2) Weather normal unit sales excludes decoupled sales

# ELECTRIC SALES & MARGIN $23.1M[1]

| Unit Sales | Weather Normal Unit Sales [2] | Customers | Margin [1] |
|---|---|---|---|
| 2020 v. 2019<br>0.8%<br>INCREASE | 2020 v. 2019<br>2.2%<br>INCREASE | 2020 v. 2019<br>0.7%<br>INCREASE | 2020 v. 2019<br>0.0%<br>FLAT |

## Weather Normal Unit Sales Up 2.2%

- Increase reflects strong large industrial customer usage and timing of meter read cycles
- 687 additional customers served than compared to prior year

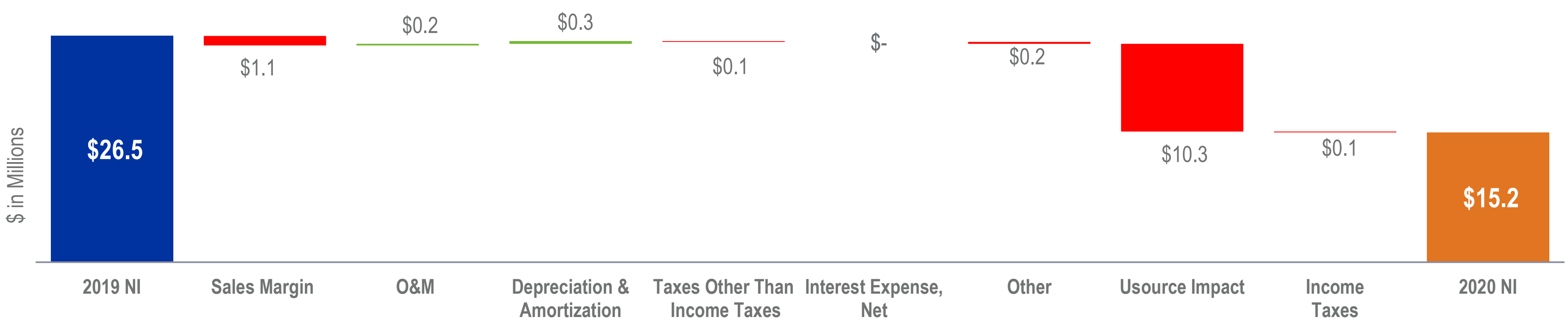
## Sales Margin Flat

- $0.6 million increase due to higher distribution rates
- $0.6 million decrease due to lower kWh sales due to milder summer weather

(1) Reflects a non-GAAP measurement. Reconciliation from Non-GAAP to GAAP measures are included at the end of this presentation
(2) Weather normal unit sales excludes decoupled sales

# EARNINGS RECONCILIATION: 2020 Q1 TO 2019 Q1

- Gas and Electric Adjusted Gross Sales Margin [1] down $1.1 million
- Core utility O&M is lower by $0.2 million
- Depreciation & Amortization decreased $0.3 million reflecting lower amortization expense
- Taxes Other Than Income Taxes increased $0.1 million due to higher levels of net plant in service
- Interest Expense is flat with higher levels of interest on long-term debt offset by lower short-term interest rates on lower levels of short-term debt
- Other is lower by $0.2 million due to higher retirement benefit costs
- Usource Impact of $10.3 million includes $9.8 million after-tax gain on divestiture, $0.9 million Usource revenue, and $0.4 million O&M costs incurred in 2019
- Income Taxes increased $0.1 million




(1) Reflects a non-GAAP measurement. Reconciliation from Non-GAAP to GAAP measures are included at the end of this presentation

# **COVID-19 EMERGENCY** FINANCIAL IMPACT

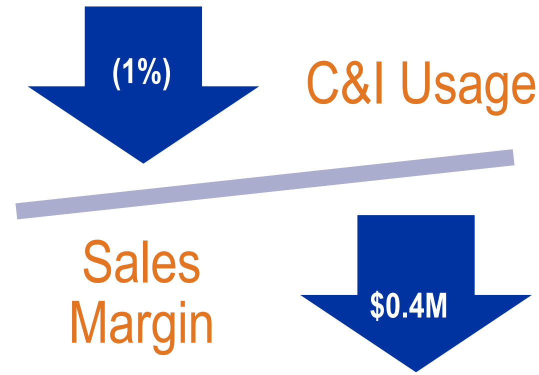
**Income Statement**

- Possible lower C&I Usage, slightly offset by higher residential usage
  - About 25% of sales margin is decoupled
- Anticipating higher levels of customer arrears
  - Will seek approval for recovery
  - Supply related bad debt is reconciled and does not impact earnings
- No plan to alter current staffing level

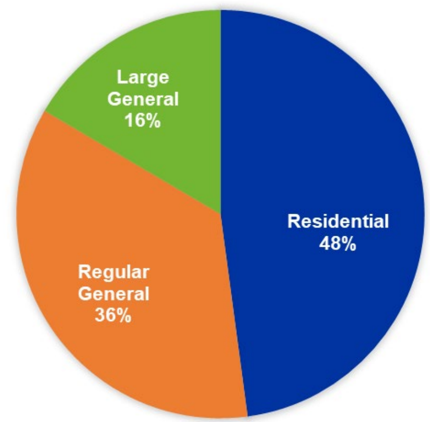
**Balance Sheet & Cash Flow**

- Ample liquidity available
  - $120 million credit facility borrowing limit, with option to increase up to $50 million if needed
  - Investment grade rating allow access to capital markets as needed
- No change to dividend program at this time
- No change to investment program at this time

**Usage Sensitivity**




**Customer Diversity** (1)




(1) Customer class diversity figures based on 2019 billed distribution revenue

# RATE CASE DECISIONS

## Maine Final Order Received

**Final order approved revenue deficiency of $3.6 million**

- Rates effective April 1, 2020
- Recovery on portion of new billing system assets subject to a third party audit
- Authorized ROE of 9.48%

**Rate cases awards include pass back of Excess Deferred Income Taxes to customers which is an offset to Amortization Expense**

- $0.3 million Maine
- $0.6 million FGE Electric
- $0.7 million FGE Gas

## Fitchburg Settlements Approved

**Both Gas and Electric settlements have been approved by the Massachusetts DPU**

- Gas approved revenue deficiency of $4.6 million (includes transfer of $3.3 million from capital tracker)
  - $3.7 million effective March 1, 2020 and $0.9 million effective March 1, 2021
- Electric approved revenue deficiency of $1.1 million
  - Rates effective November 1, 2020
- Authorized ROE of 9.7%

# 2020 RATE RELIEF SUMMARY

| Company | Activity | Dollars (in Millions) | Date Effective |
|---|---|---|---|
| Northern Utilities (Maine) | Base Rate Case Award<br>Capital Tracker – 2020 | \$3.6<br>\$1.4 | Q2 2020<br>Q2 2020 |
| Fitchburg (Electric) | Base Rate Case Award<br>Electric Capital Tracker – 2020<br>Electric Capital Tracker – 2020 | \$1.1 (1)<br>\$0.2<br>(\$1.1) | Q4 2020<br>Q1 2020<br>Q4 2020 |
| Fitchburg (Gas) | Base Rate Case Award – 2020<br>Gas Capital Tracker – 2020<br>Base Rate Case Award – 2021 | \$3.7 (2)<br>(\$1.6)<br>\$0.9 | Q1 2020<br>Q2 2020<br>Q1 2021 |

***Over $7 million of 2020 rate relief awarded***

(1) Electric award is subject to compliance filing and includes transfer of $1.1 million from the capital tracker
(2) Gas award includes transfer of $3.3 million from the capital tracker

# Q1 2020 RETURN ON EQUITY

| Company | Average Common Equity | LTM ROE [1] |
|---|---|---|
| Northern Utilities (New Hampshire)<br>Northern Utilities (Maine) | $218 | 6.8% |
| Unitil Energy | $90 | 8.7% |
| Fitchburg (Electric)<br>Fitchburg (Gas) | $85 | 7.0% |
| Granite State | $17 | 7.3% |
| Unitil Corporation | $381 | 8.7% |

(1) ROE calculated by dividing last twelve months GAAP Net Income by Average Common Equity

# APPENDIX

# INVESTMENT THEMES

## Low Risk

- Pure play regulated utility
- Electric revenue protected by decoupling mechanisms
- Gas revenue fully decoupled in Massachusetts
- Investment grade credit ratings

## Customer Growth

- Robust economic development along our seacoast service areas
- Opportunity for continued on-the-main gas customer conversion
- Added 49 miles of new gas mains in the past 3 years

## Investment Opportunities

- Significant investment opportunities for continued rate base growth
- Distribution system modernization
- Electrification projects
- Precedent for capital trackers across all regulatory jurisdictions

# NON-GAAP RECONCILIATION

## Reconciliation of Gas and Electric Adjusted Gross Margin to GAAP Gross Margin

**Three Months Ended March 31, 2020 ($ in millions)**

| | Gas | Electric | Non-Regulated and Other | Total |
|---|---|---|---|---|
| Total Operating Revenue | $ 70.2 | $ 60.2 | $ --- | $ 130.4 |
| Less: Cost of Sales | (27.8) | (37.1) | --- | (64.9) |
| Less: Depreciation and Amortization | (7.4) | (5.9) | (0.2) | (13.5) |
| GAAP Gross Margin | 35.0 | 17.2 | (0.2) | 52.0 |
| Depreciation and Amortization | 7.4 | 5.9 | 0.2 | 13.5 |
| Adjusted Gross Margin | $ 42.4 | $ 23.1 | $ --- | $ 65.5 |

**Three Months Ended March 31, 2019 ($ in millions)**

| | Gas | Electric | Non-Regulated and Other | Total |
|---|---|---|---|---|
| Total Operating Revenue | $ 86.4 | $ 64.8 | $ 0.9 | $ 152.1 |
| Less: Cost of Sales | (42.9) | (41.7) | --- | (84.6) |
| Less: Depreciation and Amortization | (7.4) | (6.1) | (0.3) | (13.8) |
| GAAP Gross Margin | 36.1 | 17.0 | 0.6 | 53.7 |
| Depreciation and Amortization | 7.4 | 6.1 | 0.3 | 13.8 |
| Adjusted Gross Margin | $ 43.5 | $ 23.1 | $ 0.9 | $ 67.5 |

# NON-GAAP RECONCILIATION

## Reconciliation of GAAP Statement of Earnings to Slide 12 of this Presentation

| GAAP Reconciliation | Three Months Ended March 31, 2020 | 2019 | Change | Usource Impact | Adjusted Variance |
|---|---|---|---|---|---|
| **Operating Revenue** | | | | | |
| Gas | $ 70.2 | $ 86.4 | $ (16.2) | $ - | $ (16.2) |
| Electric | 60.2 | 64.8 | (4.6) | - | (4.6) |
| Other | - | 0.9 | (0.9) | 0.9 | - |
| **Total Operating Revenue** | 130.4 | 152.1 | (21.7) | 0.9 | (20.8) |
| **Operating Expenses** | | | | | |
| Cost of Gas Sales | 27.8 | 42.9 | (15.1) | - | (15.1) |
| Cost of Electric Sales | 37.1 | 41.7 | (4.6) | - | (4.6) |
| Operation and Maintenance | 17.9 | 18.5 | (0.6) | 0.4 | (0.2) |
| Depreciation and Amortization | 13.5 | 13.8 | (0.3) | - | (0.3) |
| Taxes Other than Income Taxes | 6.5 | 6.4 | 0.1 | - | 0.1 |
| **Total Operating Expenses** | 102.8 | 123.3 | (20.5) | 0.4 | (20.1) |
| **Operating Income** | 27.6 | 28.8 | (1.2) | 0.5 | (0.7) |
| Interest Expense, Net | 6.2 | 6.2 | - | - | - |
| Other Expense (Income), Net | 1.5 | (12.1) | 13.6 | (13.4) | 0.2 |
| **Income Before Income Taxes** | 19.9 | 34.7 | (14.8) | 13.9 | (0.9) |
| Provision for Income Taxes | 4.7 | 8.2 | (3.5) | 3.6 | 0.1 |
| Net Income | $ 15.2 | $ 26.5 | $ (11.3) | $ 10.3 | $ (1.0) |