

Q1 2021 Earnings Call

Company Participants

- Edward D. Vallejo, Vice President of Investor Relations
- M. Susan Hardwick, Executive Vice President & Chief Financial Officer

Other Participants

- Durgesh Chopra, Evercore ISI
- Insoo Kim, Goldman Sachs
- Julien Dumoulin-Smith, BofA Merrill Lynch
- Richard Sunderland, J.P. Morgan
- Steve Fleishman, Wolfe Securities
- Verity Mitchell, HSBC Global Research

Presentation

Operator

Good morning, and welcome to American Water's First Quarter 2021 Earnings Conference Call. As a reminder, this call is being recorded and is also being webcast with an accompanying slide presentation through the company's Investor Relations website. Following the earnings conference call, an audio archive of the call will be available through May 11, 2021. US callers may access the available archive toll-free by dialing 1877-344-7529. International callers may listen by dialing 1412-317-0088. The access code for the replay is 101-55150. The audio webcast archive will be available for one year on American Water's Investor Relations website at ir.amwater.com/events.

I'd now like to introduce your host for today's call, Mr. Ed Vallejo, Vice President of Investor Relations. Mr. Vallejo, you may begin.

Edward D. Vallejo {BIO 16076814 <GO>}

Thank you, Nick. And good morning, everyone, and thank you for joining us for today's call. And at the end of our prepared remarks, as usual, we will open the call up for your questions.

Now, during this conference call, both in our prepared remarks and answers to your questions, we may make forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based upon our current expectations, estimates and assumptions. However, since these statements deal with future events, they're subject to numerous known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from the results indicated or implied by such statement. Additional information regarding these risks, uncertainties and factors, as well

as a more detailed analysis of our financials and other important information is provided in the earnings release and in our May 3, 2021, Form 10-Q each has filed with the SEC.

Reconciliations for non-GAAP financial information related to O&M efficiency ratio and return on equity can be found in our earnings release and in the appendix of the slide deck for this call. Also, this slide deck has been posted to our Investor Relations page of our website. All statements in this call related to earnings and earnings per share, refer to diluted earnings and earnings per share. And for purposes of the anchor year on long-term EPS growth guidance, the anchor is weather adjusted 2020 EPS of \$3.84.

And with that, I'll turn the call over to American Water's, President and CEO, Walter Lynch.

Operator

Thanks, Ed. Good morning, everyone, and thanks for joining us. Before we move to quarter results, let me speak for a moment about our recent growth news.

As you know, a key part of our strategy is to operate in states where we can best serve customers, drive efficiencies and continue to grow regulated business. Recall that earlier in the year, we announced the sale of our Michigan operation, and as you know, in late 2019, we announced the sale of our York operation. This slide shows what our new regulated service territory will look like after the announced transactions are completed.

Moving to Slide 6. We recently announced what will be the largest municipal acquisition in Pennsylvania American Water's history. On April 6, we signed an agreement to acquire the wastewater treatment and collection system for the City of York, Pennsylvania. This agreement will add an equivalent customer connection total of more than 45,000. As part of the agreement, Pennsylvania American Water will also continue to provide contractive wholesale wastewater treatment and disposal for seven surrounding communities of York. We look forward to developing strong relationships that meet the needs of all customers, including those outside the city.

This is yet another example of our strategy to grow where we can add value. It was also executed under Act 12 of 2016, which allows municipalities to sell their water and wastewater systems for a price based on the fair market value of that facilities. York Mayor, Michael Helfrich said, "This is a new day for York, one filled with an unwavering optimism as our residents and businesses can finally breathe a sigh of relief for the first time in decades."

Turning to Slide 7. New Jersey American Water announced an agreement during the first quarter to acquire the water and wastewater assets of Egg Harbor City, New Jersey. This municipally owned water and wastewater system serves approximately 3,000 customer connections. The agreement is notable as it's the first sale being executed through New Jersey's Water Infrastructure Protection Act or WIPA. That law facilitates the sale or lease of municipally owned water or wastewater systems that meet certain criteria, such as significant non-compliance. Egg Harbor City Mayor, Lisa Jiampetti said, this sale will mean better infrastructure, stable water rates and millions in funds for the city.

Additionally, Virginia American Water signed an agreement to acquire the drinking water assets of the town of Waverly. This municipally owned water system serves approximately 900 customer connections, and is our first agreement signed under new fair market value legislation in the Virginia Commonwealth. To-date this year, we've added approximately 4,500 customer connections through close acquisitions and organic growth. We have under agreement more than 86,000 customer connections, including the City of York.

In total, the acquisitions close so far this year in all those under agreement represent approximately \$440 million in additional rate base and an estimated \$115 million of follow-on additional capital expenditures over the next five years. And our growth pipeline remains strong with more than 1.2 million customer connection opportunities.

Lastly, I'd like to provide an update on the sale of New York American Water. In late March 2021, the New York State Department of Public Service Special Counsel, released the findings of their municipalization study. As expected, the study focused primarily on the need for tax relief for customers, including recommendations to eliminate the special franchise tax. The study also focused on the feasibility of municipalization. These findings were not addressed in the governor's recent released budget.

Our New York subsidiary continues to work constructively with the New York State Department of Public Service, including through ongoing settlement discussions with all parties and we remain confident that the sale will be completed. We're working diligently to close the transaction.

Assuming progress continues as expected, we believe that the net impacts of New York results on 2021 results won't impact our 2021 guidance range. Further, we don't anticipate any impact on the expected timing of our previously discussed future equity needs.

Let's move to Slide 8 and cover our first quarter results. Our first quarter 2021 earnings per share of \$0.73 were up 7.4% compared to the first quarter 2020. We invested capital of \$342 million in the first quarter as we continue to balance that investment by focusing on operating and capital efficiencies, constructive regulatory outcomes and by leveraging the size and scale of our business. As a reminder, we've challenged ourselves with the new own and efficiency target of 30.4% by 2025.

With this strong start to 2021 and continued execution of our strategies, we're affirming today our 2021 earnings guidance range of \$4.18 to \$4.28 per share. We are also affirming our long-term EPS compound annual growth rate in the 7% to 10% range.

Turning to Slide 9. Let's go through some of the regulatory and legislative highlights of the first quarter 2021. In February, the Pennsylvania Public Utility Commission unanimously approved a previously filed settlement agreement between Pennsylvania American Water and the PUC Bureau of Investigation & Enforcement. The request was driven by \$1.64 billion of investment from 2019 through 2022. Pennsylvania American Water was authorized additional annualized revenues of \$90 million over a two-year period, excluding an agreed to reduction in revenues for tax savings passed back to customers as a result of the Tax Cuts and Jobs Act of 2017.

On April 7, the Missouri Public Service Commission approved an agreement reached by the parties and Missouri American Water's request for a rate adjustment. The rate order includes approximately \$620 million in water and wastewater system improvements made since the end of 2017. Rates will be effective on May 28, 2021, and will result in additional annualized water and wastewater revenue of \$22 million, excluding the reduction in revenue for tax savings passed back to customers also a result of TCJA.

We also have a pending rate case in Iowa, which is moving on schedule, and we filed a rate case in West Virginia on April 30. Additionally, as we've reported previously, California American Water filed for new rates in July 2019, the case covers 2021 through 2023. In January 2021, California American Water submitted to the commission, a comprehensive settlement with the public advocate's office and several interveners. If the global settlement is adopted by the commission without changes, revenues will increase by \$33.5 million over three years, with agreed capital investments of \$165 million in 2021 and 2022.

And just yesterday, California American Water filed its cost of capital application with the commission. As part of the application, California American Water requested an authorized cost of equity of 10.75%, cost of debt of 4.35% and overall rate of return of 8%, which is sufficient to provide California American water with the opportunity to earn a reasonable return on its investments. The case covers 2022 through 2024 with the revised cost of capital to be effective January 1, 2022.

Regarding the Monterey Peninsula Water Supply Project. As a reminder, California American Water refiled its application to the Coastal Commission on November 6, 2020. On December 3, 2020, the coastal commission send a notice requesting additional information needed to consider the application complete. In March 2021, California American Water provided the requests and responses and once staff deems the application complete by statute, the Coastal Commission would have 180 days to process it.

Moving to state legislation on Slide 10. We continue to see states take action to help address water and wastewater challenges. In Kentucky, the governor signed into law new acquisition adjustment legislation. This law allows systems to be acquired above net book value, when certain criteria are met. The law also establishes a timeline for a PSE decision on an acquisition, which is within 60 to 150 days of application approval.

In Indiana, there are two pieces of legislation that have been signed into law that will benefit our current and future customers. Act 1287 creates a mechanism that reduces the required upfront cost to new customers for water and wastewater utility to extend service to underserved areas. And Act 349, establishes the tax writer for water and wastewater utilities based upon any change in state or federal income tax law.

On the national level, we're pleased to see that water and wastewater infrastructure is included in both the administration's build back better plan, as well as introduced in state legislature -- federal legislation. There continues to be a significant need to invest in water and wastewater infrastructure, not just within our system but broadly across the United States. We think the proposed funding to state revolving funds for drinking water and the possible expansion of a

water LIHWAP program would directly benefit our customers. The administration's plan also includes a tax package and Susan will talk about that in a moment.

Moving to Slide 11. Customers remain at the center of every decision we make. This means smart investments balanced by efficient operations and capital deployment. For the 12-month period ending March 31, 2021, our O&M efficiency ratio was 34.1%, a decrease from 34.5% for the 12-month period ending March 31, 2020. As we note each quarter, our adjusted O&M expenses are slightly higher today than they were in 2010. Since then, we've added approximately 327,000 customer connections, while expenses only increase at a compound annual growth rate of 1.1%.

Before I turn the call over to Susan, let me cover a few additional items. You may have seen there our 10-Q or discussion around a matter related to HOS, and likely you saw a note from a rating agency commenting on that disclosure. As noted in the 10-Q, I want to remind you that this is a matter that relates to a subpoena received by AWR, an American Water subsidiary that operates a portion of HOS. The subpoena seeks information related only to HOS's Metropolitan New York city operations.

As we noted in the 10-Q, AWR's cooperating fully with the investigation, and while it's impossible to predict the outcome at this point, we do not believe it will result in any material impact over our operations or financial results.

As a final note on the business, I'd like to congratulate Mark McDonough, who was recently named President of New Jersey American Water; and Steve Curtis, who will replace Mark as President of our Military Services Group. These are great examples of how we build and leverage the deep bench strength of American Water. Both Mark and Steve have had increasing roles of responsibility throughout their careers in American Water and are models of our values.

And I'll end with a thank you to our employees for their continued response to COVID-19. We continue to execute our preparedness plans as we look to reintegrate those employees that have been working remotely. As always, safety is our top priority. This past March, we were very pleased that it was our first month in our history where no OSHO-recordable incidents occurred throughout our entire company. Our commitment to zero injuries and incidents will continue because no injury is ever acceptable to us.

And with that, I'll turn the call over to Susan now.

M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Walter. And let's start on Slide 13 with a bit more detail on results. As Walter highlighted, first quarter 2021 earnings were \$0.73 per share, compared to \$0.68 per share in the first quarter of 2020. Results for the regulated business segments were \$0.74 per share, an increase of \$0.06 per share, primarily driven by continued growth from infrastructure investment, acquisitions and organic growth. Results for the market based business were \$0.09 per share, a decrease of \$0.03 per share as we saw an increase in claims in the Homeowner Services Group, due largely to weather-related events. Parent company results improved \$0.02 per share in the first quarter of 2021, as compared to the same period in 2020.

Moving on to Slide 14. Regulated results increased \$0.06 per share as I said. We saw a \$0.19 per share increase in revenues from new rates in effect, as well as earnings from acquisitions. O&M expense increased by \$0.08 per share and somewhat offsetting was an increase in depreciation of \$0.05 per share in support of growth in the business.

As previously mentioned, the market-based business results increased -- decreased \$0.03 per share in the first quarter of 2021, as compared to the first quarter of '20. The lower results were due to increase claims expense, which was driven by extreme cold weather, primarily in Texas and Illinois, and the continuation of stay-at-home activities as we saw throughout most of 2020 due to the pandemic.

The parent results improved \$0.02 per share in the first quarter of 2021, compared to the first quarter of last year. The improved results were largely driven by a number of small items that increased expenses in the first quarter of 2020, offset by higher interest expense to support growth in the regulated business.

While I'm on the subject of results, I'd also like to discuss the company's lower effective income tax rate in the quarter. This was primarily due to an increase in the amortization of excess accumulated deferred income taxes from the settlement of general rate cases in New Jersey and Pennsylvania, that approved the timing and method by which the excess deferred taxes are returned to customers. The increased amortization of excess deferred taxes lowers tax expense and has largely offset dollar-for-dollar with lower revenue, resulting in no impact to earnings. We will continue to see this impact and the resulting lower effective tax rate as the amortization continues in these states and others as similar provisions are put in place.

And as a reminder, the excess accumulated deferred income tax has resulted from the federal rate being lowered from 35% to 21% as part of the Tax Cuts & Jobs Act as Walter mentioned.

Moving on to Slide 15. The continued successful execution of our regulatory strategy is a key element of our ability to consistently deliver financial results. To-date, the regulated businesses have received a \$123 million in annualized new revenues in 2021. This includes \$92 million from the Pennsylvania and Missouri rate cases discussed earlier, excluding the agreed reduction in revenues for tax savings passed back to customers, and \$31 million from infrastructure surcharges. In addition, the Pennsylvania rate case includes a second step increase of \$20 million effective January 2022.

We have also filed requests and are awaiting final orders on three rate cases, totaling an annualized revenue request of \$61 million. And as Walter mentioned, we are also closely following President Biden's tax proposal and evaluating the impact that the current proposal would have on our long-term growth strategy. While there are many proposed provisions that need further analysis, our early indications are that there will be minimal impact to our plan.

And finally, moving on to Slide 16, on April 28, 2021, our Board of Directors increased the company's quarterly cash dividend payment from \$0.55 to \$0.60 and \$0.25 per share. We continue to be a top leader in dividend growth. We have grown our dividend at a compound annual growth rate of about 10% over the last five years, significantly outpacing our peers in the Dow Jones Utility Average and the Philadelphia Utility index. We expect to continue our

dividend growth at the high end of the 7% to 10% range, as we know that it is very important to many of our shareholders. Also, we continue to target a dividend payout ratio of 50% to 60% of earnings.

As this quarter's results demonstrate, we continue to consistently deliver on our earnings commitment. Regulatory execution, along with the results from our market based businesses allows us to continue that performance. We believe that delivering on results, combined with our strong earnings growth and superior dividend growth expectation, provides excellent value for our shareholders as we continue to outperform our peers.

And with that, let me turn the call back over to Walter for a few closing remarks.

Operator

Thanks, Susan. Before we move on to your questions, in April, we were very proud be proud to issue our first annual Inclusion & Diversity report. This report highlights the efforts we've undertaken and the strides we've made advancing our commitment to Inclusion & Diversity.

ESG is a journey and our I&D report is another way that shows how we're constantly striving thanks to the contributions of every employee to build an inclusive and mutually respectful workplace. To launch this report internally, we were honored to have Mr.Earvin Magic Johnson joining us virtually for conversation on inclusion, diversity, and on allyship. Additionally, we had an incredible community healing discussion with our employees to provide a chance for even more open and honest dialogue and inclusion. We believe that a company's strength is its people and the diversity of our workforce makes us even stronger.

With that, we're happy to take your questions.

Questions And Answers

Operator

(Question And Answer)

We'll now begin the question-and-answer session. (Operator Instructions). First question comes from Durgesh Chopra of Evercore ISI. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, Walter and Susan.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Good morning.

Operator

Morning Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Thanks for taking my question. Good morning. Just I have a couple here. First Walter, just to clarify the New York American sale process I know a lot of moving pieces, but are we still targeting at this year close, is that the current plan?

Operator

Yes, that's right, Durgesh. We're still working through what with as I said in prepared remarks, still working through with staff and others and we are hoping to be -- and expecting this year.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood, thank you. And then just on the subpoena, can I just clarify that this is related to specifically homeowner services within American Water Resources business? And the information that you might be sharing is that just New York specific or their other states involved in the subpoena.

Operator

Yes, it's specific to our New York City Metropolitan operations in HOS. That's exactly right, Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. And obviously there's no set timeline here as to how this matter gets resolved.

Operator

No, not at this point, again we continue to work in cooperating investigation.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay, understood. Just one big picture then Walter just your thoughts on the Biden sort of the America jobs plan. They talked about several hundred billion of investment on lead and then Water and Wastewater assets. What are the implications to your existing business, and then just your regulated acquisition growth strategy?

Operator

Yeah, Durgesh. We're going to start with -- we're really happy that the administration is focusing on Water and Wastewater this part of the infrastructure plan. So we like the attention that the industry's getting and we think that the plan will benefit our customers primarily by having access to low-interest financing, that's part of the plan. And so we want to -- we access our right now on the water side. We want to get access in the wastewater side, that's a growing segment

of our business. And we want our customers to benefit like others from the low interest loans. So, overall we're very excited about the program and we want to participate like the municipalities doing the wastewater side.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Perfect. And just does it -- how does -- I mean does it increase your sort of footprint on the regulated acquisition side or does it sort of since there'd be a lot of aid given to sort of systems across the country? Does it derail your regulated acquisition growth strategy? How would you sort of characterize that?

Operator

Well, there's as we've said and I've said in my remarks, there's significant needs out there in the water and wastewater side. For us, it's not going to change our plan, our pipeline continues to grow, we're going to continue to provide meaningful solutions for communities. And we're committed to our plan and we don't see any change to our plan going forward.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood perfect. Thanks guys. Much appreciate the time.

Operator

Thanks Durgesh.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Durgesh.

Operator

Thank you. And the next question is from Julien Dumoulin-Smith of Bank of America. Please go ahead.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey, good morning team. Thanks for the time and the opportunity. Maybe to kick things off right after Durgesh's question here. Can I follow up and ask you guys about your latest thinking on the administration just around the PFAS regulations, hazardous determinations there, and just obviously there's a lot of different pieces that could move here? And any at least preliminary thoughts on where things could go and more specifically, how that could impact your business?

Operator

Yeah, Julien. Thanks for the question. We think there's going to be a lot more focus on PFAS in this Administration. I know they formed a task force, we believe it was last week to look at what are the next steps to establish an MCL. Right now, there's a health advisory limit of 70 parts per trillion, and we think there is going to be a lot more focus on it. So we'll have to wait and see but the EPA is really science driven and we want to make sure it's based on science. And I think there's going to be a coming together of the science and the need to establish an MCL and we look forward to participating and working with the administration to establish that.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. And hazardous determination, that's just part of the broader context here, right?

Operator

That's right. That's all part of this. This work is going to be going on.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. All right. Excellent. And then I suppose a little bit more nuanced here. As you think about the impacts here in the quarter on the non of -- the market based business here, you're probably still broadly within plan on the year and have some offset. Just can you speak to that obviously, the payouts and the warranties et cetera still elevated here. Just if you can speak to that a little bit on the offsets et cetera and how you're tracking. Maybe after the (Multiple Speakers).

Operator

Yes. With the HOS business, we're seeing higher claims on the wastewater side. Now, people are spending more time in their homes and that's causing apparently additional breaks that we're having to repair. And then on the partnership side, we have seen a little bit of a slowdown in those partnerships yet we still have a really good pipeline of opportunities, but those are the two areas. I think that have been somewhat impacted by the pandemic and our business going forward.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Julien. I might just add on that point in addition to what Walter said, we did see a little bit higher claims in the quarter from these weather-related events. We did see some water claims particularly in Texas, Illinois and a few other parts of the country really driven by the extreme weather that occurred and we would expect of course that to now sort of be over. Some of the wastewater claims that Walter is talking about, as long as we continue this bit more of stay at home, we may see elevated claims there, but I think the exposure to the weather related we've isolated in this quarter.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. So how do you think about that relative to the full-year? I mean obviously the wastewater continues a little bit elevated just offsets, et cetra, probably not too material, right?

A - M. Susan Hardwick {BIO 16618718 <GO>}

It's really not too material. No, I mean, we saw roughly a penny or so of that impact related to the stay-at-home activities in this quarter and as you can see across the country, states are starting to loosen up. So there'll be some return. So I certainly think we'll see this start to mitigate and in any event we don't see it as material for the year.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Excellent guys. Thank you all very much. Have a nice day.

Operator

Thanks Julien.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks, Julien.

Operator

Thank you. And the next question is from Insoo Kim of Goldman Sachs. Please go ahead.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. Just couple for me. The first one with the -- the recently announced Pennsylvania and New Jersey transactions, how do you think about potential cadence and magnitude of the equity guidance that you gave at the Analyst Day. Just thinking through 21, 22, if it's going to be split up or are we still assuming kind of a bulk number in one year?

Operator

Well first, let me talk about the growth. And we're really excited for these two acquisitions in our two biggest states. It's all part of what we're doing and providing solutions for communities with the City of York in the Wastewater side, and then Egg Harbor City. In the first WIPA, that's really important to first WIPA acquisition. And we're hopeful many other communities are going to see the benefits of that and continue to sell their systems to New Jersey American Water and Pennsylvania American Water. But it's really about providing meaningful solutions. And again, as we talked about having consolidated tariffs and the ability to spread those costs across a big customer base, over 700,000 customer connections, really helps those communities to mitigate and minimize customer bill impacts. So that's a competitive advantage of ours. It's part of our strategy to make sure that these communities understand the value that we can bring to them through investment. I wanted to spotlight the follow-on investment, and how significant that is to our growth and to providing solutions for community. So we're really excited about these two acquisitions and how they're going to play in the future growth in Pennsylvania and New Jersey.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Insoo maybe let me just comment on the equity needs because that was a follow-on part of your question I think. When we built our plan and laid out our financing plan over the five years, we anticipated an increase in our growth from acquisition and we reflected that at Analyst Day. Now whether or not we identify these specific transactions, it's a different question but we had anticipated a step up and growth and built our plan accordingly. So long answer to your question, I don't see any change from these specific acquisitions that we've now highlighted any change to our equity financing timing or any of other our financing plans over the course of the five years.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Just from a timing perspective, is there a possibility that we could see some of that equity in the '21 timeframe or is it more beyond '21?

A - M. Susan Hardwick {BIO 16618718 <GO>}

No, it's beyond 21. At Analyst Day, I think we indicated that it still -- it is about 700 million of equity in the five years and it's still roughly in sort of the middle of that five-year timeframe. So no, I would not anticipate anything in 2021.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. And then my second question, I guess maybe for Walter. Obviously these two acquisitions in States that have favorable systems in place for such growth with the pending New York sale and then the recently announced Michigan, divestiture charge while when you just look across your footprint in the different states, you don't have to name any, but are there opportunities to potentially monetize some of the other states to concentrate more on the jurisdictions that offer the better systems for organic and inorganic growth.

Operator

Yes, we do a constant assessment of where we're operating, then where can we provide the best value for customers and where can we grow our systems and we'll continue to evaluate our footprint. But we're really happy where we are right now and we continue to grow. If you look at our pipeline, we're growing; we have eight states where we have 32 agreements. So it's not just in one or two or three states, it's really across our footprint, and we will continue to provide Solutions again for communities across our footprint.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you, both.

Operator

Thank you. Next question comes from Steve Fleishman of Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, good morning.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Hey Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

So just a question on the -- Hey Walter -- on the disclosure of this subpoena, in homeowner services? I guess it doesn't say, I think in your release just if the company has done its own investigation and if they determined anything was done wrong, do you have any color or information on that?

Operator

Yeah, Steven and given that, it's an ongoing investigation, we really can't comment any more on it other than what we have in the disclosure.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, all right and then Walter on your year-end call, you had kind of hinted at a larger acquisition or more growth coming and in your tuck in acquisitions and the like. I -- should I assume that was the York deal that ended up officially getting announced or is that still kind of relevant for something else?

Operator

Let me approach it from this. We continue to build our pipeline. We continue to again provide solutions for communities and if you look over the last year, we've almost doubled our pipeline. We've done the biggest acquisition in Pennsylvania American Water's history. So we're going to keep doing much of the same, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. And just on the New York American sale. It's if I understood you correctly, it sounds like neither your forecast, nor your equity timing should be impacted at all by whatever happens with the outcome of the sale.

Operator

Yes. That's correct, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. That was very clear.

Operator

Okay, Steve. Thank you.

Thank you. (Operator Instructions). Next question comes from Richard Sunderland, J.P. Morgan. Please go ahead.

Q - Richard Sunderland {BIO 20365913 <GO>}

Hi. Good morning. Maybe following up on that last point real quick the sale timing, would it impact I guess where you land within the range of your '21 guidance or phrase differently, you have some timing assumption associated with close presumably baked in. Can you disclose what that assumption is and what a quarter two difference may do to where you landed the range?

A - M. Susan Hardwick {BIO 16618718 <GO>}

Hey, Rich its Susan. Probably not going to add much more detail to that, I would just echo what Walter said in his prepared remarks and then his answer a minute ago we just don't see having any impact on 2021.

Q - Richard Sunderland {BIO 20365913 <GO>}

Fair enough. Thank you. And then just separately curious at a high level in terms of your O&M efficiency ratio, what impacts you've seen on your efforts there over the past year under the pandemic and what that may mean for sort of progress and efficiencies going forward as we reopen.

Operator

Yeah, it's been a big focus for us as you know Rich, and we're going to continue to focus on every area of our business where we can drive efficiencies. We've improved it from 34.5 to 34.1 as I said in my remarks. And we're confident that we can hit our goal in 2025 of 30.4. So we're going to continue to do the things that we've been doing, focusing on technology, leveraging our supply chain and really leveraging our culture of looking for every dollar that we can save and continue to provide the service that our customers expect. So that's the journey we're on. We're going to continue to execute on that and we're confident in our goal in 2025.

Q - Richard Sunderland {BIO 20365913 <GO>}

Great. Thanks for taking my question.

Operator

Thank you.

A - M. Susan Hardwick {BIO 16618718 <GO>}

Thanks Rich.

Operator

Thank you. The next question comes from Verity Mitchell of HSBC. Please go ahead.

Q - Verity Mitchell {BIO 2160289 <GO>}

Hi, good morning everyone. And I've just got another couple of high-level questions about geography, which is something I'm always interested in. And when I look at your coverage across so many states. Does the Biden Proposal change the view of your opportunities across states? I mean you've already said that it's not going to change your growth trajectory. But any nuance there. And also in terms of what's missing it in terms of major regulatory mechanisms in states now that you would like to see? Thank you.

Operator

Yes. Hello Verity, Walter here. Yes, the administration's proposed plan does not change our outlook at all. On acquisitions again we continue to build our pipeline of opportunities. We're providing meaningful solutions. And really, when you look at the size of our business, how long we've been in business since 1886 and the expertise that we have and the ability to share costs across our customer base, we bring tremendous value to communities and they realize that and that's why they're talking to us about potentially selling their water and wastewater systems.

Q - Verity Mitchell {BIO 2160289 <GO>}

Yes, so I just want to know whether the state -- the states in which you are active, the Biden Proposal create new opportunities in particular states.

Operator

I'm not sure it will create new opportunities, it just -- the great thing is that it really talks about water and wastewater where before we were always left out. And I think there's a realization in this country that there's so much fragmentation and so many improvements that need to be made that the private sector American water can play a really integral role in moving that forward and that's where we're excited about.

Q - Verity Mitchell {BIO 2160289 <GO>}

Right. And so what's missing in this -- what would you like to see that's missing in terms of fair value, or if structure -- surcharge is? What's missing and --

Operator

Yes. We continue to work with States. Yes, and we continue to work with States on fair market value legislation. As I said, Kentucky is now the 11th State within our footprint to have fair market value legislation. It's really an affirmation of the value that we provide in the -- I think the recognition of the legislature and the governors that they want us to play a role in consolidating the market and adding our expertise to many of these small systems that don't quite have the

expertise. So we do have in the appendix an overview of fair market value by State, and the specific parts of it that -- the fair market value. So refer to that, you can see again 11 out of our 16 states have fair market value legislation and we're going to continue to work with states that don't have it and continue to work to tell our story about the value we can provide.

Q - Verity Mitchell {BIO 2160289 <GO>}

Great. Thanks.

Operator

Yes. Thank you, Verity.

This concludes our question-and-answer session. I now would like to turn the conference back over to Mr. Walter Lynch for closing remarks. Please go ahead.

Thank you for joining our call today. We appreciate and value your participation and the work you do on behalf of your clients. We hope our open and transparent discussions give the confidence in our company and the investment of our stock. As a reminder, our Virtual Annual Shareholder Meeting will be held next week on May 12th at 10 a.m. Eastern Daylight time. We hope that you will join us. In the meantime, if you have any additional questions, please call the IR team and we'll be happy to answer them. Thanks again and be safe.

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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