# Q1 2023 Earnings Call

## Company Participants

- Aaron Musgrave, Vice President, Investor Relations
- Cheryl Norton, Executive Vice President and Chief Operating Officer
- John C. Griffith, Executive Vice President and Chief Financial Officer
- M. Susan Hardwick, President and Chief Executive Officer

## Other Participants

- Angie Storozynski, Analyst, Seaport Global Securities
- Gregg Orrill, Analyst, UBS
- Jonathan Reeder, Analyst, Wells Fargo Securities
- Paul Zimbardo, Analyst, BofA Global Research
- Richard Sunderland, Analyst, J.P. Morgan

## Presentation

### Operator

Good morning, and welcome to American Water's First Quarter 2023 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. The audio webcast archive will be available for one year on American Water's Investor Relations website.

I would now like to introduce your host for today's call, Aaron Musgrave, Vice President of Investor Relations. Mr. Musgrave, you may begin.

### Aaron Musgrave {BIO 22474483 <GO>}

Thank you, Betsy. Good morning, everyone, and thank you for joining us for today's call. At the end of our prepared remarks, we will open the call for your questions.

Let me first go over some Safe Harbor language. Today, we will be making forward-looking statements that represent our expectations regarding our future performance or other future events. These statements are predictions based on our current expectations, estimates and assumptions. However, since these statements deal with future events, they are 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 statements.

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 first quarter earnings release and in our March 31st Form 10-Q each filed yesterday with the SEC. And finally, all statements during this presentation related to earnings and earnings per share refer to diluted earnings and diluted earnings per share.

Susan Hardwick, our President and CEO will share highlights of results, 2023 EPS guidance and longer-term targets and the proposed PFAS rule recently announced by the US EPA. John Griffith, our Executive Vice President and CFO will cover our first quarter financial results in more detail, discuss our successful equity issuance and will close with an update on sizable acquisitions announced so far this year. Cheryl Norton, our Executive Vice President and COO, will then discuss our capital investment plan and active general rate cases and conclude with a few regulatory updates, including details of the EPA's proposed PFAS rule rule. We'll then close by answering your questions.

With that, I'll turn the call over to American Water's President and CEO, Susan Hardwick.

## M. Susan Hardwick {BIO 16618718 <GO>}

Thanks Aaron, and good morning, everyone. As we announced yesterday, we're off to a good start in 2023 with strong financial results.

As shown on Slide 5, earnings were $0.91 per share for the quarter compared to $0.87 per share last year. The increased results were as expected and put us on-track to achieve our full year earnings guidance, which we're pleased to affirm. Here you can also see a recap of some of our other key accomplishments so far in 2023 and John and Cheryl will add to these in their remarks.

As we announced in March, we completed a very successful upsized equity issuance of $1.7 billion of American Water common stock. This delivered on the highest priority in our 2023 financing plan. We also invested well over $500 million of capital and infrastructure in the quarter. In addition, we secured two large acquisitions so far this year, which puts us at over $550 million of acquisitions under agreement. We did all of this, while keeping customer bills affordable and staying true to our high value of quality service.

The other significant news in the first quarter for us and the water industry as a whole came from the US Environmental Protection Agency when they released proposed national standards for PFAS. We support the EPA's efforts to protect drinking water quality. These contaminants are among the multiple challenges the water industry faces regarding water quality, quantity and reliability. We remain steadfast in our commitment to be a leader in the US water and wastewater industry and a provider of solutions to these challenges.

Providing safe, clean, reliable and affordable water and wastewater service to customers has been American Water's mission for over 130 years. We will continue to work cooperatively with the EPA and with Congress, regulators and policy makers in support of water quality standards that protect customers and communities, balanced with affordability. Cheryl will elaborate further on the PFAS proposal and our response to it, but I want to assure our customers, regulators, investors and other stakeholders that American Water has the expertise and the will to tackle this issue head-on and to advocate for reasonable policies and outcomes related to this very important topic.

Turning to Slide 6, as I mentioned, we are affirming our 2023 EPS guidance range of $4.72 to $4.82 per share as well as our long-term targets. We believe our strong regulatory and operational execution is a positive differentiator from our peers. As we've done in the past, we expect to consistently deliver on our annual and long-term plans, growing earnings and dividends at a top-tier pace over the next five years and beyond.

Moving on to Slide 7, as we announced yesterday, our Board of Directors increased the company's quarterly cash dividend from $0.6550 cents per share to $0.7075 per share, an 8% increase. We have grown our dividend at a compounded annual growth rate of 9.7% over the last five years, significantly outpacing most of our utility peers. Looking ahead, we continue to expect to grow our dividend at 7% to 9% per year on average, which is in-line with our compelling 7% to 9% EPS growth target. Our Board and management team understand and appreciate how important the dividend component of our total shareholder return is to many of our investors.

And with that, let me turn it over to John to cover some first quarter highlights and financial results in more detail. John?

## John C. Griffith {BIO 22806522 <GO>}

Thank you, Susan, and good morning, everyone.

Turning to Slide 9, I'll start by reviewing the equity issuance completed in March, really, the first primary offering of meaningful size for American Water since 2009. As we've said, our plan was to issue in 2023 a significant portion of the $2 billion of expected equity needed in our current five-year plan that goes through 2027.

We were pleased to see very strong demand for the offering which was upsized and the greenshoe fully exercised for proceeds of $1.7 billion. The remaining portion of the $2 billion of our currently planned equity is expected to be issued near the end of this five-year plan. We used the proceeds to bring our commercial paper balance down to 0 by quarter-end with a modest amount of cash leftover.

With the equity issuance, our balance sheet is fortified to fund our robust water and wastewater investment well into the future. Our total debt-to-capital ratio which at year end was just above our target of 60% or less has decreased meaningfully to 54% as of quarter-end. With our growth plan, this metric will rise somewhat over the next few years until we reset again as we receive in late 2026 the no proceeds from our sale of HOS and issue the remaining equity that is in our current five-year plan.

So to wrap-up on equity, we believe the execution of this issuance is another indicator that the American Water investment thesis is strong, led by our compelling growth story and the leadership role we play in the utility sector. I'd like to take a moment to thank our treasury, legal, IR and many other teams at American Water as well as our external advisers who work diligently to prepare us to be ready to execute this transaction early in the year when the window of opportunity emerged.

Turning our attention to Slide 10, I'll provide some further insights into our financial results for the quarter. Earnings were $0.91 per share for the quarter, up $0.04 per share versus the same period in 2022. As you know, we have completed rate cases recently in our larger states and are seeing the increased revenues as a result. These additional revenues are driven by the significant investments we are making in our infrastructure, including the acceleration of spend made possible by the proceeds from the sales of New York American Water and Homeowner Services. As we've said consistently since the sales, it takes time to reinvest the sales proceeds and we are beginning to see those impacts.

And looking at operating costs, higher pension expense of about $0.03 per share and inflationary pressure on chemical, fuel and power costs of about $0.04 per share were largely mitigated by the higher revenues. Our proactive strategy last year to seek rate case recovery in many of our large jurisdictions of rising production costs and expected higher pension costs has positioned us favorably to limit the bottom-line impact of those higher costs in 2023. As with the rate case, we just filed in Indiana, we will be looking to recover higher operating costs in other jurisdictions over the next year though earning a full return rate base investments and acquisitions continues to be the key driver of our general rate cases.

Next, depreciation increased $0.06 per share and interest on additional long-term debt increased $0.04 per share due to the $800 million senior note issuance from last May, both supporting our investment growth. Interest expense in the quarter also reflected about $0.04 per share from higher short-term interest rates. I would also note that the EPS impact of the higher share count from our equity issuance was essentially neutral to EPS when considering the avoided interest costs in the first quarter by paying-off commercial paper. We expect dilution from the higher share count net of avoided interest expense to be approximately neutral to EPS for the full year as well.

Finally, other net consists primarily of favorable post-close adjustments recorded in the first quarter of 2022 from the sale of HOS and additional earnings in 2023 from our new Military Services Group contract with Naval Station Mayport in Florida that we were awarded last summer.

Turning to Slide 11, you'll see that we are set-up for strong growth through acquisitions in 2023 and beyond. We had 27 transactions under agreement across nine states through the end of March, including the Butler Area Sewer Authority wastewater system in Pennsylvania we previously announced as well as the Towamencin Township wastewater system in Pennsylvania we are purchasing for $104 million as announced in March as part of an agreement to assume that asset purchase agreement from NextEra.

Then just a few weeks ago, we were pleased to announce the purchase of the wastewater treatment plant in Granite City, Illinois for $83 million, which puts us at over $550 million of acquisitions under contract. We hope to close on Granite City by the end of 2023 and expect to close on Towamencin by midyear 2024, both pending regulatory approval and we look-forward to serving those customers.

Of course, as we close on transactions, the work to build and refill the acquisition pipeline is continuous across our footprint. Our pipeline of over 1.3 million customer connections is a strong leading indicator that supports this piece of our earnings growth triangle.

Before I turn it over to Cheryl, I'll echo Susan's comment that we're off to a very good start to the year. I'm confident in our ability to achieve our 2023 EPS guidance of $4.72 to $4.82 per share. Looking ahead, I'm pleased that we have the right fundamentals in place including our newly strengthened balance sheet to achieve our long-term financial targets, which we are also affirming today.

With that. I will turn it over to Cheryl to talk more about our capital investment, rate case and other regulatory updates. Cheryl?

## Cheryl Norton {BIO 17107572 <GO>}

Thanks, John, and good morning, everyone. Slide 13 shows that our state and corporate leaders and their teams did a great job in the first quarter executing on our increased capital plan. It required significant effort to safely and efficiently deliver the dozens of projects that improved our systems and drove capital investment higher by nearly $100 million in the quarter compared to the same period last year. This result keeps us on pace to hit our goal of approximately $2.9 billion of capital investment spending in 2023.

To show the magnitude of our regulatory execution efforts and timely recovery of these investments, you can see on Slide 14 that we already have $279 million in annualized new revenues in rates since January of 2023. This includes $229 million from general rate cases and step increases and $50 million from infrastructure surcharges. We also have $144 million of total annualized revenue request pending including two infrastructure surcharge proceedings.

Moving onto our regulatory strategy on Slide 15. Our theme here is around timely, consistent recovery of investments and operating costs. We have consistently engaged with policymakers and regulators to find the best ways to invest in water and wastewater infrastructure and achieve timely recovery. When we achieve timely and consistent recovery, it levels out bill increases to our customers making those bills more manageable.

The pie chart on the right-side of the page also speaks to timely recovery of our investments across our footprint. Through capital recovery mechanisms and forward test years, we can reduce regulatory lag and lessen the reliance on general rate cases. This enables us not only to earn our allowed return, but also to mitigate the size of general rate increases for our customers.

We expect about 75% of capital investments over the next five years to be recoverable through infrastructure mechanisms and through the use of forward test years, which is the key to unlocking a more consistent annual earnings growth pattern for the long-term. The ability to execute our regulatory strategies is a critical success factor for continuing to grow our business each year. As water and wastewater industry challenges grow, we'll continue to focus on constructive regulatory and legislative outcomes to help us work-through those challenges.

Let's go to Slide 16 and cover the latest regulatory activity in our states. Shown on this slide is a summary of our pending general rate cases with some key facts for each. In the appendix, you will also find some details related to infrastructure charges as well as a snapshot of the key outcomes from the most recent general rate cases in our top 10 states.

At the end of March, we filed a general rate case in Indiana, reflecting $875 million in water and wastewater system investments to be made through 2025 to continue providing safe and reliable service. The revenue request also includes an increase in the cost of chemicals and other operating costs that we continue to see. We are seeking to increase revenues over a phased three-step process through May 2025 that would result in $87 million of additional annual revenue when fully implemented.

In California, our case was filed in July of last year and is progressing as expected so far. We are seeking increased revenues of approximately $95 million over a phased three-step process with rate changes expected to be effective in 2024, 2025 and 2026. We're also still awaiting a ruling from the commission on the pending cost-of-capital case.

In Missouri, on March 3rd, we were pleased to file a settlement agreement with the Missouri Public Service Commission. The settlement reflects an increase of $95 million in annualized revenues, including $51 million for previously approved infrastructure surcharges. A final decision on this matter is expected in the second quarter of 2023.

And finally, earlier this week, the Virginia State Corporation Commission approved the settlement of our rate request authorizing a total annualized revenue increase of approximately $11 million. Outside of general rate cases, there were a few notable developments since our fourth quarter 2022 call. In California, related to the Monterey Water Supply Project, we signed the Pure Water Monterey Expansion agreement following an order issued by the CPUC. We are now allowed to standard ratemaking treatment for the construction funding of the pumps and pipes that were built to support the expansion. Together with the desalination and water reuse projects and process and offer for storage and recovery online, we believe that a secure water future for the Monterey Peninsula is now possible once the approval process is complete.

On the legislative front in Indiana, Senate Bill 180 passed the State House and Senate with bipartisan support and is awaiting the Governor's signature where it will become effective immediately. This Bill allows for consolidated rates in wastewater systems through Indiana's Service Enhancement Improvement Recovery Mechanism.

Turning to PFAS. I'll expand on Susan's earlier comments on EPA's proposed rulemaking. While American Water has long been anticipating and preparing for the rule making, our initial analysis were primarily based on a Federal PFA standards that would be more in-line with the higher treatment limits set by several states. We are carefully reviewing the EPA's proposed drinking water regulation to assess the four parts per trillion limits for PFOA and PFOS and the application of the hazard index approach for several other chemicals.

Our review will assess impacts to our capital and operating expense plan as well as our needed financing. It's logical to assume that the significantly lower treatment level, the number of facilities that will require treatment will be larger as will the cost. One of our early concerns is that EPA's cost estimates are materially understated. Our analysis continues, and upon completion of our preliminary assessment we'll submit comments on the proposal to the EPA by May 30th. As the EPA develops its final rule, which is expected by the end of 2023, we'll have more information to share based upon further review and analysis.

To be very clear though, American Water joins other water organizations in support of the EPA, Congress and other decision-makers in implementing reasonable policies aimed at keeping harmful PFAS out of drinking water supplies and communities. In addition to the comments, we intend to provide on the proposed rule itself, we also expect to provide comments to the EPA and others on many related issues, including the following.

We'll ask for an exemption of water and wastewater systems from financial liability for PFAS under CERCLA. We'll also ask to ensure all water and wastewater utility providers regardless of ownership have equal access to any and all federal and/or state funding related to treating PFAS. In addition, we'll request permanent federal funding for water and wastewater low-income customer assistance program.

Providing safe, reliable and affordable water is American Waters business. We continue to work productively with the EPA, Congress, regulators and policy-makers to ensure that the implementation of any final standards protect customers, communities and the general public.

So with that, I'll turn it back over to our operator to begin Q&A and take any questions you might have.

# Questions And Answers

## Operator

We will now begin the question-and-answer session (Operator Instructions) The first question today comes from Richard Sunderland with J.P. Morgan. Please go ahead.

## Q - Richard Sunderland {BIO 20365913 <GO>}

Hi, good morning, and thank you for the time today. I appreciate all the commentary on the PFAS side, but just want to dig in there a little bit more. Any way to frame the magnitude of capital versus O&M that's particularly levered to an outcome here, at a minimum, is this more of a capital opportunity than an expense concern or you're kind of flagging both as potential impacts to rates on a go-forward basis?

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

Hey, good morning. Rich. Yeah, it's a great question. Obviously, as Cheryl indicated, we have a lot of analysis to do with this proposed rule at these treatment limits that are proposed. And Rich, how this works, I mean, there is a process to be worked here in terms of comments and feedback to the EPA about the proposed rule, and as Cheryl said, obviously, we're quite supportive of what they're trying to accomplish here. And in fact, even at the four parts per trillion, we don't have huge issue with that. I think the issue is around cost. As Cheryl said, our early expectations here that the EPA estimates around costs are understated, so I think that'll be part of the response that the industry generally provides back to the EPA.

For us, as I said and Cheryl said, we're continuing to evaluate the impacts. And as you know, we've talked about these many times, we use of a risk-based approach to our capital planning. So as we work these projects into our capital plan, it could very well change that risk profile and move other projects out. So as we think about changes to our overall plan, we still got a lot of work to do to determine that.

Specific to your question though around capital versus O&M, we think there's of a fair amount of both, that will be necessary at this level. So there'll be capital requirements to have facilities that are able to facilitate the treatment, and then, of course, there will be an ongoing operating cost associated with the treatment itself. So, lots to be learned yet on this, and again, direct impacts to our plan yet to be determined.

## Q - Richard Sunderland {BIO 20365913 <GO>}

Okay, understood. That's very helpful context. I guess sticking with the cost side, we spent a lot of time last few discussing chemicals cost and it came up in the walk this year in terms of the rate recovery of those higher costs, can you speak a little bit more to the recent trends you're seeing there and maybe bridge that back to your expectations last fall when you laid out the latest plan. How do you think about these expenses impacting customer bills over the next few years?

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

Yeah, Rich, a good question, and Cheryl and John, certainly can weigh-in on this too, but we have seen, I'd say a continuation of the impacts that we started seeing really in the second quarter of last year. While some of the increases in certain costs may have started to level out a bit, they still are all elevated, and we expect that to continue for some time. I think the real key here and you touched on it is the work we did in the regulatory arena to address these costs early-on and we've estimated that roughly 75% of the cost we will experience in '23, we've got fully baked into rates as a result of those cases we did last year. And as Cheryl mentioned or may be John did in the prepared remarks in the Indiana case we just filed, we've addressed it there too. So we think we have done as good a job as could be done to address these costs early-on so that they don't have bottom-line impact, but we continue to see a fair amount of pressure here on the cost side.

## Q - Richard Sunderland {BIO 20365913 <GO>}

Okay. Great. I appreciate all the detail there as well. And thank you for the time today.

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

Sure. Thanks Rich.

## Operator

Your next question comes from Angie Storozynski with Seaport. Please go ahead.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. So first maybe like a presentation question. So you no longer show us the breakdown of earnings by segment, right. But no bridge for regulated earnings, market-based and corporate. Can you give us this breakdown for the quarter?

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

Well, I think the waterfall that you have there probably is as good as there is. The impact from the market-based business, which is now just military is very small, and on a year-over-year basis, just not much of a variation. The other segment, I think we highlighted, the primary driver there, which would have been again the sort of true-up gain on the HOS sale in the first quarter of last year.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. I mean, I try to actually imply it from the 10-Q and I couldn't, but anyway okay. Moving on to, you didn't mention the weather as a factor in earnings and that's I think something that we've seen on the electric side and a couple of your Water peers have also highlighted as a drag on the quarter. Was that a driver at all?

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

Yeah, first quarter for us is not much of a weather impact year. Cheryl, you want to just talk about seasonality or?

## A - Cheryl Norton {BIO 17107572 <GO>}

Yeah. Our biggest weather impacts are going to be in second and third quarter. Sometimes it will spill-over into the fourth quarter. Typically, the first quarter, unless the weather is really, really severe in one direction or another, we won't see any weather impact at all. And this year, I think the weather was not that dramatic for us to see that impact, so I think we're pretty solid.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then lastly, I noticed that you're pursuing an appeal about the denial of the acquisition adjustment related to the Shorelands acquisition, and as the decision will be issued sometime in 2023, so can you, again, I haven't followed that closely, but can you give us a sense of, is this still a long shot, I mean how important is it for any future growth aspirations you might have, and I know that that transaction itself is only $29 million. So that's not that big a deal as far as the goodwill impact, but again, any implications related to this pending case?

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

Yeah, really no implications of any materiality, but Cheryl, you want to comment on status here.

## A - Cheryl Norton {BIO 17107572 <GO>}

Yeah, Angie, the issue is still kind of hanging out there, but there's going to be no real impact to us from a financial perspective. And in all honesty, we found other ways of doing deals, so that we're not so worried about the precedents that this decision sets for us. We still believe like we have a strong case, but in the grand scheme of things, that really has little to no impact.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then just going back to PFAS, I'm sorry. So I looked at these rules, pretty strict requirements with penalties, but again, I think the problem we've seen over the last couple of decades is what EPA hasn't been really imposing those penalties or really going after the systems that have been non-compliant with the regulations. So I'm just wondering is how big a difference would there be with this one as far as like for example, your municipal grow -- municipal M&A or any sort of additional pressure that that should exert on privately or municipally owned systems, again because EPA hasn't been particularly diligent on imposing on the rules?

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

Yeah. I think it's a fair observation, Angie and it's obviously one of the things that we'll address in our comments. We think that these rules should apply obviously to all providers and that EPA should use its authority to enforce the rules. There is a track-record here, so we'll have to again sort of comment on that. As it relates to our views on acquisition potential, John, you want to comment on that? We think there could be some opportunity, but I think you've hit on the key issue.

## A - John C. Griffith {BIO 22806522 <GO>}

Yes, Angie, I'd just say that we look at this issue as another reason on the list for why municipals may choose to sell to us in the future.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

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

Thanks Angie.

## Operator

The next question comes from Paul Zimbardo with Bank of America. Please go ahead.

## Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi, good morning, team.

## A - John C. Griffith {BIO 22806522 <GO>}

Good morning.

## Q - Paul Zimbardo {BIO 18277958 <GO>}

And congrats on the successful equity offering. Just curious, did you consider placing the full bill $2 billion of equity for the whole plan to just take it out of the way given the strong demand? And I believe I heard you say that you expect the equity offering to be EPS neutral on for the year 2023 versus plan, was that correct?

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

John, you want to comment here?

## A - John C. Griffith {BIO 22806522 <GO>}

Sure. Yeah. On the first part of the question, we tried to remain consistent with the messaging that we had provided to investors in the past. So as we thought about the magnitude of the issuance, we wanted to stay within that range, and we did so. With regards to dilution, that's correct. We expect that just given our ability to to pay-off debt and with where interest rates are and given how we trade from a valuation perspective we look at the issuances as EPS neutral.

## Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Great. And then switching topics, I noticed that Indiana legislation as well, does that influence higher any of that perspective capital or acquisition priorities in the State?

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

John, you want to comment on that. This is, yeah, the question really, Paul, is around this consolidated rate issue that legislation you're referring to.

## Q - Paul Zimbardo {BIO 18277958 <GO>}

And the additional mechanism from the new legislation that was enacted, it seems like it could help reduce regulatory lag prospectively.

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

Yeah. I think that's probably fair, and I do think it probably creates opportunity around acquisitions again, I think it gives us more leverage to to grow in Indiana and have use that consolidated revenue mechanism to lessen the bill impact on customers. I think it's a very important piece of legislation from that perspective to again sort of facilitate growth.

## Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Great. Thank you, team. I appreciate it.

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

All right. Thanks, Paul.

## Operator

The next question comes from Gregg Orrill with UBS. Please go ahead.

## Q - Gregg Orrill {BIO 1532939 <GO>}

Yes. Thank you. Congratulations. I was wondering if I could ask your view on sort of Florida as a market for acquisitions. I think there's legislation that's progressing there on fair value. And then just how you're thinking about the pursuit of litigation regarding the PFAS rules to help pay and sort of how that would get folded in versus the timeline for compliance? Thank you.

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

Well, those are two big topics, Gregg. First, maybe on Florida, let me just comment there. I think and obviously, we are following developments there as we do sort of across the nation around legislative actions, regulatory actions, etc. But I'd say our answer is the same as it always is on potential growth into other states, we really have to see an opportunity to grow substantially in a particular state. We look at regulatory environment, legislative environment, those types of things and we're constantly looking at opportunities, but all of the parts have to sort of come together I think for us to do anything significant beyond our existing footprint, which of course, we like a lot. We think we have optimized our footprint. We like the environments that we're in. We have great opportunities for growth in our existing jurisdictions and obviously that's where our focus continues to be.

On your second question around PFAS and litigation and impacts there, as Cheryl mentioned, there is litigation and has been for some time around this. And our goal here, I think the industry's goal is to, well, we feel responsible for helping to solve the problem and we are best positioned to do the treatment, we do think it's important that those that are responsible for the production of the chemicals also be held responsible. So we are -- our states are actively involved in that litigation, and we'll continue to be and we do think that's an important part of this overall equation that has to be worked through. And again, customer affordability is at the heart of that. We don't think it's necessary or appropriate for customers to pay for things that they really aren't responsible for. So we'll be actively pursuing that litigation along with the rest of the industry.

## Q - Gregg Orrill {BIO 1532939 <GO>}

Okay. Thanks for the comments.

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

Sure. Thank you.

## Operator

(Operator Instructions) The next question comes from Jonathan Reeder with Wells Fargo. Please go ahead.

## Q - Jonathan Reeder {BIO 18909775 <GO>}

Hey, good morning, team. I just wanted to build a little bit on Angie's earlier question just regarding kind of the segment break-down a little bit. Can you give us some directional guidance, I don't think your full-year was exactly broken out by the two segments and was kind of other being recast to include you know what's left of market-based and other historical parent and other segment. I think full year 2022 was $0.19 from that segment, but that included I think it was in $19 million pre-tax gain. So how should we be thinking about I guess full year '23 kind of overall drag there?

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

Boy, Jonathan, we're going to go back and look at those numbers, those numbers don't sound right to me for the prior year. We had some true-up activity related to the HOS sale and maybe that's getting confused a bit here, but all that's remaining is our Military Services Group and the earnings year-over-year really not much of a variance and it's a relatively small part of the overall earnings contribution anyway. But we can follow back up on that reconciliation, the numbers that you're quoting, because again, I don't think that's reflective of the size of the business.

## Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. So, but I mean, it sounds like, if we just strip out maybe that $19 million pre-tax true-up gain or whatever that you're kind of thinking, the other part of the business is kind of flattish when we look at it from '22 to '23?

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

Yeah, certainly the Military Services Group operations year-over-year relatively flat. We'll need to verify that $19 million pre-tax number you're quoting there. That doesn't ring a bell to me. I mean, I know there's a number there, I just don't recall it being that. So we'll have Aaron follow back up with you on that, just to make sure we got the right numbers there.

## Q - Jonathan Reeder {BIO 18909775 <GO>}

Okay. All right. Great. Thanks. I appreciate it.

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

Sure. No problem.

## Operator

This concludes our question-and-answer session and concludes the conference call. Thank you for attending today's presentation. You may now disconnect.