# Q2 2019 Earnings Call

## Company Participants

- Edward D. Vallejo, Vice President of Investor Relations
- Susan Hardwick, Executive Vice President and Chief Financial Officer
- Susan N. Story, President and Chief Executive Officer
- Walter J. Lynch, Chief Operating Officer

## Other Participants

- Analyst
- Jonathan Reeder, Analyst, Wells Fargo Securities
- Michael Gaugler, Analyst, Janney Montgomery Scott LLC
- Richard Verdi, Analyst, Coker & Palmer Investment Securities, Inc.
- Ryan Greenwald, Analyst, Bank of America Merrill Lynch

## Presentation

### Operator

Good morning and welcome to American Water's Second Quarter 2019 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 August 8, 2019. US callers may access the audio archive toll-free by dialing 1-877-344-7529, International callers may listen by dialing 1-412-317-0088. The access code for replay is 10133489. The audio webcast archive will be available for one year on American Water's Investor Relations website at ir.amwater.com/events. (Operator Instructions)

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

### Edward D. Vallejo {BIO 16076814 <GO>}

Thank you, Andrew and good morning everyone and thank you for joining us here today. So during the course of this conference call, both in our prepared remarks and in 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 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 earnings release and in our Form 10-Q each as filed with the SEC. Reconciliations for non-GAAP financial information discussed in this conference call including adjusted income, adjusted earnings per share, adjusted return on equity and our adjusted regulated O&M efficiency ratio 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. At the end of our prepared remarks, we will open the call up for questions.

And now I will turn the call over to American Water's President and CEO, Susan Story.

## Susan N. Story {BIO 3335156 <GO>}

Thanks, Ed. Good morning, everyone, and thanks for joining us. Today our CFO, Susan Hardwick, will cover our second quarter financial results and our COO, Walter Lynch, will give key updates on our operations. American Water employees delivered strong results in the second quarter despite the significant impact of unusually wet weather throughout our service area. I'll highlight just a few of their accomplishments this quarter.

First, we continue to deliver strong consistent growth and financial performance. Adjusted earnings were up 13.3% compared to last year despite the wet weather I just mentioned. As a reminder, weather impacts typically occur in the third quarter, but the historical rains and flooding in the second quarter resulted in a $0.05 quarter-over-quarter difference. We saw growth in our regulated and market based businesses during this quarter. We added more than 37,000 customer connections year-to-date through both closed acquisitions and organic growth. This includes welcoming over 23,000 wastewater customers in Alton, Illinois where we have been privileged to provide water for our Company's entire 133-year history. Alton is also home to one of our regulated business customer care centers and Homeowner Services customer center.

We finalized general rate cases in Kentucky and Indiana where we have invested more than $600 million combined since our last cases to ensure clean, safe, and reliable water for our customers. Walter will give more details on our regulatory activities in just a minute. All three market-based businesses grew with especially strong growth from Homeowner Services. We were proud to join Philadelphia officials in May to announce that our water and sewer line protection partnership is already having a significant positive impact to customers in the Philadelphia community. Also in the quarter, we successfully completed a $1.1 billion debt offering and S&P affirmed our A corporate credit rating with a stable outlook. We're pleased with S&P's decision. Having access to capital at lower debt costs enhances our ability to make needed investments while minimizing the cost impact on the customers we serve.

Slide 6 shows our year-to-date performance. The foundation for our earnings growth continues to be the capital investment we make in our regulated operations. We invested almost $800 million during the first half of the year with virtually all dedicated to our regulated business. We expect to invest $1.8 billion to $1.9 billion for the year reflecting both the strong acquisition closings this year along with continued and growing need for infrastructure investment in our regulated states. And as I mentioned, results for our market-based businesses continues to be strong.

Moving to Slide 7. With this continued strong performance and our commitment to the execution of our strategies, we are affirming our 2019 adjusted EPS guidance of $3.54 to $3.64 per share. American Water will invest $8 billion to $8.6 billion from 2019 through 2023 as we continue to invest in our infrastructure. We have a line of sight to a 31.5% O&M efficiency ratio at 2023, which is a key element of our commitment to ensure affordability for our customers. And under our 2019 to 2023 plan, we do not see the need to issue equity. In summary, we remain on track to meet our long-term earnings growth target in the top half of the 7% to 10% range.

Now Walter will give a more detailed update on our regulated business.

## Walter J. Lynch {BIO 6064780 <GO>}

Thanks, Susan. Good morning, everyone. As Susan said, our regulated businesses had a solid first half of the year in spite of the very wet weather in the second quarter. We continue on a steady path making capital investments to ensure clean, safe, and reliable water service while we continue to improve our operating efficiencies to benefit our customers. We also continue to grow through acquisitions, closing on 12 transactions through the end of July.

Let me start on Slide 9 with the weather impact for the quarter. As a reminder, we had a $0.01 positive benefit from weather -- warmer weather in the second quarter of 2018. In the second quarter of 2019, we experienced significant precipitation in the Midwest and the Northeast. In fact the National Oceanic and Atmospheric Administration reported that the past 12 months in the United States have been the wettest on record and that 2019 had the most rain since records began 124 years ago. As a result of these extreme conditions, we had a total quarter-over-quarter unfavorable impact of $0.05. By the way, this little meteorologist is the grandson of our Vice President of Regulatory Services.

Turning to Slide 10. We continue to have a very busy regulatory calendar focused on needed investment with a keen eye toward reducing customer bill impacts. I'll cover a few highlights. In Kentucky, we received approval from the Kentucky Public Service Commission for new water rates effective June 28th with an authorized return on equity of 9.7% and an equity ratio of 48.9%. The case was driven by more than $100 million in investment since filing our last rate case in January 2016. The Kentucky Public Service Commission also approved the implementation of a qualified infrastructure program charge that will allow the company to replace aging pipes as well as other assets while reducing regulatory lag. This is now our ninth state with an infrastructure surcharge mechanism in place.

Moving to Indiana. The Indiana Utility Regulatory Commission approved the settlement agreement reached with other parties in June with an authorized return on equity of 9.8% and an equity ratio of 53.41%. The primary driver of the case was the company's investment of $542 million since our last case in 2014. California American Water put into effect this 2018 rate case decision on May 11, 2019 resulting at a $4 million annualized increase in authorized revenue. The decision also approved $103 million in infrastructure improvements. Rates were consolidated for several service areas in Northern California to ensure reliable water service at an affordable price.

We also have two pending rate cases in Virginia and California. In Virginia, we filed a general rate case in November 2018 requesting an overall increase of $5.6 million driven by approximately $98 million in infrastructure upgrades since April 2017. California American Water filed for new rates covering 2021 through 2023 requesting an increase in authorized revenue of $46.6 million over three years beginning with a $26 million increase proposed for January 1st, 2021. The request includes $197 million for infrastructure improvements throughout the state. We expect the decision on the case in late 2020 with new rates taking effect on January 1st 2021.

Moving on to Slide 11. We continue to grow the size of our footprint with 12 water and wastewater acquisitions occurring in seven states. These closed acquisitions added 30,700 customer connections including 23,000 new wastewater customer connections from the Alton, Illinois acquisition. Alton Mayor Brant Walker stated that the sale of the wastewater system to Illinois American Water is "in the city's best interest and provide significant net proceeds to help fund other city needs and priorities". This is another example of how we're growing wastewater in areas where we serve water customers, leveraging our tremendous expertise and our commitment to the communities we serve. We also welcome 6,500 new customer connections through organic growth and we welcome another 38,200 customer connections through 29 signed agreements in eight states. These agreements reflect our commitment to provide water and wastewater solutions to communities across the country.

Moving to Slide 12, customers remain at the center of every decision we make. This means smart investments balanced by efficient operations and capital deployment. We invested $792 million in our regulated operations in the first half of this year with $712 million dedicated infrastructure improvements and $80 million funding acquisitions for our regulated business. We minimized the customer bill impacts of these investments through a continued focus on controlling O&M costs. These cost savings are driven by optimizing capital spend through value engineering, utilizing constructive regulatory mechanisms and deploying technology developed with input from our employees and our customers. As you can see, we continue to make progress toward our long-term goal of 31.5% by 2023. For example, we've developed and started to deploy a web-based work management software for our field service representatives. This software will put the control of daily planning in the hands of local operations, allowing our field service representatives to manage and optimize their own work, quickly reroute to emergency orders and balance employees work to ensure we are meeting the needs of our customers.

Moving to Slide 13. I want to highlight the importance of the investments there we make to improve the resiliency of our assets. What you're looking at is a photo of the recent flood in Davenport, Iowa when the Mississippi River crested at a record 22.7 feet. The picture was taken from the vantage point of our water treatment plant and is proof that our focus on the resiliency of our systems benefits our communities. This particular plan is secured and protected by 2,200 foot-long flood wall that was completed in 2013. The $11.8 million project was a successful partnership between Iowa American Water and the US Army Corps of Engineers, safeguarding the drinking water supply for over 130,000 residents in the Iowa, Quad Cities. This is only one example of how we continue to make necessary investments to ensure that our customers receive reliable and high quality water service.

Finally, I want to recognize our Illinois American Water President Bruce Hauk, who was awarded the 2019 Inclusion and Diversity Award by the National Black Chamber of Commerce during its

Annual Conference last week. This award is presented annually to an individual who champions inclusion and diversity within their company. American Water sees inclusion and diversity as vital elements in creating an environment in which our differences are celebrated and contribute to our success. It's also critical to us that our employees reflect the communities that we're privileged to serve. So congratulations Bruce for living our values. So it was a good quarter with continued growth, smart investments, and engaged employees, driving efficiencies and quality results, all to benefit our customers.

With that, I'll turn the call over to Susan for more detail on our financial performance.

## Susan Hardwick {BIO 16618718 <GO>}

Thank you, Walter and good morning everyone. I'll start on slide 15 with a summary of results. Second quarter 2019 consolidated GAAP earnings were $0.94 per share compared to $0.91 per share in 2018. 2018 results included an $0.08 per share after-tax benefit from the Freedom Industries insurance settlement. Excluding the 2018 benefit, adjusted earnings per share were up 13.3%, driven primarily by growth in the regulated businesses but also strong growth in the market-based businesses and some earnings from the Parent. The regulated business segment was up $0.01 per share compared to adjusted 2018 earnings, increasing 1.2%.

Susan and Walter already discussed the unusually wet weather conditions in the second quarter. And without that unfavorable impact, the regulated business segment results would have increased by 7%, which is well in line with our rate base and EPS growth objectives. Both the market-based businesses and the parent company were each up $0.05 per share.

Our 2019 adjusted earnings through June 30 were $1.55 per share or a 9.2% increase over the same period last year. Our regulated businesses increased $0.02 per share. Without the unfavorable weather impact, the regulated business segment results would have increased by about 5% year-to-date compared to last year. Our market-based Businesses increased $0.09 per share primarily from Homeowner Services. And finally the parent results improved by $0.02 per share year-over-year.

Moving on to Slide 16, let me walk through the adjusted quarterly results by business. Regulated operations were up $0.01 per share in total as I mentioned. We had a $0.10 per share increase from additional authorized revenue and surcharges to support infrastructure investment acquisition and organic growth. You will also see on this slide the $0.05 per share quarter-over-quarter unfavorable impact of weather. Next, O&M expense increased slightly, and depreciation and interest increased $0.03 per share, mainly to support regulated acquisition and investment growth. Turning to the market-based Businesses, the $0.05 per share increase was mainly from our Homeowner Services Group due to growth in partnerships and the full-year impact from the acquisition of Pivotal Home Solutions in 2018. The Military Services Group and Keystone combined for a penny per share increase and another penny from the final wrap-up of the exit of operations in Canada. Finally, the Parent recognized earnings of $0.03 per share due to the sale of a legacy investment. The timing of expenses and other items added $0.04 per share in the quarter, which you'll note is largely gone on a year-to-date basis. And as expected, interest expense was a $0.02 per share drag in the quarter.

Moving on to Slide 17, six-month adjusted EPS increased 9.2% year-over-year even with the weather impact. Many of the drivers of the variances in the quarter noted previously also explain the year-over-year results.

Moving to Slide 18. As Walter detailed, it has been a very active year so far on the regulatory front. We have $84 million in annualized new revenues this year and this includes $45 million from rate cases and $39 million from infrastructure surcharges. We have also filed requests and are awaiting final orders on two rate cases and three infrastructure surcharge proceedings for a total annualized revenue request of $39 million. Our weighted average authorized ROE stands at 9.8%. The continued successful execution of our regulatory strategy is a key element of our ability to consistently deliver results.

Moving to Slide 19. Because of our strong performance and continued focus on execution, we are affirming our 2019 adjusted earnings guidance range of $3.54 to $3.64 per share. We are also affirming our long-term earnings compounded annual growth expectation on an earnings per share basis to be in the top half of the 7% to 10% range.

Moving to Slide 20. As we noted in the release on July 26 2019, the company's Board of Directors declared a quarterly dividend of $0.50 per share payable on September 4. This reflects the continuation of the 9.9% increase in the annual dividend declared by the Board on April 17th of 2019. We continue to be a top leader in dividend growth. We have grown our dividend at a compound annual growth rate of 10.1% over the last five years and we expect to continue that growth, consistent with our EPS growth expectation at the high end of the 7% to 10% range. We continue to deliver results as expected. For the 12 months ended June 2019, our total company consolidated return on equity was 10.2%. We believe that delivering on results combined with our strong earnings growth and superior dividend growth expectations continue to provide excellent value for our investors.

And with that, let me turn the call back over to Susan.

## Susan N. Story {BIO 3335156 <GO>}

Thanks, Susan. Last week, we were very pleased to add three new independent directors to our American Water Board. Kimberly Harris, Patricia Kampling and Lloyd Yates are highly seasoned utility executives who bring combined strengths and expertise in regulatory operations, business continuity technology people leadership and a deep commitment to customers and communities. They will make our already outstanding Board even better. This matters to those who invest in American Water. When deciding the value of an investment, we know that the profiles of our traditional investors are evolving and expanding. We've described some of those profiles on this page. We know that our traditional utility investors need us to keep our conservative, predictable, low-risk and dividend growth priorities. We also know that the growing power of ESG investors is very consistent and complementary to our environmental leadership commitment, our leading governance structure and our focus on to our employees, customers and communities.

Research shows some pretty interesting facts on who some of these investors are which we show on this slide. Likewise, the uniqueness of the different sectors we touch provide a choice for both domestic and international investors looking for infrastructure, environment, growth, water and other specific personal interest areas. Even with somewhat varying priorities, we know that all of our investors expect predictable financial performance, successful execution of our strategies, transparency, integrity, strong governance and a deep commitment to our customers and communities. That's the American Water story and it's one that we're proud to tell.

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

# Questions And Answers

## Operator

(Operator Instructions) And the first question comes from Julien Dumoulin-Smith of Bank of America. Please go ahead.

## Q - Ryan Greenwald {BIO 20960461 <GO>}

Good morning, everyone. This is actually Ryan Greenwald on for Julian.

## A - Susan N. Story {BIO 3335156 <GO>}

Hi, Ryan.

## Q - Ryan Greenwald {BIO 20960461 <GO>}

Hi, thanks for taking our questions. Can you talk about your strategy in states that you don't currently operate in? As more and more states adopt fair market value legislation, what states are most appealing for you and how big can potential opportunities be?

## A - Susan N. Story {BIO 3335156 <GO>}

Sure. So, we -- currently our growth model is to continue to do tuck-ins and acquisitions in the states where we're present. We do have a model, however, where we have a corporate business development group and we look across the country and we actually rate each day pretty much on a couple of factors. One is the regulatory environment. The second is the business environment, how open are they to private water. The third one is, is there a way within five years we could have at least 50,000 customer connections because if not, we don't think that it is a benefit because it could hurt our brand as being efficient and making sure that we're providing the best economic value for all of our customers. So we don't disclose our ranking of those states, but we are very much aware of what's going on in all the states across the country and we do those evaluations on a frequent basis.

## Q - Ryan Greenwald {BIO 20960461 <GO>}

Got it. That's helpful. And then it looks like the quarter got some help from the asset sales to help offset the unfavorable weather. How much margin do you guys have built into the forecast for wet weather in second half '19?

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

Well, we don't have anything built into the forecast for the last half of the year. We would expect normal weather. We talk about sort of a range of weather dollars that we would anticipate before we would have a significant impact on guidance. We obviously saw a little bit warmer weather in July, but we've got a lot of the third quarter left so we'll see how the rest of the year plays out.

## A - Susan N. Story {BIO 3335156 <GO>}

And keep in mind, Ryan, we always talk about the fact that we build in a plus or minus $0.06 in our guidance range. So, that's what we'll be looking at in the third quarter. So you can always expect, and that doesn't mean that outside of that we would make any changes, but it means that built into our range we're already expecting that type of variability.

## Q - Ryan Greenwald {BIO 20960461 <GO>}

That's helpful. Thank you. And then just lastly, the $100 million increase in CapEx, is that purely from acquisitions?

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

Yes. That really is the driver, Ryan.

## Q - Ryan Greenwald {BIO 20960461 <GO>}

Thank you. Thanks for the time.

## Operator

The next question comes from Jonathan Reeder of Wells Fargo. Please go ahead.

## Q - Analyst

Good morning, Susan, Linda, and Walter. How are you all?

## A - Susan N. Story {BIO 3335156 <GO>}

Okay. It's Susan, Susan, and Walter; now Jonathan. We are doing great.

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

Sorry about that.

## A - Susan N. Story {BIO 3335156 <GO>}

if you just say Susan, you pretty much get two-thirds of us so...

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

It's the start of a long day so I apologize for that. So if you could -- could you expand a little bit on the parent side of the legacy investment, what it pertained to and why you elected to include it in the ongoing $0.94 number?

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

The legacy investment we referred to, the $0.03 impact there, really relates to a holding that dates back to probably 20 years ago to a previous investment and we just look at opportunities from time to time when they present themselves to monetize investments like that and the opportunity presented itself in this particular quarter.

## A - Susan N. Story {BIO 3335156 <GO>}

And also the reason that we included it is we rarely consider anything to be non-GAAP, we try very hard not to. There's a lot of puts and takes we do. If it's a one-time change in tax in a state, that can be $0.04 or $0.05, we don't pull that out. We have as we did if it's a sale of a business like CSG, we pull that out. But typically unless it's a significant and I mean a significant insurance type thing, we went through Freedom Industries or the one-time taxes, we just don't want to get into having these big laundry lists of non-GAAP items. So each quarter we have puts and takes on both sides that are one-time, but they tend to balance out over time.

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

Okay. Was the sale contemplated in the guidance range when you originally set it?

## A - Susan N. Story {BIO 3335156 <GO>}

Again, we don't look at everything on the balance sheet and we don't look at that so it wasn't really contemplated. As we look at puts and takes, it was just one of the things that we had out there. We also have had some negative I know that there have been a couple of times that we increased reserves for different type of things related to insurance or any type of legal ongoing and we don't pull those out either.

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

Okay. And then I guess maybe asked a little bit different way, how did the Q2 results compare to your internal plan because I know you have indicated that Q1 was a $0.01 better?

## A - Susan N. Story {BIO 3335156 <GO>}

So we are so good at doing our budget, Jonathan, that -- no, we don't give quarterly guidance. So one of the things we have not given quarterly guidance since we IPO-ed back out in 2008 and 2009 and there is a reason because while I know that all utilities have variability during the year, in our business for example, as Walter mentioned, with the wettest on-record; we tend to look at a range and we look at a best case, worst case, expected case and there are so many puts and takes in there. But there's a reason we don't give quarterly guidance and there's also a reason we give annual guidance and of course you all like to model and look at that and we understand that and we do have budgeting inside. But this is why we don't give quarterly guidance.

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

The only reason I asked it because on the Q1 call, you indicated you were a $0.01 better than your internal plans though.

## A - Susan N. Story {BIO 3335156 <GO>}

Yeah.

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

It seems like you wanted to continue that comment.

## A - Susan N. Story {BIO 3335156 <GO>}

So, it was a good quarter.

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

Okay. And then the Philly partnership, on the Q1 call you said that was like 100,000 contracts. Just wondering how that growth has progressed in the last three months, what are you up to now?

## A - Susan N. Story {BIO 3335156 <GO>}

Yes. I don't have that number and I'm not sure that we have that. We can get that to you. One of the things we've seen in Philadelphia is a -- several of the elected officials see this as such a benefit to their citizens that they're being very vocal about the benefits of this program and what we did see is that it has already shown itself to be very helpful to many of the constituents who have taken up this warranty service and that's our point about it's doing really well, it's continuing to do well, and we're seeing a lot of community support.

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

Okay, great. And then the last one, are you still thinking that there could be three military bases awarded this year and if that is the case, should we assume that you've bid on all three of those?

## A - Susan N. Story {BIO 3335156 <GO>}

So, we are expecting up to three. It's always hard as you know, Jonathan, to predict exactly what the Department of Defense and these services will do. But there could be up to three based on their schedules and we are very hopeful. It is a very competitive business. We know that we can operate not just efficiently and effectively, but we have leading R&D in terms of dealing with emerging contaminants such as P5s and all of the type of perfluoro-alcohols that fall into that and so we are very hopeful that from a value-added standpoint that we will be the successful winner on all of them, but we will see.

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

Okay. So, you are involved in all three of those that you're saying?

## A - Susan N. Story {BIO 3335156 <GO>}

The three that will be awarded that we talk about are those that we are involved with, yes.

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

All right. Okay. Thank you so much for the time this morning. And sorry, Susan - new Susan.

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

No problem.

## Operator

The next question comes from Richard Verdi of Coker & Palmer. Please go ahead.

## Q - Richard Verdi {BIO 15139674 <GO>}

Hey, good morning guys and thanks for taking my call. I just wanted to say that's a really nice job with earnings this quarter of managing the weather situation, I mean that's kind of a way to manage the business that can be unfavorable, that's a nice quarter.

## A - Susan N. Story {BIO 3335156 <GO>}

Thank you, Rich.

## Q - Richard Verdi {BIO 15139674 <GO>}

Yeah. So when I look at, I have a kind of a something pertaining to the P&L. So when I look at my model I had $0.94 for the quarter, you guys delivered $0.94, $0.88 on the top, you guys delivered $0.82. So I mean it's pretty tight across up and down the model. However I mean inside of there was, I mean, well, it was all tight, there was a little bit of noise and when you add up that noise there is somewhat of an issue where really some of that was met with the below the line other net of $15 million. Can you just discuss maybe a little bit maybe as going off with

Jonathan there old Susan or new Susan please, the $15 million and what we should think about that going forward for modeling purposes?

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

Well, I guess this is new Susan. I would probably say that maybe we need to take this a bit offline for a detailed conversation around that. I think Susan summarized just a few minutes ago that we view this is a very strong quarter and it is a matter of transactions that occur and we do a nice job. I think of sort of mitigating some of the impacts from weather and other things, but we can certainly have a more detailed conversation with you about some of your model inputs if that would be helpful.

## Q - Richard Verdi {BIO 15139674 <GO>}

Got it, okay. I appreciate that. Thank you. And then I just have a follow-up question to a question I had in the last quarter call pertaining to the New Jersey Department of Environmental Protection, setting the standards for the fast contamination earlier this year, I mean that's something that should act as an impetus for privatization in a state, and in a state, I mean obviously, New Jersey, it's imperative to the American story. And so now that we're few months removed from that announcement out of the New Jersey DEP camp, I was wondering if maybe you could give us a sense of whether or not the company is potentially seeing an uptick in privatization chatter with municipalities as a result of those P5 standards out of the New Jersey DEP?

## A - Walter J. Lynch {BIO 6064780 <GO>}

Yeah. Hi Rich, Walter here. How are you?

## Q - Richard Verdi {BIO 15139674 <GO>}

Hey Walter.

## A - Walter J. Lynch {BIO 6064780 <GO>}

I'm all right. How are you?

## Q - Richard Verdi {BIO 15139674 <GO>}

Good. Good to hear your voice.

## A - Walter J. Lynch {BIO 6064780 <GO>}

Thanks. And the answer is I'd say yes. This is coupled with the Water Quality Accountability Act with P5 standards, a lot of the municipal leaders are looking for options and we're in discussions with them about sharing our expertise and buying their systems and integrating what they do every day into what we do every day. So I think it has contributed to more discussions with municipalities as they face these challenges and we're ready to help them and really to help the communities meet these challenging standards. So yes, I would say yes to your question.

## Q - Richard Verdi {BIO 15139674 <GO>}

I appreciate it. Thanks, Walter and Walter, we got to get back after Malibu together. Rest of you guys, I appreciate the time. Thank you very much.

## A - Walter J. Lynch {BIO 6064780 <GO>}

Thanks, Rich.

## Operator

And I see that there is one more question. That question comes from Michael Gaugler of Janney Montgomery Scott. Please go ahead.

## Q - Michael Gaugler {BIO 7139923 <GO>}

Good morning, everyone.

## A - Susan N. Story {BIO 3335156 <GO>}

Good morning.

## Q - Michael Gaugler {BIO 7139923 <GO>}

Just wondering if you have any concerns on project work in your Military Group. It appears we're going to shift about $3.6 billion for military-based construction to border security. Kind of how you're thinking about that.

## A - Susan N. Story {BIO 3335156 <GO>}

It's a great question, Mike. We actually have worked with our MSG folks and they have been talking with the commanding officers of the basis, the 14 basis we serve. Right now, we don't see an impact from those. These projects especially the ones beyond the O&M that our special capital projects on base are typically decided a few months out and as you know, September 30 is the end of the fiscal year. So at this point we're seeing actually an uptick from where we were in the last year or so in terms of interest in getting projects done and right now we're not seeing any impact. We'll continue to monitor that and we are having conversations.

## Q - Michael Gaugler {BIO 7139923 <GO>}

And then just as a follow-up. Wondering if you think that could slow down any new rate -- any new base contract awards.

## A - Susan N. Story {BIO 3335156 <GO>}

You know that's interesting. We don't see that. In fact what we are seeing is there are several out there that are in process and we've not seen those slow down. In fact as I mentioned earlier, the three that we expect to be awarded are active. They have a big process and you basically participate with them unlike where you put a bid and you don't hear for a long time. We actually have constant contact with them and we've not seen those schedule down this year at least for those three that are expected to be awarded.

## Q - Michael Gaugler {BIO 7139923 <GO>}

Great. All right, thank you.

## A - Susan N. Story {BIO 3335156 <GO>}

Thank you, Mike.

## Operator

Seeing no further questions, I'd like to turn the call back over to Susan Story for closing remarks.

## A - Susan N. Story {BIO 3335156 <GO>}

Thank you, Andrew. Thank you all for participating in our call today. Please note we value you as our investor owners and as the financial analysts who research our company for the benefit of your clients and their futures, we always want to be very transparent in all of our discussions and dealings with you, so you can have complete confidence in your decisions around our company and the investments in our stock. If we have not been able to address your question or you have additional questions, please call Ed and Ralph and they'll be happy to walk through anything that you'd like to talk about. Thanks again for listening.

## Operator

The conference is now concluded. Thank you for attending. You may now disconnect.