

Essential Utilities, Inc. and Subsidiaries
Reconciliation of GAAP to Non-GAAP Financial Measures
(In thousands, except per share amounts)
(Unaudited)

The Company is providing disclosure of the reconciliation of the non-GAAP financial measures to the most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures "adjusted income" and "adjusted income per common share" provide investors the ability to measure the Company's financial operating performance by adjustment, which is more indicative of the Company's ongoing performance and is more comparable to measures reported by other companies. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results.

This reconciliation includes a presentation of the non-GAAP financial measures "adjusted income" and "adjusted income per common share" and have been adjusted for the following items:

- (1) Transaction-related expenses for the Company's Peoples acquisition that closed on March 16, 2020, which consists of costs recorded as operations and maintenance expenses for the three months ended March 31, 2020 and 2019 of \$25,397 and \$6,646, respectively, primarily representing expenses associated with investment banking fees, obtaining regulatory approvals, legal expenses, and integration planning. Additionally included in transaction-related expenses for the three months ended March 31, 2019 are mark-to-market fair value adjustments of \$34,782 associated with interest rate swap agreements for debt issued related to the Peoples transaction. The interest rate swap agreements were settled on April 24, 2019, which coincided with the debt financings to partially fund the Peoples acquisition;
- (2) In order to illustrate the full-year 2020 effects of the Peoples acquisition as if this transaction closed on January 1, 2020, this adjustment includes both the estimated impact of Peoples Gas pre-tax operating results for the period in 2020 prior to closing from January 1, 2020 to March 15, 2020, as well as the additional net interest expense expected to have been incurred for partially funding the estimated purchase price of Peoples;
- (3) The income tax impact of the non-GAAP adjustments described above.

These financial measures are measures of the Company's operating performance that do not comply with U.S. generally accepted accounting principles (GAAP), and are thus considered to be "non-GAAP financial measures" under applicable Securities and Exchange Commission regulations. These non-GAAP financial measures are derived from our consolidated financial information, if available, and is provided to supplement the Company's GAAP measures, and should not be considered as a substitute for measures of financial performance prepared in accordance with GAAP.

The following reconciles our GAAP results to the non-GAAP information we disclose :

	Quarter Ended March 31,	
	<u>2020</u>	<u>2019</u>
Net income (GAAP financial measure)	\$ 51,781	\$ 16,924
Adjustments:		
(1) Transaction-related expenses for the Peoples transaction closed March 16, 2020	25,573	41,428
(2) Adjustments to provide full-year 2020 run rate of Peoples operating results, including additional net interest expense	108,132	-
(3) Income tax effect of non-GAAP adjustments	(31,803)	(8,628)
Adjusted income (Non-GAAP financial measure)	<u>\$ 153,683</u>	<u>\$ 49,724</u>
Net income per common share (GAAP financial measure):		
Basic	\$ 0.22	\$ 0.09
Diluted	\$ 0.20	\$ 0.09
Adjusted income per common share (Non-GAAP financial measure):		
Basic	\$ 0.65	\$ 0.28
Diluted	\$ 0.60	\$ 0.28
Average common shares outstanding:		
Basic	<u>236,122</u>	<u>178,213</u>
Diluted	<u>255,054</u>	<u>178,552</u>