

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 of \$12,744 recorded as operations and maintenance expenses for the three months ended June 30, 2019 and \$25,397 and \$19,390 for the six months ended June 30, 2020 and 2019, 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 June 30, 2019 are mark-to-market fair value adjustments of \$(11,040) and \$23,742 for the six months ended June 30, 2020 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. Further, expenses of \$18,954 associated with the refinancing of existing debt that occurred in May 2019 are included in transaction-related expenses;
- (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) Pre-acquisition interest expense of \$3,492, net of interest income of \$2,174, commencing in the second quarter of 2019 for funds borrowed prior to the completion of the Company's Peoples acquisition on March 16, 2020;
- (4) On April 26, 2019, the Company issued \$313,500 of notes so as to complete an early extinguishment of \$313,500 of existing debt on May 18, 2019. The Company incurred overlapping interest expense during this 22-day period of \$858, net of interest income earned of \$406, on the borrowed funds, and considers this overlapping net interest expense of \$452 to be a transaction-related expense;
- (5) Interest income earned on the proceeds received from our April 2019 equity offerings of common shares and tangible equity units prior to the completion of the Company's Peoples acquisition on March 16, 2020;
- (6) The income tax impact of the non-GAAP adjustments described above; and
- (7) The effect on average diluted shares outstanding of the shares issued in April 2019 for our common share and tangible equity unit issuances prior to the completion of the Company's Peoples acquisition on March 16, 2020.

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 :

	<u>Quarter Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>June 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (GAAP financial measure)	\$ 74,629	\$ 54,903	\$ 126,410	\$ 71,827
(1) Transaction-related expenses for the Peoples transaction closed March 16, 2020	-	20,658	25,573	62,086
(2) Adjustments to provide full-year 2020 run rate of Peoples operating results, including additional net interest expense	-	-	108,132	-
(3) Pre-acquisition interest expense for funds borrowed for acquisition of Peoples, net	-	1,318	-	1,318
(4) Overlapping interest expense on refinanced debt	-	452	-	452
(5) Interest income earned on proceeds from April 2019 equity offerings	-	(7,408)	-	(7,408)
(6) Income tax effect of non-GAAP adjustments	-	(3,108)	(31,803)	(11,736)
Adjusted income (Non-GAAP financial measure)	<u>\$ 74,629</u>	<u>\$ 66,815</u>	<u>\$ 228,312</u>	<u>\$ 116,539</u>
Net income per common share (GAAP financial measure):				
Basic	\$ 0.29	\$ 0.25	\$ 0.52	\$ 0.36
Diluted	\$ 0.29	\$ 0.25	\$ 0.50	\$ 0.36
Adjusted income per common share (Non-GAAP financial measure):				
Diluted	\$ 0.29	\$ 0.37	\$ 0.90	\$ 0.65
Average common shares outstanding:				
Basic	254,167	219,055	245,144	198,747
Diluted	<u>254,434</u>	<u>219,790</u>	<u>254,452</u>	<u>199,303</u>
Average common shares outstanding:				
Shares used in calculating diluted net income per common share	254,434	219,790	254,452	199,303
(5) Less: Adjustment for effects of April 2019 common share issuance	-	(28,336)	-	(14,246)
(5) Less: Adjustment for effects of April 2019 tangible equity unit issuance	-	(12,760)	-	(6,415)
Shares used in calculating adjusted diluted income per common share (Non-GAAP financial measure)	<u>254,434</u>	<u>178,694</u>	<u>254,452</u>	<u>178,642</u>