

SJW GROUP (NYSE: SJW)

(as at May 31, 2020)



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Business Description:

SJW Group operates as a holding company, which through its subsidiaries provides water utility services. It operates through two segments: Water Utility Services and Real Estate Services. The water utility services segment provides water utility and utility related services. The Real Estate Services segment engages in property management and investment activity. The company was founded on February 8, 1985 and is headquartered in San Jose, CA.

Investment Thesis:

- **The company is a leading national water utility company.** With the national presence SJW possesses, the company benefits from significant scale. The company is the third largest investor-owned pure play water and wastewater utility in the United States.
- **Geography and Regulatory Diversity.** The company has footprints across California, Texas, Connecticut and Maine which mitigates weather-related impact and regulatory actions on the combined business.
- **Strong commitment to return capital to shareholders.** The company has had a very strong track record of dividend payouts. The dividend increase in fiscal year 2019 was the 51st consecutive year of dividend increase, and the 75th consecutive year of paying dividends

Industry Drivers/Trends

Water Utilities:

- The industry is highly fragmented with many small non-public players. This sets up a consolidating environment as companies search for opportunities to increase competitiveness.
- Due to the number of wildfires in the California area, environmental concerns have been forefront for the utilities industry. Companies must navigate this concern in order to continue output.
- Water utilities industry is regulated with multiple barriers to entry. The industry is regulated through different states' public utilities commissions, leading to high barriers to entry.
- The industry is relatively low risk from a macroeconomic standpoint. Utilities are heavily involved in daily life and will see consumer use even in economic cycle downturns.

Competitive Advantages:

- Established contracts
- Economies of scale
- Geography diversity

Competitors:

- American States Water Company, Cadiz Inc., California Water Service Group, American Water Works Co., Inc., The York Water Company., Middlesex Water Company

Customers:

- Household users, electricity companies, military bases

Barriers to Entry:

- **Heavily Regulated** – Much of the water utilities industry is regulated. New entrants will be highly examined and must comply with industry regulations before competing for contracts.
- **Established Contracts** – In a contract heavy industry, new entrants must compete against incumbents for contracts. Incumbents have the upper hand as they are able to deliver on the service in a cost-effective manner.
- **Asset-Heavy Industry** – With the amount of infrastructure that is necessary, new entrants struggle with raising the up-front capital to make the required investments to build pipelines, treatment plants, and other pumping stations.

Officers & Directors:

Eric Thornburg, President, Chairman & Chief Executive Officer; **James Lynch**, Treasurer & Chief Financial Officer; **Andrew Gere**, Chief Operating Officer;



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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	305.1	339.7	389.2	397.7	420.5
Operating Expenses	(220.8)	(242.3)	(287.4)	(324.3)	(363.0)
Operating Income (EBIT)	84.3	97.4	101.9	73.4	57.5
Profit before Tax	61.2	86.4	96.5	48.8	32.1
Net Profit	37.9	52.8	59.2	38.8	23.4
EPS (Diluted)	1.85	2.57	2.86	1.82	0.82
Dividends per Share	0.78	0.81	1.04	1.12	1.20

Balance Sheet

Total Assets	1,337.3	1,443.4	1,458.0	1,956.4	3,132.5
Long-Term Debt	377.2	433.3	431.1	431.4	1,283.6
Total Equity	383.8	421.6	463.2	889.3	890.0

Statement of Cash Flow

Cash Flows from Operations	97.3	114.1	101.1	91.3	130.0
Cash Flows from Investing	(110.6)	(122.1)	(113.9)	(146.8)	(1,017.8)
Cash Flows from Financing	16.2	28.2	(4.8)	468.4	485.0

Key Ratios and Figures (%)

EBIT Margin	27.6%	28.7%	26.2%	18.5%	13.7%
Estimated Water production (million gallons)	36,535.0	35,847.0	38,584.0	40,053.0	42,216.0

Source: SJW Group 2019 Annual Report



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PIC3259-E(06/20)