
From: Anderson, Eric J <eric.j.anderson@jpmorgan.com>
Sent: Saturday, February 17, 2018 5:20 PM
To: macem@pfm.com; moored@pfm.com; moored@pfm.com
Cc: Connor, Ian C; Reyes, Henry P; Gredell, Jason; Plunkett, Kevin; Warin, John J
Subject: J.P. Morgan follow-up analysis
Attachments: JEA Water Utility Materials vF.pdf

Mike, David,

On behalf of my team and J.P. Morgan, I wanted to pass along a sincere thank you to the members of the City, JEA and your team for the opportunity to present our assessment of strategic alternatives for JEA. As discussed on Thursday, we have formalized our assessment of the Water System into the attached document. We would very much welcome the opportunity to return to Jacksonville to take the broader team through this work. Alternatively, we are also happy to do a follow-up conference call, to the extent that a call would be easier/more efficient.

In the meantime, I wanted to highlight a few conclusions from our work on the Water System:

1. The Water System is a highly attractive and premium asset with high scarcity value
2. We are confident that a sale process for the Water System would be very robust, would include well capitalized and highly motivated buyers, and would drive a premium valuation
3. Our preliminary work implies a \$5.0-5.4bn (or more) valuation for the Water System
4. From a process perspective, if you determine to launch a process for both the Electric System and the Water System, we would recommend parallel but separate processes for these assets. This will enable each of the systems to be marketed in a targeted manner to the most interested parties. Potential buyers should have the opportunity to submit offers on: i) Electric System, ii) Water System, and/or iii) JEA (both systems). To the extent that buyers selected iii), we would require valuation/specific prices for each asset to drive competition and enable achievement of the City's key objectives.

Separately, to the extent that the city determined to engage J.P. Morgan as its financial advisor for both assets, we would be pleased to offer a fee of 35 basis points of total consideration (which is a ~13% discount to the 40 basis points fee proposal that we made last week for a single asset). As we discussed, this fee would be 100% contingent upon closing of a transaction that the City has approved. We believe that this compensation arrangement completely aligns our incentives and positions us to win together as partners.

Thank you again for your time and consideration of J.P. Morgan as a potential financial advisor to the City for this very important topic. We would be honored to have the opportunity to work with the City.

We look forward to your response and for the opportunity to take the broader team through the attached analysis.

Regards,

Eric J. Anderson
J.P. Morgan M&A
O: 312-732-3501
M: 312-402-2035

This message is confidential and subject to terms at: <http://www.jpmorgan.com/emaildisclaimer> including on confidentiality, legal privilege, viruses and monitoring of electronic messages. If you are not the intended recipient, please delete this message and notify the sender immediately. Any unauthorized use is strictly prohibited.

February 17, 2018



City of Jacksonville / JEA Strategic Discussion
Follow-up water utility analysis



J.P.Morgan

This presentation was prepared exclusively for the benefit and internal use of the J.P. Morgan client to whom it is directly addressed and delivered (including such client's subsidiaries, the "Company") in order to assist the Company in evaluating, on a preliminary basis, the feasibility of a possible transaction or transactions and does not carry any right of publication or disclosure, in whole or in part, to any other party. This presentation is for discussion purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by J.P. Morgan. Neither this presentation nor any of its contents may be disclosed or used for any other purpose without the prior written consent of J.P. Morgan.

The information in this presentation is based upon any management forecasts supplied to us and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. J.P. Morgan's opinions and estimates constitute J.P. Morgan's judgment and should be regarded as indicative, preliminary and for illustrative purposes only. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by or on behalf of the Company or which was otherwise reviewed by us. In addition, our analyses are not and do not purport to be appraisals of the assets, stock, or business of the Company or any other entity. J.P. Morgan makes no representations as to the actual value which may be received in connection with a transaction nor the legal, tax or accounting effects of consummating a transaction. Unless expressly contemplated hereby, the information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.

Notwithstanding anything herein to the contrary, the Company and each of its employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal and state income tax treatment and the U.S. federal and state income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Company relating to such tax treatment and tax structure insofar as such treatment and/or structure relates to a U.S. federal or state income tax strategy provided to the Company by J.P. Morgan. J.P. Morgan's policies on data privacy can be found at <http://www.jpmorgan.com/pages/privacy>.

J.P. Morgan's policies prohibit employees from offering, directly or indirectly, a favorable research rating or specific price target, or offering to change a rating or price target, to a subject company as consideration or inducement for the receipt of business or for compensation. J.P. Morgan also prohibits its research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investors.

IRS Circular 230 Disclosure: JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

J.P. Morgan is the marketing name for the Corporate and Investment Banking activities of JPMorgan Chase Bank, N.A., JPMS (member, NYSE), J.P. Morgan PLC authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and their investment banking affiliates.

This presentation does not constitute a commitment by any J.P. Morgan entity to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.

Copyright 2018 JPMorgan Chase & Co. All rights reserved.

Key Water System investment highlights

<p>One of the largest public water and wastewater utilities in the U.S.</p>	<ul style="list-style-type: none"> ■ Large water and wastewater system in an attractive market that will be coveted by large and well capitalized potential buyers ■ 341,016 water and 246,336 wastewater customers ■ Water System rate base equivalent: \$2740mm¹ ■ 2017 customer sales of over 60,000 kgal
<p>Scarcity value</p>	<ul style="list-style-type: none"> ■ Unique privatization opportunity; access to this type of water opportunity is very rare ■ Must have asset for investor owned water utilities that continue to struggle with deteriorating customer metrics
<p>Meaningful growth potential</p>	<ul style="list-style-type: none"> ■ Over \$2,000mm of projected capital expenditures for the Water System over the next decade ■ Fragmented Florida market with over 130 investor and community-owned water and wastewater utilities presenting a unique opportunity to acquire strategically located systems and customers ■ Additional expansion opportunities for advanced metering infrastructure, remote monitoring and control, reuse infrastructure and distribution / plant rationalization ■ Efficiencies related to separation from JEA resulting in the elimination of various allocation and services arrangement that currently exist ■ Cost savings potential creates headroom for future investment
<p>Attractive, expanding Jacksonville market</p>	<ul style="list-style-type: none"> ■ Most populous city in Florida and the largest city by land in the contiguous United States with a metro population of over 1.6 million² ■ Three strategic naval air stations within the city limits ■ One of six trade centers in the state of Florida ■ Comparatively low cost of living among the five major metropolitan statistical areas in Florida ■ The City of Jacksonville has experienced robust employment growth over the last 8 years and has a below average unemployment rate at 3.6% relative to cities of similar size within Florida and nationally² ■ Significant expansion opportunities under development will continue to fuel growth

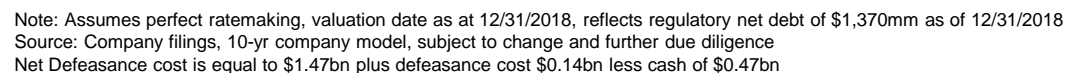
¹ Source: JEA Annual Report 2017, end of FY2017, Net Plant in Service + CWIP

² Source: Bureau of Labor Statistics, data as of November 2017

Potential buyer concerns should be proactively mitigated throughout the process

	Potential concerns	Mitigants
Privatization	<ul style="list-style-type: none"> ✗ Potential concern about public/political commitment to a potential sale of a municipal asset 	<ul style="list-style-type: none"> ✓ Emphasize the strategic/financial/other objectives that are motivating a sale ✓ Demonstrate “buy-in” from all relevant stakeholders to the extent possible ✓ Identify a visible path to obtaining timely and efficient transaction approvals
Rate increase	<ul style="list-style-type: none"> ✗ Customer reaction to 10-20% rate increase and community / local advocacy intervenors in the approval process 	<ul style="list-style-type: none"> ✓ Clear articulation of the long term benefits to ratepayer and the community ✓ Commitment by the City and JEA to the process ✓ Buyer obligations to minimize the potential impact to the ratepayers and investment / commitment to community development ✓ Water rate increase offset by decrease in Electric System rates, significant cash proceeds to the City from the sale of the Electric and Water systems, and increased annual revenues to the City
Water rights	<ul style="list-style-type: none"> ✗ Complex Florida laws related to water rights and use and the multiple layers of jurisdiction and regulation 	<ul style="list-style-type: none"> ✓ Movement in recent years to streamline laws and regulation ✓ Concerted effort by PSC and State and local agencies to improve oversight and reduce bureaucracy related to water rights, regulation and resource management and permitting ✓ Action by the City and key decision making bodies to establish clear owner rights, authority, remedies and jurisdiction related to water use and delivery
Long term growth	<ul style="list-style-type: none"> ✗ While Jacksonville is currently in an expansionary phase, customer use is continuing to decrease consistent with industry trends 	<ul style="list-style-type: none"> ✓ Significant rate base expansion through currently identified capital programs ✓ Expansion of existing capital programs to address the loss of share infrastructure and cost savings related to those investments ✓ Capital improvements mandated by the PSC as a new regulated service provider in Florida
Pension	<ul style="list-style-type: none"> ✗ Pension/OPEB currently underfunded by approximately ~\$200mm 	<ul style="list-style-type: none"> ✓ Regulatory construct allows a buyer to recover pension/OPEB costs in rates mitigating financial risk ✓ Rising interest rate environment to mitigate underfunded exposure

JEA Water System



Indicative value to the City of Jacksonville and ratepayers

Sources and uses at various purchase prices (\$mm)				
Purchase price of Water System	\$4,000	\$4,500	\$5,000	\$5,500
Par value of debt	(\$1,478)	(\$1,478)	(\$1,478)	(\$1,478)
Defeasance Premium	(\$137)	(\$137)	(\$137)	(\$137)
Total defeasance cost	(\$1,615)	(\$1,615)	(\$1,615)	(\$1,615)
Less: Pension / OPEB	(\$211)	(\$211)	(\$211)	(\$211)
Less: Swap Unwind Costs	(\$24)	(\$24)	(\$24)	(\$24)
Plus: Cash	\$448	\$448	\$448	\$448
Gross proceeds to the City	\$2,598	\$3,098	\$3,598	\$4,098

Source: J.P. Morgan estimates and JEA financial reports as of 9/30/17

Net gain / loss to the City with sale of Water System

Water System status quo (\$mm)

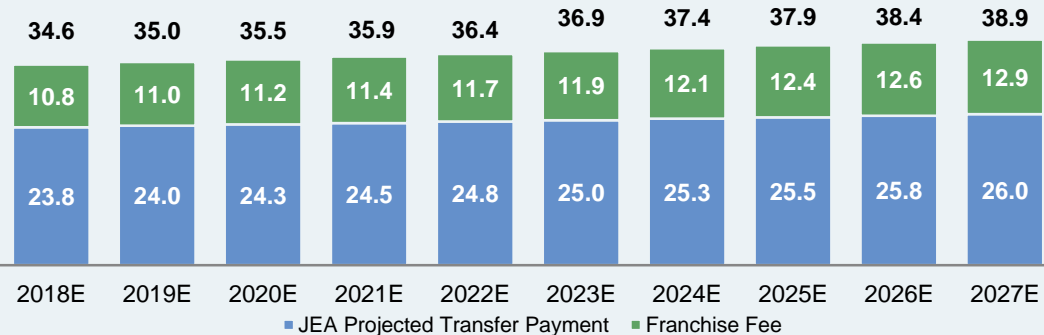
Current sources of revenue:

- JEA transfer payment
- Franchise Fee

Existing transfer payment and franchise fees are passed through and reflected in customer rates

- City currently provides backstop WS portion of City Total Pension / OPEB Liability

Current JEA City Payments



Pro forma for privatization (\$mm)

Pro forma sources of revenue:

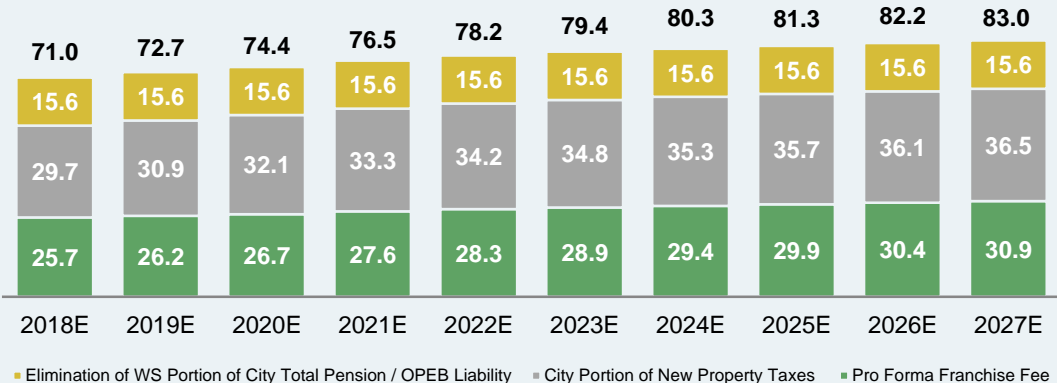
- Franchise Fee
- City's share of new property taxes
- Elimination of WS portion of City Total Pension / OPEB Liability

\$412mm in revenue gained²



Additional \$3bn+ in upfront net proceeds

Pro Forma Buyer Payments to the City



City revenue gained / (lost) prior to application of any net proceeds¹



Drivers

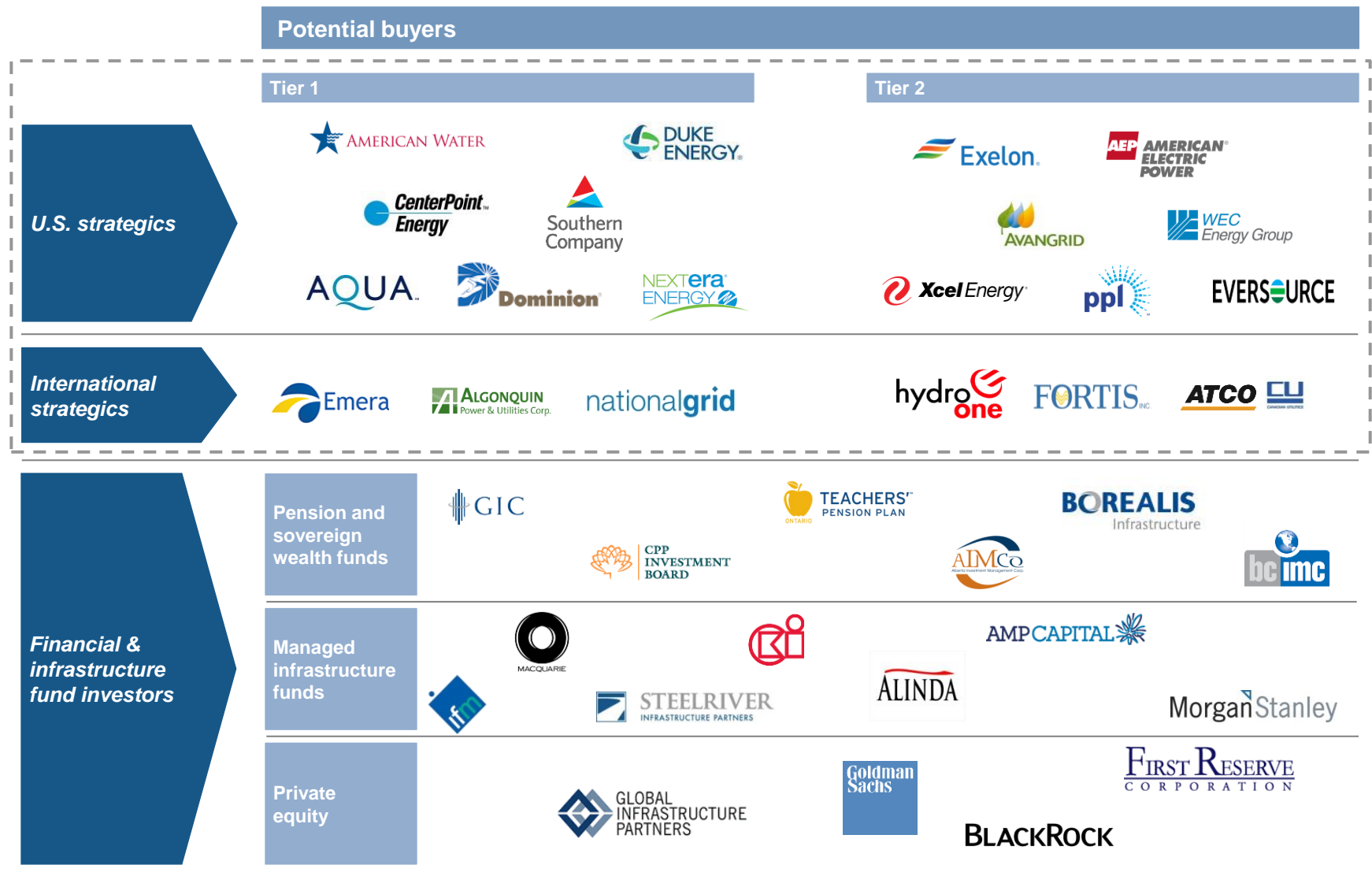
- Franchise fee would be increased to 6.0%
- Of the new property taxes, 11.44 mills will be directly attributable to the City
- Transfer Water System pension and OPEB liability to buyer
 - Eliminating the Water System's share of JEA's net pension liability eliminates ~\$15.6mm of annual funding obligations

¹ Nominal difference between pro forma and current City payments; ² Nominal sum of revenue gain over projection period

Process Overview – Concurrent, parallel sale process for i) Water System and ii) Electric System











- If the City decides to pursue a sale of both the Water System and Electric System, J.P. Morgan recommends running two independent processes that would be conducted in parallel
- A sales process for both systems would have the same overall structure/timing as the process for a single system sale
- Both sales processes would run on the same timelines with alignment around major milestones – namely, process launch, first round bid deadline, and second round bid deadline
- Potential bidders would be allowed to bid on i) Electric System, ii) Water System, iii) JEA
 - Those submitting for the Electric and Water System would be required to breakout their bid for each system
- Benefits to running separate though concurrent processes include:
 - Maximizes value by broadening the pool of buyers to those interested in only one of the systems
 - Allows bidders who see value in JEA as a single platform to bid for all of JEA
 - Compelling bidders to break out their bids facilitates comparison to single-system bids, increasing competition and driving value
- Given the expanded scope and complexity of marketing both assets concurrently, J.P. Morgan emphasizes the need for extensive and adequate preparation prior to process launch

Landscape of potential JEA Water System acquirors



Detailed review of preliminary Tier I buyer universe

Tier I buyers

Company	Owns water assets	Mkt cap. (\$bn)	Firm value (\$bn)	2019 P/E	Ratings & Outlook (S&P / Moody's)	Recent Power & Utility M&A	Select assets in Florida
		\$69.9	\$104.4	17.7x	■ A-/Stable ■ Baa1/Stable	■ Oncor ■ Hawaiian Electric	■ Florida Power & Light
		\$53.4	\$106.4	15.2x	■ A-/Stable ■ Baa1/Negative	■ Piedmont Natural Gas ■ International generation divestiture	■ Duke Energy Florida
		\$47.9	\$86.7	17.3x	■ BBB+/Negative ■ Baa2/Negative	■ SCANA ■ Questar	■ None
		\$44.6	\$95.2	14.3x	■ A-/Negative ■ Baa1/Negative	■ Elizabethtown Gas divestiture ■ Southern Natural Gas pipeline (50%)	■ Gulf Power Co. ■ Florida City Gas
		\$35.2	\$80.4	12.2x	■ A-/Stable ■ Baa1/Stable	■ National Grid Gas Distribution divestiture ■ Dominion Midstream minority stake	■ None
	✓	\$13.9	\$21.3	22.1x	■ A/Stable ■ A3/Stable	■ Shorelands Water Co ■ Water Solutions	■ None
		\$11.5	\$19.0	16.9x	■ A-/Stable ■ Baa1/Stable	–	■ None
		\$7.4	\$19.8	14.8x	■ BBB+/Stable	■ TECO ■ ICD Utilities minority stake	■ Tampa Electric ■ Peoples Gas
	✓	\$6.0	\$8.1	22.3x	■ A+/Stable	■ Superior Water	■ None
	✓	\$4.4	\$8.2	16.3x	■ BBB/Stable	■ Atlantica Yield stake ■ Empire District	■ None

Source: FactSet as of 02/09/2018; all values in USD\$

Summary Fee Proposal

- The J.P. Morgan team is committed to providing the highest quality execution to the City and is interested in working to structure a compensation arrangement that addresses the needs and objectives of both parties while appropriately compensating J.P. Morgan for the resources that the firm will invest in this process
- Notwithstanding our expectation that there will be a significant amount of time and effort committed to the preparation and execution phase of the engagement, our proposed fee structure is completely contingent upon the successful closing of a transaction
 - This commonly-used structure is designed to align the interests of the City with the interests of J.P. Morgan who assume compensation risk associated with an assignment that ultimately does not conclude in a transaction closing
 - Fee break-points (see below) incent J.P. Morgan to realize the highest possible transaction proceeds for the City and its constituents subject to also satisfying the non-financial objectives of the City
- The proposed fee is based on our previous experience on similar types of transactions, a detailed review of publicly-disclosed fee information for similar transactions, and our careful judgment of the resource commitment and potential term of the assignment

	Electric system only	Water system only	Electric & Water system
Broker fee – % of Transaction value	40bps	40bps	35bps

- To the extent that the City determines to engage J.P. Morgan to sell both the Electric System and the Water System, we propose a fee of 35bps which represents a 12.5% discount to the fee for a single asset
- In addition to the Advisory Fee, JEA agrees to reimburse J.P. Morgan for, and J.P. Morgan will separately bill, its reasonable costs and expenses
- **J.P. Morgan would be willing to discuss an alternative fee structure if the City desires such an arrangement**

Note: Fee run reflects sellside transactions between \$3bn - \$7bn and \$8bn - \$12bn in firm value excluding transactions in financial institutions, banks and real estate; Mean fees as a % of transaction value in a sale of either the Electric system or the Water system are 0.65%, 0.83% for the top-half mean and 0.97% for the top-quartile mean, Mean fees as a % of transaction value in a sale of the whole system are 0.41%, 0.50% for the top-half mean and 0.53% for the top-quartile mean

Agenda

	Page
Appendix	10

Revenue requirement comparison: JEA Water System standalone vs. privatization

Revenue requirement build up (\$mm)	Standalone JEA Water System	Buyer revenue requirement ²
	2018E	2018E
Gross revenue requirement	456	559
% Premium / (Discount) to Standalone JEA	-	22.5%
O&M	(155)	(140)
Other	(14)	0
Operating income	286	419
State utility taxes and franchise fees	(11)	(74)
Other	27	0
EBITDA	303	345
D&A	(138)	(103)
EBIT	164	242
Total contributions	(4)	0
Pre-tax interest expense	(57)	(0)
Corporate income tax	0	(\$50)
Net position / Net income	104	192
Return on regulated equity	-	10.4%

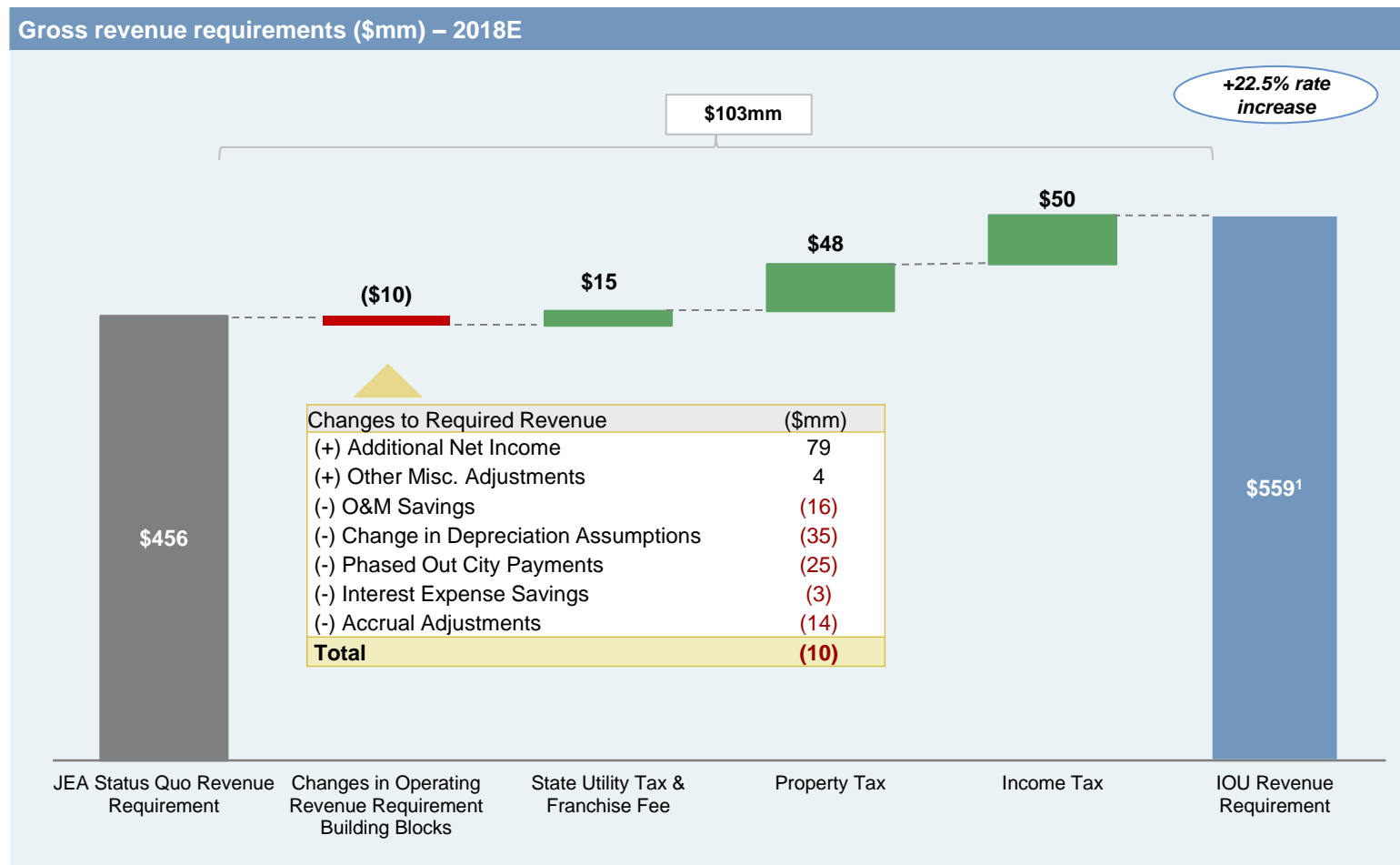
ROE drives revenue requirement

Source: Management projections and JPM estimates, subject to change and further due diligence; Florida Public Service Commission

¹ Management projected revenue requirements remains in place post transaction

² 50% equity / debt regulated rate base capitalization, target ROE of 10.35% and cost of debt of 4.0%

Illustrative JEA Water System revenue requirement under IOU equivalent projections



Source: Management projections and JPM estimates, subject to change and further due diligence
¹ 50% / 50% equity / debt regulated rate base capitalization, target ROE of 10.35% and cost of debt of 4.0%

JEA WS public trading multiples

Public trading multiples

Ticker	Company	Price at 02/09/18	% of 52-Wk High	Market Value of equity ²	Enterprise value ³	Market Value ^{1,2}			Enterprise value ^{1,3}			2018E	Long term			2018E	Price/Book	Ratings
						2018E	2019E	2020E	2018E	2019E	2020E	Payout ratio	Dividend yield	growth rate ¹	Total return	PEGY ratio	Value	(S&P/Moodys)
AWK	American Water Works Company, Inc.	\$77.94	84.4%	\$13,935	\$21,313	23.7x	22.1x	20.8x	11.6x	10.9x	10.2x	54.1%	2.1%	7.4%	9.5%	2.48x	2.52x	A/A3
WTR	Aqua America	33.70	85.2%	5,998	8,052	23.6	22.3	19.8	15.5	14.7	13.1	60.1%	2.4%	5.0%	7.4%	3.17	3.09	A+/NR
CWT	California Water Service Group	37.85	82.0%	1,817	2,540	26.8	25.2	23.7	11.6	10.6	9.9	52.4%	2.0%	6.0%	8.0%	3.36	2.64	A+/NR
AWR	American States Water Company	52.19	87.0%	1,925	2,285	29.0	27.3	NA	12.7	11.9	NA	58.0%	2.0%	5.3%	7.3%	3.98	3.64	A+/NR
SJW	SJW Corp.	52.97	76.4%	1,097	1,534	21.0	19.4	NA	NA	NA	NA	NA	2.1%	4.9%	7.0%	2.99	2.40	A/NR
Median			84.4%			23.7x	22.3x	20.8x	12.1x	11.4x	10.2x	56.1%	2.1%	5.3%	7.4%	3.17x	2.64x	
Mean			83.0%			24.8x	23.3x	21.4x	12.8x	12.0x	11.1x	56.2%	2.1%	5.7%	7.9%	3.20x	2.86x	

Source: FactSet as of 2/9/2018, company filings

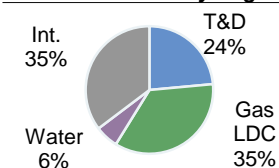
¹ EPS, 5-year projected EPS growth and EBITDA estimates from I/B/E/S and equity analyst research reports

² Based on diluted shares outstanding using the treasury stock method

³ Enterprise value equals market value plus total debt, preferred stock, capital leases and minority interest net of cash and equivalents

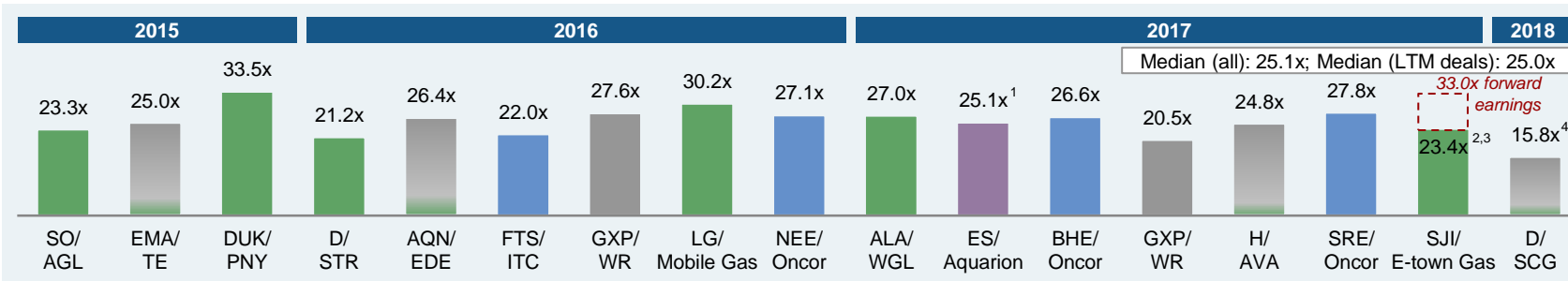
Utility M&A transactions

% of recent deals by target type

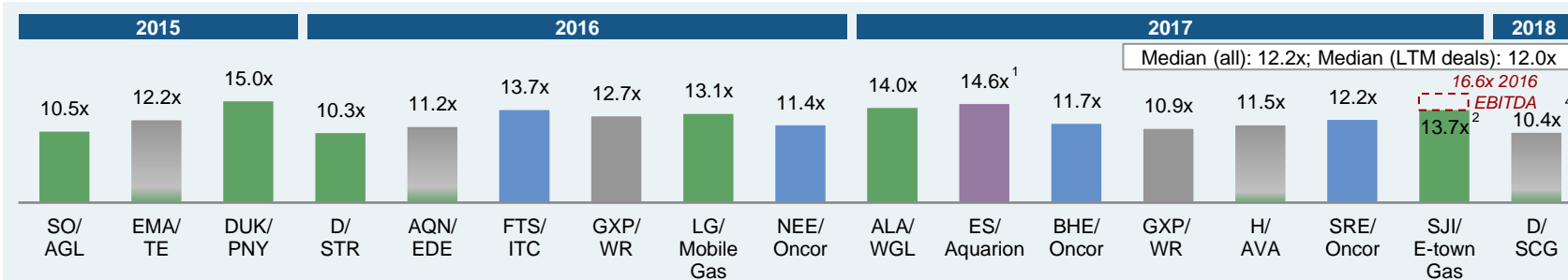


T&D Gas LDC Integrated Water

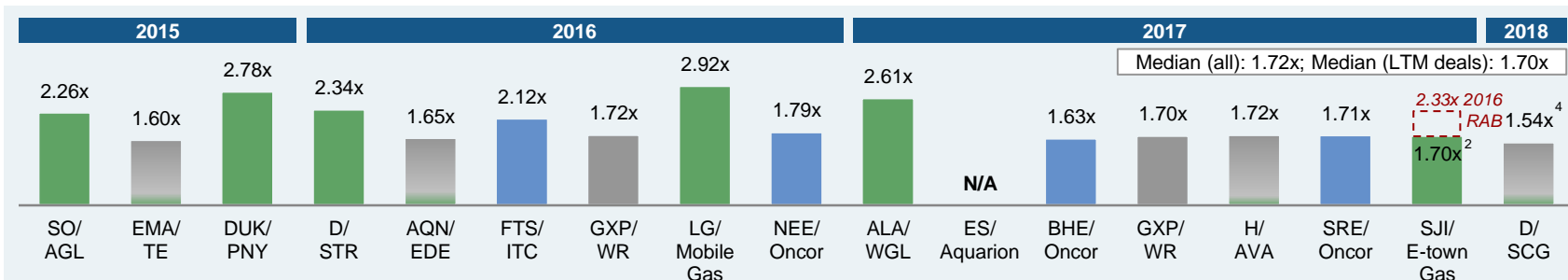
LTM P/E



FV / LTM EBITDA



FV / RAB



¹ Based on equity research estimate of \$35mm 2016 year end net income and \$115mm 2016 year end EBITDA

² Net of ~\$300mm tax benefit

³ P/E multiple is 2018E forward multiple

⁴ Reflects additional \$1.3bn of equity issued to fund rate refund, giving an all-in implied \$64.45 offer price/sh. vs. \$55.35 announced (\$9.2bn vs. \$7.9 announced equity value). Without add-back, LTM P/E multiple is 13.6x and FV / LTM EBITDA is 9.5x. Includes add-backs for impairments

Illustrative discount cash flow analysis – Water System

Buyer revenue requirement

Summary (\$mm)											
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	TV
Revenue requirement	\$558	\$569	\$580	\$600	\$616	\$629	\$640	\$651	\$662	\$672	\$677
% growth		1.9%	2.0%	3.3%	2.7%	2.1%	1.8%	1.7%	1.6%	1.6%	0.8%
EBITDA	\$332	\$346	\$360	\$373	\$384	\$391	\$398	\$404	\$410	\$416	\$419
% margin	59.5%	60.8%	62.0%	62.2%	62.3%	62.3%	62.2%	62.1%	62.1%	62.0%	62.0%
Less: D&A	(103)	(107)	(111)	(115)	(119)	(122)	(125)	(128)	(131)	(134)	(126)
% of capex	44.9%	45.0%	42.9%	47.9%	54.7%	64.1%	65.8%	67.4%	69.1%	70.8%	90.0%
EBIT	\$229	\$239	\$249	\$258	\$265	\$270	\$273	\$276	\$279	\$282	\$293
Less: Taxes	(61)	(63)	(66)	(68)	(70)	(71)	(72)	(73)	(74)	(75)	(78)
Tax rate (%)	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
NOPAT	\$169	\$176	\$183	\$190	\$195	\$198	\$201	\$203	\$205	\$207	\$216
% margin	30.2%	30.9%	31.5%	31.6%	31.6%	31.5%	31.4%	31.2%	31.0%	30.8%	31.9%
Plus: D&A	103	107	111	115	119	122	125	128	131	134	126
% of capex	44.9%	45.0%	42.9%	47.9%	54.7%	64.1%	65.8%	67.4%	69.1%	70.8%	90.0%
Plus: Increase in DTLs	2	31	30	30	29	27	26	24	25	26	0
% of D&A	2.2%	28.9%	27.2%	25.8%	24.2%	22.5%	20.7%	19.0%	19.2%	19.6%	0.0%
Less: Capex	(229)	(237)	(259)	(240)	(217)	(190)	(190)	(190)	(190)	(190)	(140)
% sales	41.0%	41.7%	44.6%	40.0%	35.2%	30.2%	29.7%	29.2%	28.7%	28.3%	28.3%
Less: AFUDC	0	0	0	0	0	0	0	0	0	0	0
% sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+/- Change in net working capital	(6)	(9)	(9)	(8)	(8)	(7)	(6)	(5)	(4)	(4)	0
% of change in sales		(86.1%)	(75.5%)	(42.3%)	(47.8%)	(55.2%)	(54.1%)	(46.0%)	(41.6%)	(34.0%)	0.0%
Unlevered FCF for discounting	\$38	\$67	\$56	\$86	\$117	\$150	\$155	\$160	\$167	\$174	\$202

PV FCF			PV of terminal value (\$mm)				Firm value (\$mm)				Net debt & Other			Equity value (\$mm)			
WACC			WACC	Terminal growth rate			WACC	Terminal growth rate			WACC			WACC	Terminal growth rate		
				0.50%	0.75%	1.00%		0.50%	0.75%	1.00%					0.50%	0.75%	1.00%
	4.00%	\$925		4.00%	\$4,112	\$4,445	\$4,834	4.00%	\$5,036	\$5,370	\$5,758	4.00%	(\$1,370)	4.00%	\$3,666	\$4,000	\$4,388
	4.25%	913		4.25%	3,760	4,044	4,372	4.25%	4,673	4,957	5,285	4.25%	(1,370)	4.25%	3,304	3,587	3,915
	4.50%	902		4.50%	3,454	3,698	3,978	4.50%	4,356	4,601	4,880	4.50%	(1,370)	4.50%	2,986	3,231	3,510

TV / 2027E EBITDA				
WACC	Terminal growth rate			
	0.50%	0.75%	1.00%	
	4.00%	14.1x	15.2x	16.5x
	4.25%	13.1x	14.1x	15.3x
	4.50%	12.3x	13.2x	14.2x

FV / 2019E EBITDA				
WACC	Terminal growth rate			
	0.50%	0.75%	1.00%	
	4.00%	14.6x	15.5x	16.7x
	4.25%	13.5x	14.3x	15.3x
	4.50%	12.6x	13.3x	14.1x

Source: Management projection, assumes illustrative WACC of 4.25%, terminal year capex equal to 90% of capital expenditures and terminal value calculated using the PGR method ranging from 0.50% - 1.00%, Net debt & Other includes total unrestricted cash and investments, Pension & OPEB liabilities and bonds payable

Note: Valuation as of 12/31/2018; Assumes midpoint discounting

Illustrative JEA WS discount rate analysis

Discount rate summary

Risk free rate ¹		2.5%	
Equity risk premium	5.50%	—	6.50%
Levered beta	0.25	—	0.50
Country risk premium	0.0%	—	0.0%
Cost of equity	3.9%	—	5.8%
Pre-tax cost of debt		3.8%	
Post-tax cost of debt		3.0%	
Debt/total cap target		25.0%	
Calculated discount rate	3.6%	—	5.0%
Selected discount rate	4.00%	—	4.50%

Capital structure benchmarks (\$mm)

Company	Market cap	Debt/total cap	Levered beta		Relevered historical ²
			Barra	Historical	
American Water Works	\$13,951	34.9%	0.237	0.345	0.318
Aqua America	\$6,003	25.5%	0.205	0.488	0.497
American States Water	\$1,924	16.0%	0.245	0.569	0.630
California Water Service	\$1,817	29.2%	0.257	0.572	0.561
SJW Group	\$1,096	28.8%	0.334	0.794	0.782
Mean		26.9%	0.256	0.554	0.558
Median		28.8%	0.245	0.569	0.561

Cost of equity vs. Debt/total cap target³

		Cost of equity			
		3.9%	4.9%	5.8%	6.8%
Debt/total cap	10.0%	3.9%	4.5%	5.0%	5.6%
	20.0%	3.7%	4.3%	4.8%	5.3%
	30.0%	3.6%	4.1%	4.6%	5.0%
	40.0%	3.5%	3.9%	4.3%	4.7%
	50.0%	3.4%	3.7%	4.1%	4.4%

Cost of equity vs. Pre-tax cost of debt³

		Cost of equity			
		3.9%	4.9%	5.8%	6.8%
Pre-tax cost of debt	2.8%	3.4%	3.9%	4.4%	4.8%
	3.3%	3.5%	4.0%	4.5%	4.9%
	3.8%	3.6%	4.1%	4.6%	5.0%
	4.3%	3.7%	4.2%	4.7%	5.1%
	4.8%	3.8%	4.3%	4.7%	5.2%

Source: FactSet, Barra, J.P. Morgan estimates

Note: Market data as of 02/09/18

¹ U.S. 10-year treasury bond yield as of 01/16/18

² Relevered historical beta is implied based on unlevering historical levered beta for each respective company based on their current capital structure and 5-year historical weighted average tax rate then subsequently relevering based on debt/total cap target of 30.0% and target marginal tax rate of 26.6%

³ Assumes pre-tax cost of debt of 3.75%, debt/total cap target of 25.0% and tax rate of 26.6%

Fee details – Single advisor (Electric & Water systems)

Sellside, single advisor, \$8,000mm-\$12,000mm deal value, deals between 01/01/11 and 12/31/17, excludes transactions in the financial institutions, banks, and real estate sectors

Precedent fees detail

Date	Target	Acquiror	Deal value (\$mm)	Target fees
				% of deal value
30-Oct-17	CalAtlantic Group Inc	Lennar Corp	\$9,467	0.42%
18-Sep-17	Orbital ATK Inc	Northrop Grumman Corp	9,451	0.42%
19-Jun-17	Rice Energy Inc	EQT Corp	8,202	0.57%
9-Jan-17	VCA Inc	Mars Inc	8,948	0.46%
1-Feb-16	Alere Inc	Abbott Laboratories	8,390	0.57%
21-Oct-15	KLA-Tencor Corp	Lam Research Corp	11,457	0.51%
30-Jun-15	Towers Watson & Co	Willis Group Holdings plc	8,762	0.29%
6-May-15	Synageva Biopharma Corp	Alexion Pharmaceuticals Inc	9,507	0.50%
14-Dec-14	PetSmart Inc	BC Partners Ltd et al.	8,763	0.45%
18-Sep-14	Concur Technologies Inc	SAP SE	8,593	0.52%
28-Jul-14	Family Dollar Stores Inc	Dollar Tree Inc	9,209	0.47%
23-Jun-14	Integrus Energy Group Inc	Wisconsin Energy Corp	9,208	0.20%
30-Jun-13	ONYX Pharmaceuticals Inc	Amgen Inc	10,607	0.44%
29-May-13	NV Energy Inc	Berkshire Hathaway Inc	10,423	0.20%
20-May-13	Warner Chilcott plc	Actavis Inc	9,291	0.13%
21-Nov-11	Pharmasset Inc	Gilead Sciences Inc	11,017	0.42%
20-Jul-11	Nalco Holding Co	Ecolab Inc	5,467	0.31%
7-Feb-11	Pride International Inc	Ensco plc	7,392	0.49%
Mean				0.41%
Top-half mean				0.50%
Top-quartile mean				0.53%

February 17, 2018



City of Jacksonville / JEA Strategic Discussion
Follow-up water utility analysis



J.P.Morgan

This presentation was prepared exclusively for the benefit and internal use of the J.P. Morgan client to whom it is directly addressed and delivered (including such client's subsidiaries, the "Company") in order to assist the Company in evaluating, on a preliminary basis, the feasibility of a possible transaction or transactions and does not carry any right of publication or disclosure, in whole or in part, to any other party. This presentation is for discussion purposes only and is incomplete without reference to, and should be viewed solely in conjunction with, the oral briefing provided by J.P. Morgan. Neither this presentation nor any of its contents may be disclosed or used for any other purpose without the prior written consent of J.P. Morgan.

The information in this presentation is based upon any management forecasts supplied to us and reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. J.P. Morgan's opinions and estimates constitute J.P. Morgan's judgment and should be regarded as indicative, preliminary and for illustrative purposes only. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which was provided to us by or on behalf of the Company or which was otherwise reviewed by us. In addition, our analyses are not and do not purport to be appraisals of the assets, stock, or business of the Company or any other entity. J.P. Morgan makes no representations as to the actual value which may be received in connection with a transaction nor the legal, tax or accounting effects of consummating a transaction. Unless expressly contemplated hereby, the information in this presentation does not take into account the effects of a possible transaction or transactions involving an actual or potential change of control, which may have significant valuation and other effects.

Notwithstanding anything herein to the contrary, the Company and each of its employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal and state income tax treatment and the U.S. federal and state income tax structure of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analyses) that are provided to the Company relating to such tax treatment and tax structure insofar as such treatment and/or structure relates to a U.S. federal or state income tax strategy provided to the Company by J.P. Morgan. J.P. Morgan's policies on data privacy can be found at <http://www.jpmorgan.com/pages/privacy>.

J.P. Morgan's policies prohibit employees from offering, directly or indirectly, a favorable research rating or specific price target, or offering to change a rating or price target, to a subject company as consideration or inducement for the receipt of business or for compensation. J.P. Morgan also prohibits its research analysts from being compensated for involvement in investment banking transactions except to the extent that such participation is intended to benefit investors.

IRS Circular 230 Disclosure: JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

J.P. Morgan is the marketing name for the Corporate and Investment Banking activities of JPMorgan Chase Bank, N.A., JPMS (member, NYSE), J.P. Morgan PLC authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and their investment banking affiliates.

This presentation does not constitute a commitment by any J.P. Morgan entity to underwrite, subscribe for or place any securities or to extend or arrange credit or to provide any other services.

Copyright 2018 JPMorgan Chase & Co. All rights reserved.

Key Water System investment highlights

<p>One of the largest public water and wastewater utilities in the U.S.</p>	<ul style="list-style-type: none"> ■ Large water and wastewater system in an attractive market that will be coveted by large and well capitalized potential buyers ■ 341,016 water and 246,336 wastewater customers ■ Water System rate base equivalent: \$2740mm¹ ■ 2017 customer sales of over 60,000 kgal
<p>Scarcity value</p>	<ul style="list-style-type: none"> ■ Unique privatization opportunity; access to this type of water opportunity is very rare ■ Must have asset for investor owned water utilities that continue to struggle with deteriorating customer metrics
<p>Meaningful growth potential</p>	<ul style="list-style-type: none"> ■ Over \$2,000mm of projected capital expenditures for the Water System over the next decade ■ Fragmented Florida market with over 130 investor and community-owned water and wastewater utilities presenting a unique opportunity to acquire strategically located systems and customers ■ Additional expansion opportunities for advanced metering infrastructure, remote monitoring and control, reuse infrastructure and distribution / plant rationalization ■ Efficiencies related to separation from JEA resulting in the elimination of various allocation and services arrangement that currently exist ■ Cost savings potential creates headroom for future investment
<p>Attractive, expanding Jacksonville market</p>	<ul style="list-style-type: none"> ■ Most populous city in Florida and the largest city by land in the contiguous United States with a metro population of over 1.6 million² ■ Three strategic naval air stations within the city limits ■ One of six trade centers in the state of Florida ■ Comparatively low cost of living among the five major metropolitan statistical areas in Florida ■ The City of Jacksonville has experienced robust employment growth over the last 8 years and has a below average unemployment rate at 3.6% relative to cities of similar size within Florida and nationally² ■ Significant expansion opportunities under development will continue to fuel growth

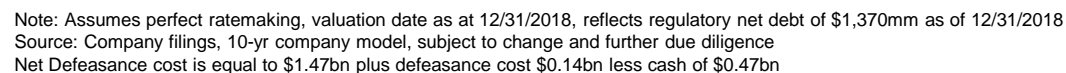
¹ Source: JEA Annual Report 2017, end of FY2017, Net Plant in Service + CWIP

² Source: Bureau of Labor Statistics, data as of November 2017

Potential buyer concerns should be proactively mitigated throughout the process

	Potential concerns	Mitigants
Privatization	<ul style="list-style-type: none"> ✗ Potential concern about public/political commitment to a potential sale of a municipal asset 	<ul style="list-style-type: none"> ✓ Emphasize the strategic/financial/other objectives that are motivating a sale ✓ Demonstrate “buy-in” from all relevant stakeholders to the extent possible ✓ Identify a visible path to obtaining timely and efficient transaction approvals
Rate increase	<ul style="list-style-type: none"> ✗ Customer reaction to 10-20% rate increase and community / local advocacy intervenors in the approval process 	<ul style="list-style-type: none"> ✓ Clear articulation of the long term benefits to ratepayer and the community ✓ Commitment by the City and JEA to the process ✓ Buyer obligations to minimize the potential impact to the ratepayers and investment / commitment to community development ✓ Water rate increase offset by decrease in Electric System rates, significant cash proceeds to the City from the sale of the Electric and Water systems, and increased annual revenues to the City
Water rights	<ul style="list-style-type: none"> ✗ Complex Florida laws related to water rights and use and the multiple layers of jurisdiction and regulation 	<ul style="list-style-type: none"> ✓ Movement in recent years to streamline laws and regulation ✓ Concerted effort by PSC and State and local agencies to improve oversight and reduce bureaucracy related to water rights, regulation and resource management and permitting ✓ Action by the City and key decision making bodies to establish clear owner rights, authority, remedies and jurisdiction related to water use and delivery
Long term growth	<ul style="list-style-type: none"> ✗ While Jacksonville is currently in an expansionary phase, customer use is continuing to decrease consistent with industry trends 	<ul style="list-style-type: none"> ✓ Significant rate base expansion through currently identified capital programs ✓ Expansion of existing capital programs to address the loss of share infrastructure and cost savings related to those investments ✓ Capital improvements mandated by the PSC as a new regulated service provider in Florida
Pension	<ul style="list-style-type: none"> ✗ Pension/OPEB currently underfunded by approximately ~\$200mm 	<ul style="list-style-type: none"> ✓ Regulatory construct allows a buyer to recover pension/OPEB costs in rates mitigating financial risk ✓ Rising interest rate environment to mitigate underfunded exposure

JEA Water System



Indicative value to the City of Jacksonville and ratepayers

Sources and uses at various purchase prices (\$mm)				
Purchase price of Water System	\$4,000	\$4,500	\$5,000	\$5,500
Par value of debt	(\$1,478)	(\$1,478)	(\$1,478)	(\$1,478)
Defeasance Premium	(\$137)	(\$137)	(\$137)	(\$137)
Total defeasance cost	(\$1,615)	(\$1,615)	(\$1,615)	(\$1,615)
Less: Pension / OPEB	(\$211)	(\$211)	(\$211)	(\$211)
Less: Swap Unwind Costs	(\$24)	(\$24)	(\$24)	(\$24)
Plus: Cash	\$448	\$448	\$448	\$448
Gross proceeds to the City	\$2,598	\$3,098	\$3,598	\$4,098

Source: J.P. Morgan estimates and JEA financial reports as of 9/30/17

Net gain / loss to the City with sale of Water System

Water System status quo (\$mm)

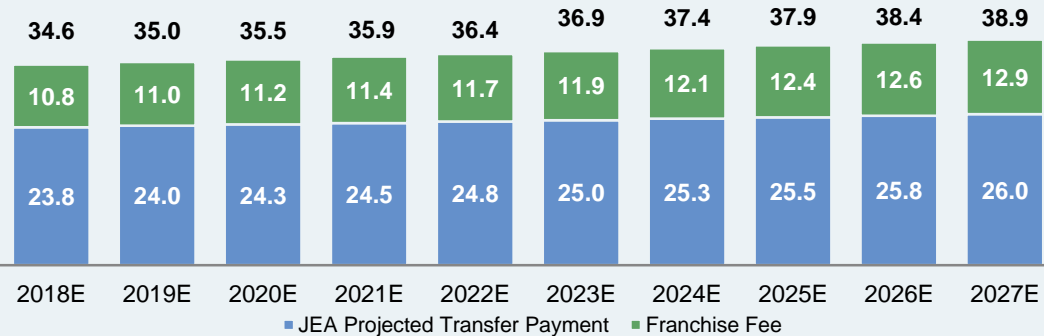
Current sources of revenue:

- JEA transfer payment
- Franchise Fee

Existing transfer payment and franchise fees are passed through and reflected in customer rates

- City currently provides backstop WS portion of City Total Pension / OPEB Liability

Current JEA City Payments



Pro forma for privatization (\$mm)

Pro forma sources of revenue:

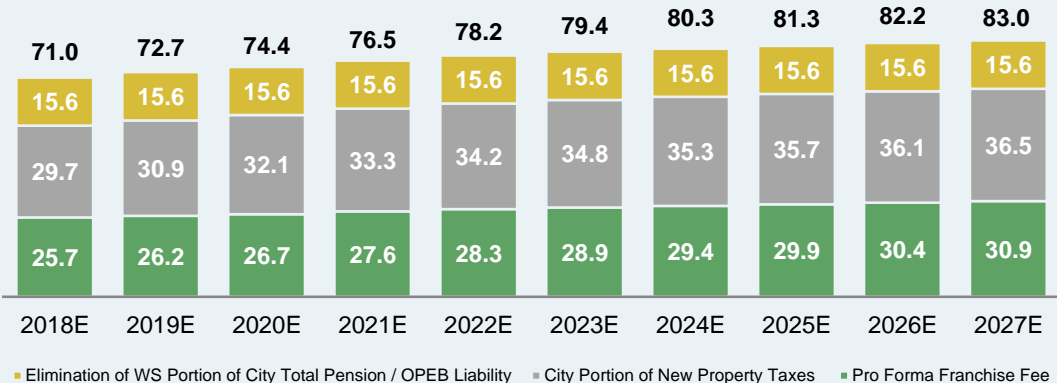
- Franchise Fee
- City's share of new property taxes
- Elimination of WS portion of City Total Pension / OPEB Liability

\$412mm in revenue gained²



Additional \$3bn+ in upfront net proceeds

Pro Forma Buyer Payments to the City



City revenue gained / (lost) prior to application of any net proceeds¹



Drivers

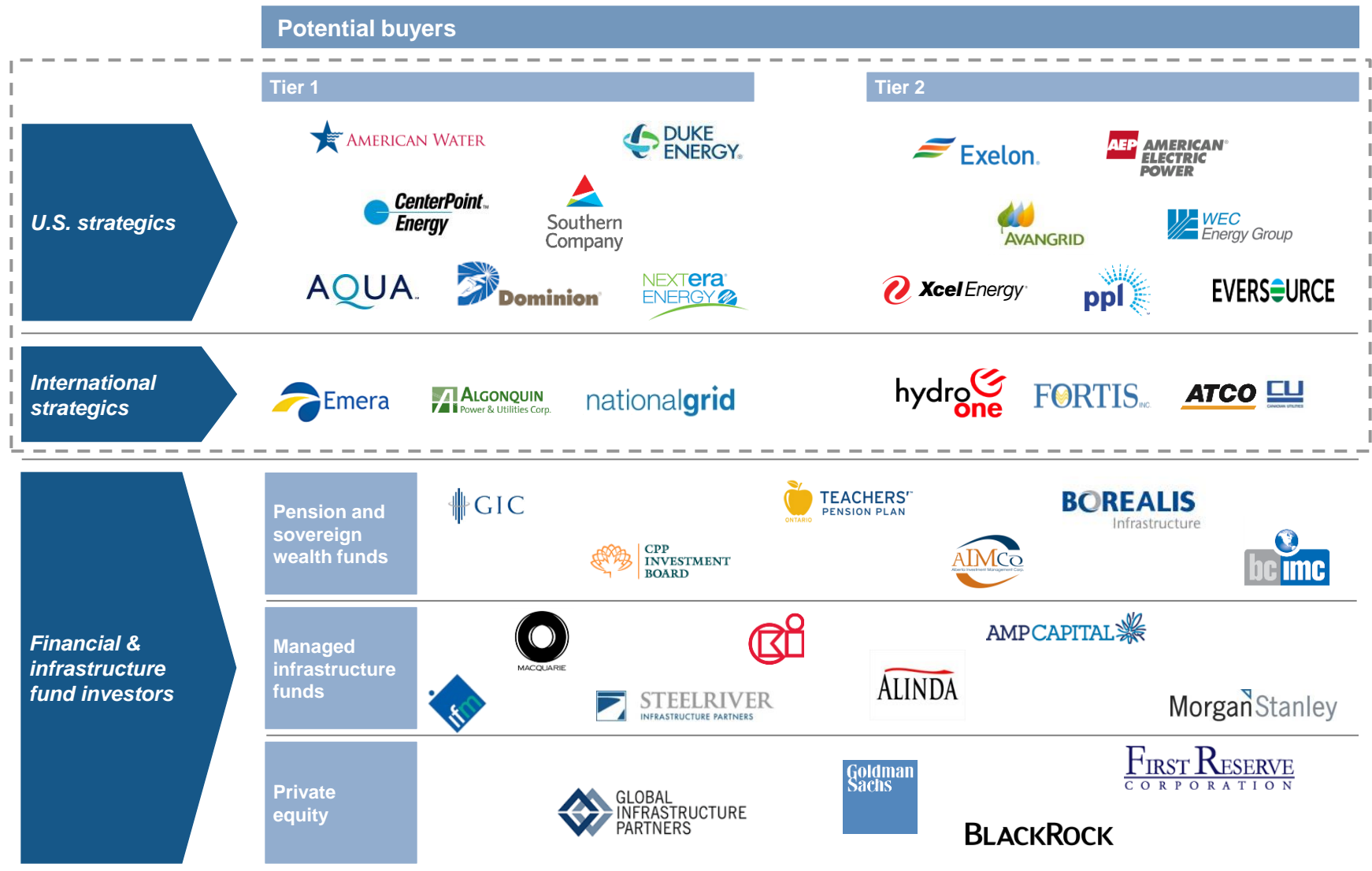
- Franchise fee would be increased to 6.0%
- Of the new property taxes, 11.44 mills will be directly attributable to the City
- Transfer Water System pension and OPEB liability to buyer
 - Eliminating the Water System's share of JEA's net pension liability eliminates ~\$15.6mm of annual funding obligations

¹ Nominal difference between pro forma and current City payments; ² Nominal sum of revenue gain over projection period

Process Overview – Concurrent, parallel sale process for i) Water System and ii) Electric System











- If the City decides to pursue a sale of both the Water System and Electric System, J.P. Morgan recommends running two independent processes that would be conducted in parallel
- A sales process for both systems would have the same overall structure/timing as the process for a single system sale
- Both sales processes would run on the same timelines with alignment around major milestones – namely, process launch, first round bid deadline, and second round bid deadline
- Potential bidders would be allowed to bid on i) Electric System, ii) Water System, iii) JEA
 - Those submitting for the Electric and Water System would be required to breakout their bid for each system
- Benefits to running separate though concurrent processes include:
 - Maximizes value by broadening the pool of buyers to those interested in only one of the systems
 - Allows bidders who see value in JEA as a single platform to bid for all of JEA
 - Compelling bidders to break out their bids facilitates comparison to single-system bids, increasing competition and driving value
- Given the expanded scope and complexity of marketing both assets concurrently, J.P. Morgan emphasizes the need for extensive and adequate preparation prior to process launch

Landscape of potential JEA Water System acquirors



Detailed review of preliminary Tier I buyer universe

Tier I buyers

Company	Owns water assets	Mkt cap. (\$bn)	Firm value (\$bn)	2019 P/E	Ratings & Outlook (S&P / Moody's)	Recent Power & Utility M&A	Select assets in Florida
		\$69.9	\$104.4	17.7x	■ A-/Stable ■ Baa1/Stable	■ Oncor ■ Hawaiian Electric	■ Florida Power & Light
		\$53.4	\$106.4	15.2x	■ A-/Stable ■ Baa1/Negative	■ Piedmont Natural Gas ■ International generation divestiture	■ Duke Energy Florida
		\$47.9	\$86.7	17.3x	■ BBB+/Negative ■ Baa2/Negative	■ SCANA ■ Questar	■ None
		\$44.6	\$95.2	14.3x	■ A-/Negative ■ Baa1/Negative	■ Elizabethtown Gas divestiture ■ Southern Natural Gas pipeline (50%)	■ Gulf Power Co. ■ Florida City Gas
		\$35.2	\$80.4	12.2x	■ A-/Stable ■ Baa1/Stable	■ National Grid Gas Distribution divestiture ■ Dominion Midstream minority stake	■ None
	✓	\$13.9	\$21.3	22.1x	■ A/Stable ■ A3/Stable	■ Shorelands Water Co ■ Water Solutions	■ None
		\$11.5	\$19.0	16.9x	■ A-/Stable ■ Baa1/Stable	–	■ None
		\$7.4	\$19.8	14.8x	■ BBB+/Stable	■ TECO ■ ICD Utilities minority stake	■ Tampa Electric ■ Peoples Gas
	✓	\$6.0	\$8.1	22.3x	■ A+/Stable	■ Superior Water	■ None
	✓	\$4.4	\$8.2	16.3x	■ BBB/Stable	■ Atlantica Yield stake ■ Empire District	■ None

Source: FactSet as of 02/09/2018; all values in USD\$

Summary Fee Proposal

- The J.P. Morgan team is committed to providing the highest quality execution to the City and is interested in working to structure a compensation arrangement that addresses the needs and objectives of both parties while appropriately compensating J.P. Morgan for the resources that the firm will invest in this process
- Notwithstanding our expectation that there will be a significant amount of time and effort committed to the preparation and execution phase of the engagement, our proposed fee structure is completely contingent upon the successful closing of a transaction
 - This commonly-used structure is designed to align the interests of the City with the interests of J.P. Morgan who assume compensation risk associated with an assignment that ultimately does not conclude in a transaction closing
 - Fee break-points (see below) incent J.P. Morgan to realize the highest possible transaction proceeds for the City and its constituents subject to also satisfying the non-financial objectives of the City
- The proposed fee is based on our previous experience on similar types of transactions, a detailed review of publicly-disclosed fee information for similar transactions, and our careful judgment of the resource commitment and potential term of the assignment

	Electric system only	Water system only	Electric & Water system
Broker fee – % of Transaction value	40bps	40bps	35bps

- To the extent that the City determines to engage J.P. Morgan to sell both the Electric System and the Water System, we propose a fee of 35bps which represents a 12.5% discount to the fee for a single asset
- In addition to the Advisory Fee, JEA agrees to reimburse J.P. Morgan for, and J.P. Morgan will separately bill, its reasonable costs and expenses
- **J.P. Morgan would be willing to discuss an alternative fee structure if the City desires such an arrangement**

Note: Fee run reflects sellside transactions between \$3bn - \$7bn and \$8bn - \$12bn in firm value excluding transactions in financial institutions, banks and real estate; Mean fees as a % of transaction value in a sale of either the Electric system or the Water system are 0.65%, 0.83% for the top-half mean and 0.97% for the top-quartile mean, Mean fees as a % of transaction value in a sale of the whole system are 0.41%, 0.50% for the top-half mean and 0.53% for the top-quartile mean

Agenda

	Page
Appendix	10

Revenue requirement comparison: JEA Water System standalone vs. privatization

Revenue requirement build up (\$mm)	Standalone JEA Water System	Buyer revenue requirement ²
	2018E	2018E
Gross revenue requirement	456	559
% Premium / (Discount) to Standalone JEA	-	22.5%
O&M	(155)	(140)
Other	(14)	0
Operating income	286	419
State utility taxes and franchise fees	(11)	(74)
Other	27	0
EBITDA	303	345
D&A	(138)	(103)
EBIT	164	242
Total contributions	(4)	0
Pre-tax interest expense	(57)	(0)
Corporate income tax	0	(\$50)
Net position / Net income	104	192
Return on regulated equity	-	10.4%

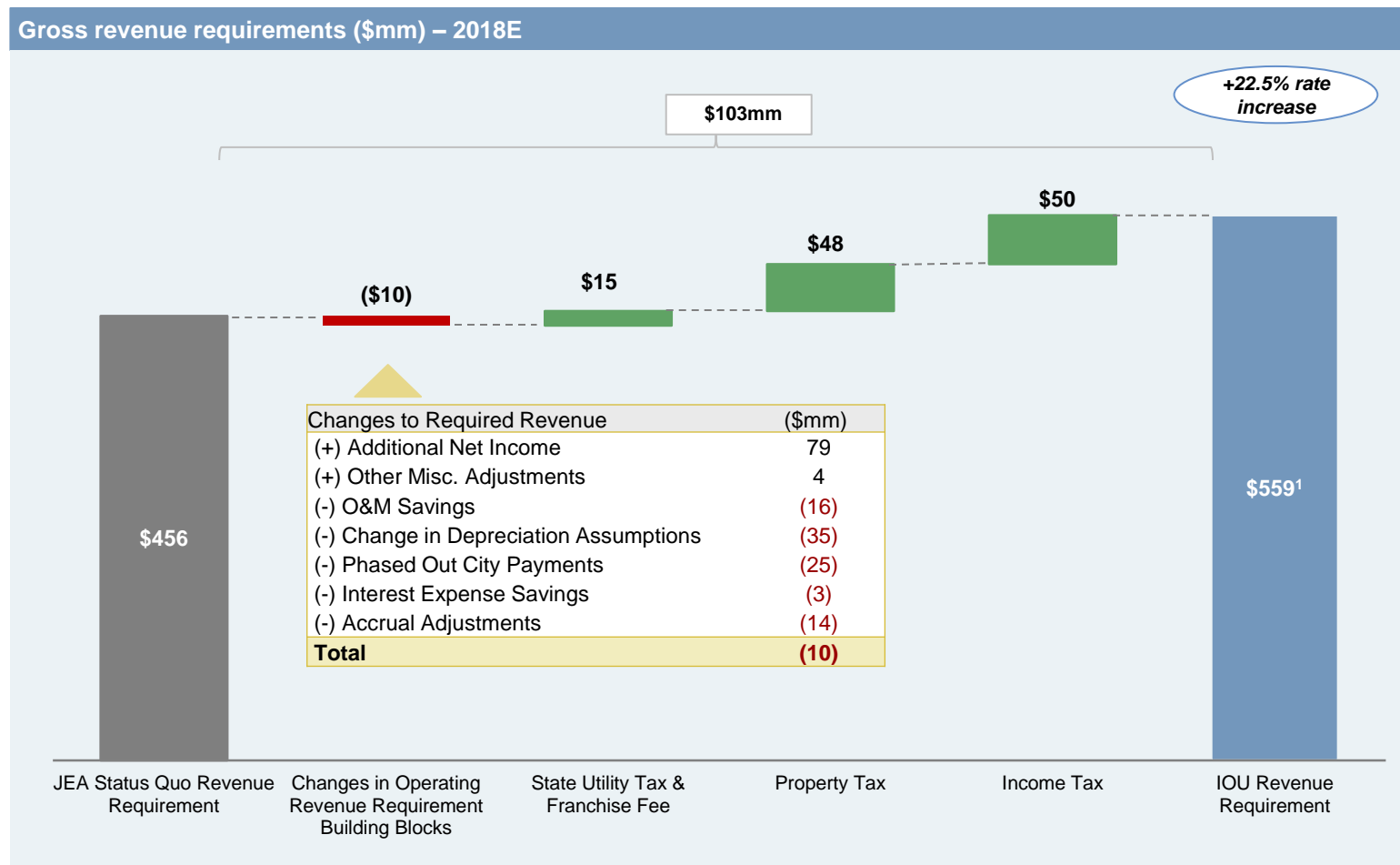
ROE drives revenue requirement

Source: Management projections and JPM estimates, subject to change and further due diligence; Florida Public Service Commission

¹ Management projected revenue requirements remains in place post transaction

² 50% equity / debt regulated rate base capitalization, target ROE of 10.35% and cost of debt of 4.0%

Illustrative JEA Water System revenue requirement under IOU equivalent projections



Source: Management projections and JPM estimates, subject to change and further due diligence
¹ 50% / 50% equity / debt regulated rate base capitalization, target ROE of 10.35% and cost of debt of 4.0%

JEA WS public trading multiples

Public trading multiples

Ticker	Company	Price at 02/09/18	% of 52-Wk High	Market Value of equity ²	Enterprise value ³	Market Value ^{1,2}			Enterprise value ^{1,3}			2018E	Long term			2018E	Price/Book	Ratings
						2018E	2019E	2020E	2018E	2019E	2020E	Payout ratio	Dividend yield	growth rate ¹	Total return	PEGY ratio	Value	(S&P/Moodys)
AWK	American Water Works Company, Inc.	\$77.94	84.4%	\$13,935	\$21,313	23.7x	22.1x	20.8x	11.6x	10.9x	10.2x	54.1%	2.1%	7.4%	9.5%	2.48x	2.52x	A/A3
WTR	Aqua America	33.70	85.2%	5,998	8,052	23.6	22.3	19.8	15.5	14.7	13.1	60.1%	2.4%	5.0%	7.4%	3.17	3.09	A+/NR
CWT	California Water Service Group	37.85	82.0%	1,817	2,540	26.8	25.2	23.7	11.6	10.6	9.9	52.4%	2.0%	6.0%	8.0%	3.36	2.64	A+/NR
AWR	American States Water Company	52.19	87.0%	1,925	2,285	29.0	27.3	NA	12.7	11.9	NA	58.0%	2.0%	5.3%	7.3%	3.98	3.64	A+/NR
SJW	SJW Corp.	52.97	76.4%	1,097	1,534	21.0	19.4	NA	NA	NA	NA	NA	2.1%	4.9%	7.0%	2.99	2.40	A/NR
Median			84.4%			23.7x	22.3x	20.8x	12.1x	11.4x	10.2x	56.1%	2.1%	5.3%	7.4%	3.17x	2.64x	
Mean			83.0%			24.8x	23.3x	21.4x	12.8x	12.0x	11.1x	56.2%	2.1%	5.7%	7.9%	3.20x	2.86x	

Source: FactSet as of 2/9/2018, company filings

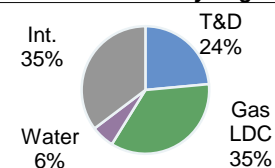
¹ EPS, 5-year projected EPS growth and EBITDA estimates from I/B/E/S and equity analyst research reports

² Based on diluted shares outstanding using the treasury stock method

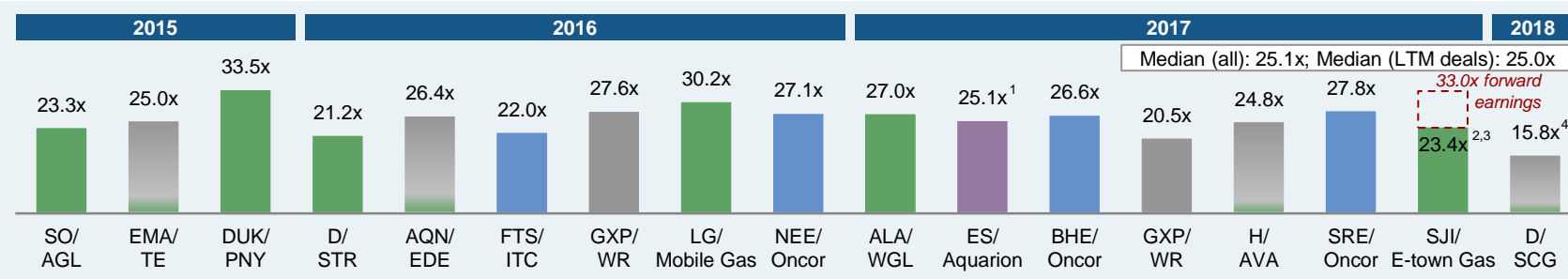
³ Enterprise value equals market value plus total debt, preferred stock, capital leases and minority interest net of cash and equivalents

Utility M&A transactions

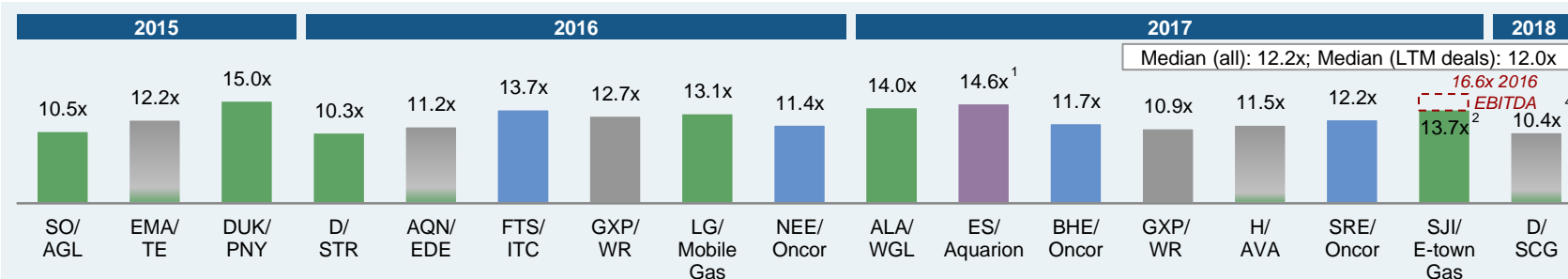
% of recent deals by target type



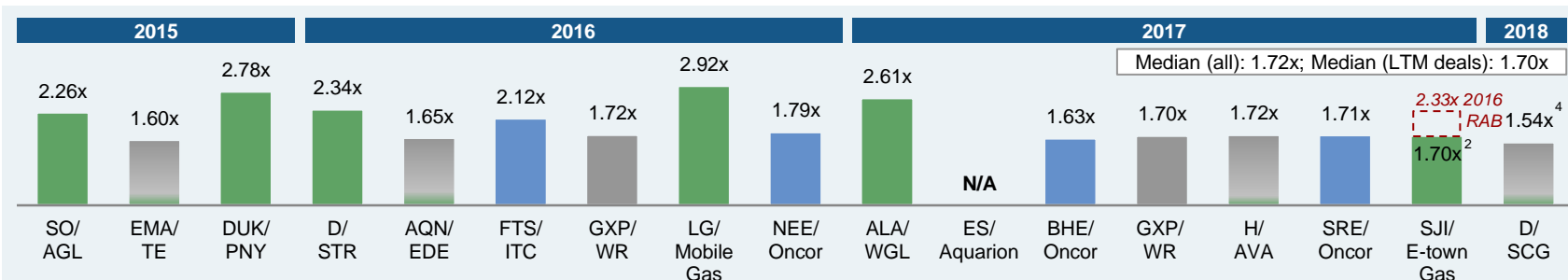
LTM P/E



FV / LTM EBITDA



FV / RAB



¹ Based on equity research estimate of \$35mm 2016 year end net income and \$115mm 2016 year end EBITDA

² Net of ~\$300mm tax benefit

³ P/E multiple is 2018E forward multiple

⁴ Reflects additional \$1.3bn of equity issued to fund rate refund, giving an all-in implied \$64.45 offer price/sh. vs. \$55.35 announced (\$9.2bn vs. \$7.9 announced equity value). Without add-back, LTM P/E multiple is 13.6x and FV / LTM EBITDA is 9.5x. Includes add-backs for impairments

Illustrative discount cash flow analysis – Water System

Buyer revenue requirement

Summary (\$mm)											
	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	TV
Revenue requirement	\$558	\$569	\$580	\$600	\$616	\$629	\$640	\$651	\$662	\$672	\$677
% growth		1.9%	2.0%	3.3%	2.7%	2.1%	1.8%	1.7%	1.6%	1.6%	0.8%
EBITDA	\$332	\$346	\$360	\$373	\$384	\$391	\$398	\$404	\$410	\$416	\$419
% margin	59.5%	60.8%	62.0%	62.2%	62.3%	62.3%	62.2%	62.1%	62.1%	62.0%	62.0%
Less: D&A	(103)	(107)	(111)	(115)	(119)	(122)	(125)	(128)	(131)	(134)	(126)
% of capex	44.9%	45.0%	42.9%	47.9%	54.7%	64.1%	65.8%	67.4%	69.1%	70.8%	90.0%
EBIT	\$229	\$239	\$249	\$258	\$265	\$270	\$273	\$276	\$279	\$282	\$293
Less: Taxes	(61)	(63)	(66)	(68)	(70)	(71)	(72)	(73)	(74)	(75)	(78)
Tax rate (%)	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%
NOPAT	\$169	\$176	\$183	\$190	\$195	\$198	\$201	\$203	\$205	\$207	\$216
% margin	30.2%	30.9%	31.5%	31.6%	31.6%	31.5%	31.4%	31.2%	31.0%	30.8%	31.9%
Plus: D&A	103	107	111	115	119	122	125	128	131	134	126
% of capex	44.9%	45.0%	42.9%	47.9%	54.7%	64.1%	65.8%	67.4%	69.1%	70.8%	90.0%
Plus: Increase in DTLs	2	31	30	30	29	27	26	24	25	26	0
% of D&A	2.2%	28.9%	27.2%	25.8%	24.2%	22.5%	20.7%	19.0%	19.2%	19.6%	0.0%
Less: Capex	(229)	(237)	(259)	(240)	(217)	(190)	(190)	(190)	(190)	(190)	(140)
% sales	41.0%	41.7%	44.6%	40.0%	35.2%	30.2%	29.7%	29.2%	28.7%	28.3%	28.3%
Less: AFUDC	0	0	0	0	0	0	0	0	0	0	0
% sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
+/- Change in net working capital	(6)	(9)	(9)	(8)	(8)	(7)	(6)	(5)	(4)	(4)	0
% of change in sales		(86.1%)	(75.5%)	(42.3%)	(47.8%)	(55.2%)	(54.1%)	(46.0%)	(41.6%)	(34.0%)	0.0%
Unlevered FCF for discounting	\$38	\$67	\$56	\$86	\$117	\$150	\$155	\$160	\$167	\$174	\$202

PV FCF			PV of terminal value (\$mm)				Firm value (\$mm)				Net debt & Other			Equity value (\$mm)						
WACC			WACC	Terminal growth rate			WACC	Terminal growth rate			WACC			WACC	Terminal growth rate					
				0.50%	0.75%	1.00%				0.50%		0.75%	1.00%				0.50%	0.75%	1.00%	
	4.00%	\$925		4.00%	\$4,112	\$4,445		\$4,834	4.00%	\$5,036		\$5,370	\$5,758		4.00%	(\$1,370)	4.00%	\$3,666	\$4,000	\$4,388
	4.25%	913	+	4.25%	3,760	4,044	4,372	=	4.25%	4,673	4,957	5,285	-	4.25%	(1,370)	=	4.25%	3,304	3,587	3,915
	4.50%	902		4.50%	3,454	3,698	3,978		4.50%	4,356	4,601	4,880		4.50%	(1,370)		4.50%	2,986	3,231	3,510

TV / 2027E EBITDA				
WACC	Terminal growth rate			
	0.50%	0.75%	1.00%	
	4.00%	14.1x	15.2x	16.5x
	4.25%	13.1x	14.1x	15.3x
	4.50%	12.3x	13.2x	14.2x

FV / 2019E EBITDA				
WACC	Terminal growth rate			
	0.50%	0.75%	1.00%	
	4.00%	14.6x	15.5x	16.7x
	4.25%	13.5x	14.3x	15.3x
	4.50%	12.6x	13.3x	14.1x

Source: Management projection, assumes illustrative WACC of 4.25%, terminal year capex equal to 90% of capital expenditures and terminal value calculated using the PGR method ranging from 0.50% - 1.00%, Net debt & Other includes total unrestricted cash and investments, Pension & OPEB liabilities and bonds payable

Note: Valuation as of 12/31/2018; Assumes midpoint discounting

Illustrative JEA WS discount rate analysis

Discount rate summary

Risk free rate ¹		2.5%	
Equity risk premium	5.50%	—	6.50%
Levered beta	0.25	—	0.50
Country risk premium	0.0%	—	0.0%
Cost of equity	3.9%	—	5.8%
Pre-tax cost of debt		3.8%	
Post-tax cost of debt		3.0%	
Debt/total cap target		25.0%	
Calculated discount rate	3.6%	—	5.0%
Selected discount rate	4.00%	—	4.50%

Capital structure benchmarks (\$mm)

Company	Market cap	Debt/total cap	Levered beta		Relevered historical ²
			Barra	Historical	
American Water Works	\$13,951	34.9%	0.237	0.345	0.318
Aqua America	\$6,003	25.5%	0.205	0.488	0.497
American States Water	\$1,924	16.0%	0.245	0.569	0.630
California Water Service	\$1,817	29.2%	0.257	0.572	0.561
SJW Group	\$1,096	28.8%	0.334	0.794	0.782
Mean		26.9%	0.256	0.554	0.558
Median		28.8%	0.245	0.569	0.561

Cost of equity vs. Debt/total cap target³

		Cost of equity			
		3.9%	4.9%	5.8%	6.8%
Debt/total cap	10.0%	3.9%	4.5%	5.0%	5.6%
	20.0%	3.7%	4.3%	4.8%	5.3%
	30.0%	3.6%	4.1%	4.6%	5.0%
	40.0%	3.5%	3.9%	4.3%	4.7%
	50.0%	3.4%	3.7%	4.1%	4.4%

Cost of equity vs. Pre-tax cost of debt³

		Cost of equity			
		3.9%	4.9%	5.8%	6.8%
Pre-tax cost of debt	2.8%	3.4%	3.9%	4.4%	4.8%
	3.3%	3.5%	4.0%	4.5%	4.9%
	3.8%	3.6%	4.1%	4.6%	5.0%
	4.3%	3.7%	4.2%	4.7%	5.1%
	4.8%	3.8%	4.3%	4.7%	5.2%

Source: FactSet, Barra, J.P. Morgan estimates

Note: Market data as of 02/09/18

¹ U.S. 10-year treasury bond yield as of 01/16/18

² Relevered historical beta is implied based on unlevering historical levered beta for each respective company based on their current capital structure and 5-year historical weighted average tax rate then subsequently relevering based on debt/total cap target of 30.0% and target marginal tax rate of 26.6%

³ Assumes pre-tax cost of debt of 3.75%, debt/total cap target of 25.0% and tax rate of 26.6%

Fee details – Single advisor (Electric & Water systems)

Sellside, single advisor, \$8,000mm-\$12,000mm deal value, deals between 01/01/11 and 12/31/17, excludes transactions in the financial institutions, banks, and real estate sectors

Precedent fees detail

Date	Target	Acquiror	Deal value (\$mm)	Target fees
				% of deal value
30-Oct-17	CalAtlantic Group Inc	Lennar Corp	\$9,467	0.42%
18-Sep-17	Orbital ATK Inc	Northrop Grumman Corp	9,451	0.42%
19-Jun-17	Rice Energy Inc	EQT Corp	8,202	0.57%
9-Jan-17	VCA Inc	Mars Inc	8,948	0.46%
1-Feb-16	Alere Inc	Abbott Laboratories	8,390	0.57%
21-Oct-15	KLA-Tencor Corp	Lam Research Corp	11,457	0.51%
30-Jun-15	Towers Watson & Co	Willis Group Holdings plc	8,762	0.29%
6-May-15	Synageva Biopharma Corp	Alexion Pharmaceuticals Inc	9,507	0.50%
14-Dec-14	PetSmart Inc	BC Partners Ltd et al.	8,763	0.45%
18-Sep-14	Concur Technologies Inc	SAP SE	8,593	0.52%
28-Jul-14	Family Dollar Stores Inc	Dollar Tree Inc	9,209	0.47%
23-Jun-14	Integrus Energy Group Inc	Wisconsin Energy Corp	9,208	0.20%
30-Jun-13	ONYX Pharmaceuticals Inc	Amgen Inc	10,607	0.44%
29-May-13	NV Energy Inc	Berkshire Hathaway Inc	10,423	0.20%
20-May-13	Warner Chilcott plc	Actavis Inc	9,291	0.13%
21-Nov-11	Pharmasset Inc	Gilead Sciences Inc	11,017	0.42%
20-Jul-11	Nalco Holding Co	Ecolab Inc	5,467	0.31%
7-Feb-11	Pride International Inc	Ensco plc	7,392	0.49%
Mean				0.41%
Top-half mean				0.50%
Top-quartile mean				0.53%