

# Chesapeake Utilities Corporation

Driven By **Energy**

Third Quarter 2020  
Earnings Conference Call  
November 5, 2020

Commitment  
Growth  
Leadership  
Safety  
Sustainability  
Solutions

Strength  
Team  
Service  
Performance  
Community  
Value

# Presenting Today:



***Jeff Householder***  
***President & CEO***



***Beth Cooper***  
***Executive Vice President,  
CFO and Asst. Secretary***



***Jim Moriarty***  
***Executive Vice President, General  
Counsel , Corporate Secretary and  
Chief Policy and Risk Officer***

**Safe Harbor Statement:** Some of the Statements in this document concerning future Company performance will be forward-looking within the meanings of the securities laws. Actual results may materially differ from those discussed in these forward-looking statements. You should refer to the additional information contained in Chesapeake Utilities' 2019 Annual Report on Form 10-K, the Form 10-Q for the quarter ended September 30, 2020 filed with the SEC and other SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

**REG D Disclosure:** Today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation D. Although non-GAAP measures are not intended to replace GAAP measures for evaluation of Chesapeake's performance, Chesapeake believes that portions of the presentation, which include certain non-GAAP financial measures, provide a helpful comparison for an investor's evaluation purposes.

**Gross Margin (non-GAAP measure):** Gross Margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes the purchased fuel cost for natural gas, electric and propane distribution operations and the cost of labor spent on different revenue-producing activities and excludes depreciation, amortization and accretion. Other companies may calculate gross margin in a different manner.

**COVID-19 Impact:** At this time, we cannot fully quantify the future impact that the Coronavirus Disease 2019 ("COVID-19") will have on the economy, and more particularly, on Chesapeake Utilities Corporation. The earnings and capital estimates we have included herein do not reflect any future estimates of the potential impact. For the third quarter and year-to-date we have provided estimates of the short-term impact of COVID-19. The Company is continuing to assess recoverability and to date has not established regulatory assets associated with the incremental expense impacts, as currently authorized by the Delaware, Maryland and Florida PSCs. As we gain further clarity on the future impacts caused by COVID-19, including the impact on our projected gross margin, EPS estimates, timing of capital expenditures, etc., we will update our guidance accordingly.

# Key Third Quarter Announcements

## Business Development and Growth

Partnered with CleanBay Renewables to Increase Sustainable Energy on Delmarva

Maryland PSC Approval and Completion of Elkton Gas Acquisition

\$75 million At-The-Market Equity Offering Program

Partnered with Atlanta Gas Light to Build CNG Filling Station at Port of Savannah

Chesapeake Utilities Corporation Named Top Workplace for Ninth Consecutive Year

Partnered with Fortistar and Rumpke Waste & Recycling for Renewable Fuel Project in Ohio

Hurricane Michael Settlement Approved by the Florida Public Service Commission

CPK Named to S&P Small Cap 600 Index

Completed acquisition of Western Natural Gas Company, a Florida propane company

Dividend of \$0.44 for January 2021 – 60th Year of Consecutive Dividends Paid

- Achieved strong third quarter results; solid year-to-date operating earnings across all business units
- Operational savings and best practices performance improvements being implemented across distribution and transmission businesses in all regions
- Progressing on key deliverables:
  - Boulden acquisition integrated with Sharp Energy
  - Renewable natural gas projects underway on Delmarva
  - Elkton Gas LDC acquisition completed July 31st
  - Pipeline expansion projects continue to move forward
  - Continued strong organic growth
  - Hurricane Michael regulatory proceeding settlement
  - Western Natural Gas propane acquisition completed October 26th
- Major Projects margin contribution:
  - 2020 estimate \$50 million
  - 2021 estimate \$63 million



# Financial Summary

## GAAP Income and Income from Continuing Operations

For the periods ended September 30,  
 (in thousands except per share amounts)

*(in thousands except per share data)*

	Third Quarter		Year-to-Date	
	2020	2019	2020	2019
<b>Operating Income</b>	\$ 17,406	\$ 14,357	\$ 77,518	\$ 76,645
<b>Other income (expense), net</b>	(40)	(351)	2,997	(731)
<b>Interest Charges</b>	4,584	5,403	15,452	16,583
<b>Income from Continuing Operations</b>				
<b>Before Income Taxes</b>	12,782	8,603	65,063	59,331
<b>Income Taxes on Continuing Operations</b>	3,502	2,352	16,082	15,354
<b>Income from Continuing Operations</b>	<b>9,280</b>	<b>6,251</b>	<b>48,981</b>	<b>43,977</b>
<b>Income (loss) from Discontinued Operations, Net of Tax</b>	<b>(19)</b>	<b>(630)</b>	<b>165</b>	<b>(1,388)</b>
<b>Net Income</b>	<b>\$ 9,261</b>	<b>\$ 5,621</b>	<b>\$ 49,146</b>	<b>\$ 42,589</b>
<b>Diluted EPS from Continuing Operations</b>	<b>\$0.56</b>	<b>\$0.38</b>	<b>\$2.96</b>	<b>\$2.67</b>
<b>Diluted EPS (GAAP)</b>	<b>\$0.56</b>	<b>\$0.34</b>	<b>\$2.97</b>	<b>\$2.59</b>

# Key Drivers of Our Performance

## Third Quarter of 2020 Compared to Third Quarter of 2019

- **Gross Margin increased \$8.2 million**
  - Margin contributions from Hurricane Michael proceeding \$2.8 million
  - Eastern Shore and Peninsula Pipeline service expansions \$2.7 million
  - Natural gas growth (excluding expansions) \$0.8 million
  - Florida GRIP \$0.7 million
  - Boulden and Elkton Gas acquisition contributions \$0.7 million
  - Increased demand for CNG Marlin Gas Services \$0.6 million
  
- **Operating expenses increased \$4.7 million (57% of margin variance)**
  - Depreciation and amortization for Hurricane Michael settlement \$1.8 million
  - Depreciation and property tax related to capital investment \$1.3 million
  - Boulden and Elkton Gas operating expenses \$0.9 million
  - Facilities, maintenance and outside services costs \$0.4 million
  - Insurance expense related to higher market premiums \$0.3 million
  
- **Net Unusual items (\$0.7 million)**
  - Hurricane Michael (net impact from Q1 and Q2 2020) \$2.7 million
  - Decreased customer consumption (\$1.0 million)
  - Unfavorable COVID-19 impacts (\$1.0 million)

# Key Business Factors: COVID-19 Impact

- *Chesapeake Utilities is an “essential business” to our customers and communities. As such, our operational activities and construction projects continue; all the while, we are adhering to safety guidelines and social distancing.*
- *The Company’s pandemic response plan, which has included all employees who can to telework, and providing personal protective equipment (PPE) to those employees who have continued to operate in the field delivering our essential services, remains robust and in place.*

## Operating Income

- For the three and nine months ended September 30, 2020, respectively, the COVID-19 operating income impacts were \$1.9 million and \$6.7 million, respectively; including increased bad debt expense reserves associated with customer delayed payments increasing aged accounts receivables
- Year-to-date net income was reduced \$1.9 million or \$0.12 per share

## Regulatory

- As the COVID-19 pandemic is ongoing, the Company to date has not established regulatory assets associated with the incremental expense impact, as currently authorized by the three PSCs (Delaware, Maryland and Florida)
- We are continuing to assess recoverability
- We No significant COVID-19 impact on our FERC Regulated interstate transmission line



# Capital Expenditures Forecast

## UPDATED Estimate for 2020

<i>(dollars in thousands)</i>	Forecast for Fiscal 2020	
	Low	High
<b>Regulated Energy:</b>		
Natural gas distribution	\$ 77,000	\$ 85,000
Natural gas transmission	70,000	74,000
Electric distribution	3,000	5,000
Total Regulated Energy	150,000	164,000
<b>Unregulated Energy:</b>		
Propane distribution	14,000	16,000
Energy transmission	17,000	18,000
Other unregulated energy	12,000	14,000
Total Unregulated Energy	43,000	48,000
<b>Other:</b>		
Corporate and other businesses	2,000	3,000
<b>Total 2020 Capital Expenditures</b>	<b>\$ 195,000</b>	<b>\$ 215,000</b>

*Increased low range forecast for 2020 from \$185 million to \$195 million.*

*The Company's capital expenditures were \$143.9 million for the nine months ended September 30, 2020. We will continue to update this forecast as we move through the year, including any unexpected capital delays resulting from COVID-19.*

# Capital Structure Overview

## Actual and ProForma

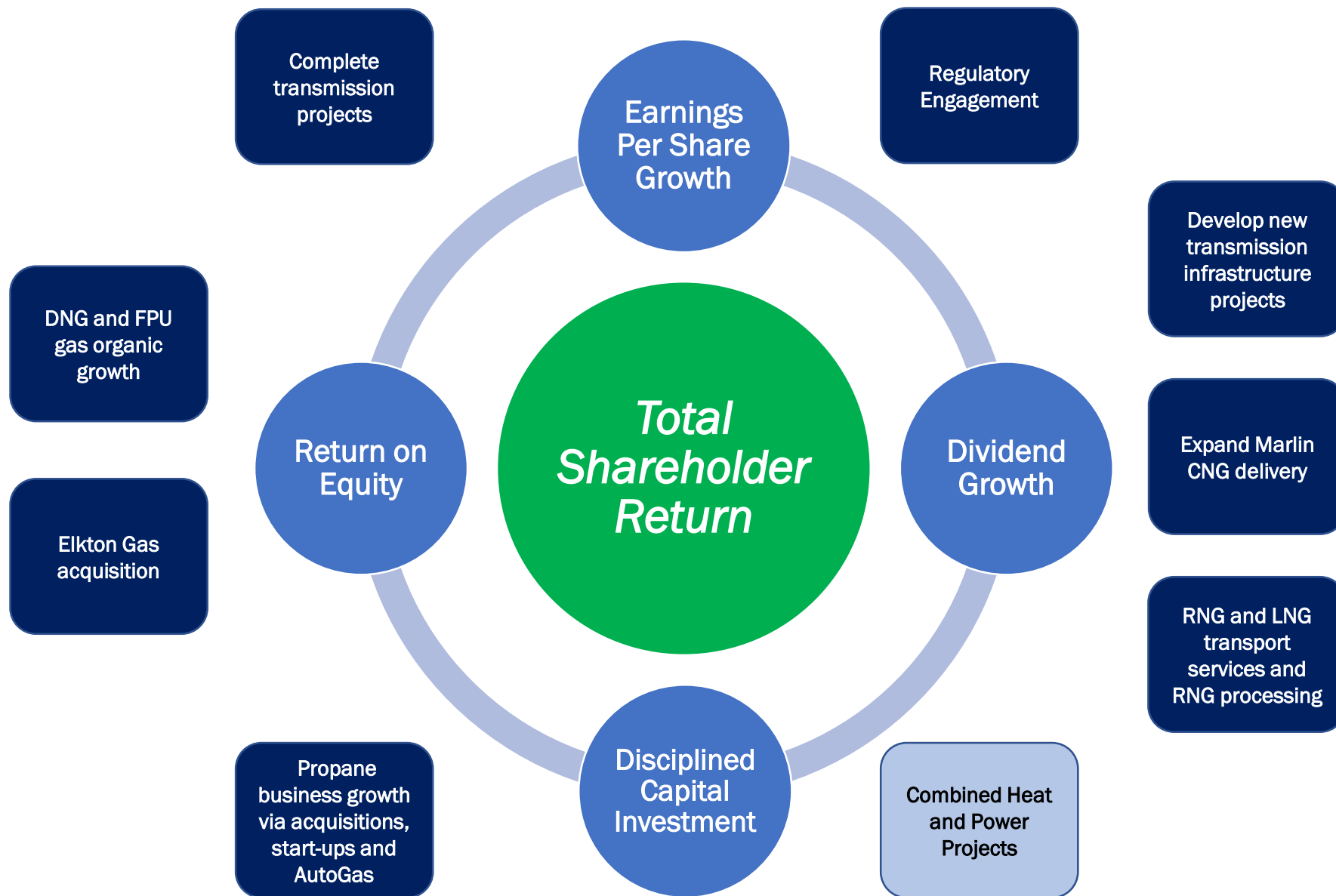
	Actual		Actual		Pro Forma	
	<u>12/31/2019</u>		<u>9/30/2020</u>		<u>Current</u>	
Stockholders' equity	\$	561,577	\$	616,690	\$	680,516
Long-term debt, net of current maturities		440,168		519,971		519,971
<b>Total permanent capitalization</b>	<b>\$</b>	<b>1,001,745</b>	<b>\$</b>	<b>1,136,661</b>	<b>\$</b>	<b>1,200,487</b>
Current portion of long-term debt		45,600		15,600		15,600
Short-term debt (including Revolver)		247,371		216,388		152,562
<b>Total capitalization and short-term financing</b>	<b>\$</b>	<b>1,294,716</b>	<b>\$</b>	<b>1,368,649</b>	<b>\$</b>	<b>1,368,649</b>
Equity to Permanent Capital		56.1%		54.3%		56.7%
Equity to Total Capitalization		43.4%		45.1%		<b>49.7%</b>
New Long-Term Debt Issuance	\$	170,000	\$	90,000	\$	90,000
Net New Equity Issuance	\$	-	\$	24,725	\$	88,551
- Stock Plans and ATM						

Close to achieving the low end of our target equity range

## Inclusion of Chesapeake Utilities in the S&P Small Cap 600 Index

- Chesapeake Utilities (CPK) joined the S&P Small Cap 600 Index effective October 1, 2020
- CPK replaced Momenta Pharmaceuticals (acquired by Johnson and Johnson) in the S&P Small Cap 600 Index
- The S&P Small Cap 600 Index is considered the primary benchmark for US small cap companies
- Minimum Eligibility requirements include a market capitalization of \$600 million to \$2.4 billion and consistent positive earnings for at least the past four consecutive quarters
- CPK's addition to the S&P Small Cap 600 Index provided momentum to CPK stock in terms of volume and share price – which provided CPK a great opportunity to utilize its ATM program and sell stock into the market for September 28-30<sup>th</sup>
- CPK issued 735,336 shares under the ATM at an average price of \$84.96 for gross proceeds of \$62.5 million new equity

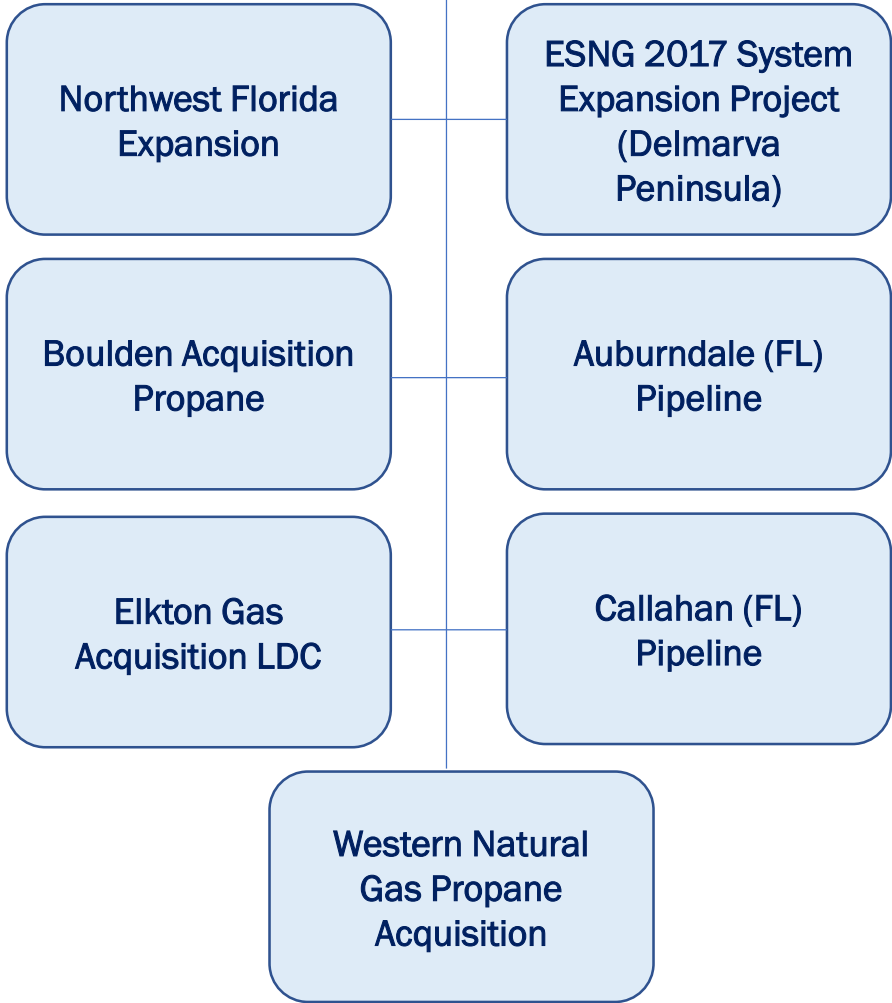
# Chesapeake Utilities 2020 – 2022 Strategic Growth Initiatives



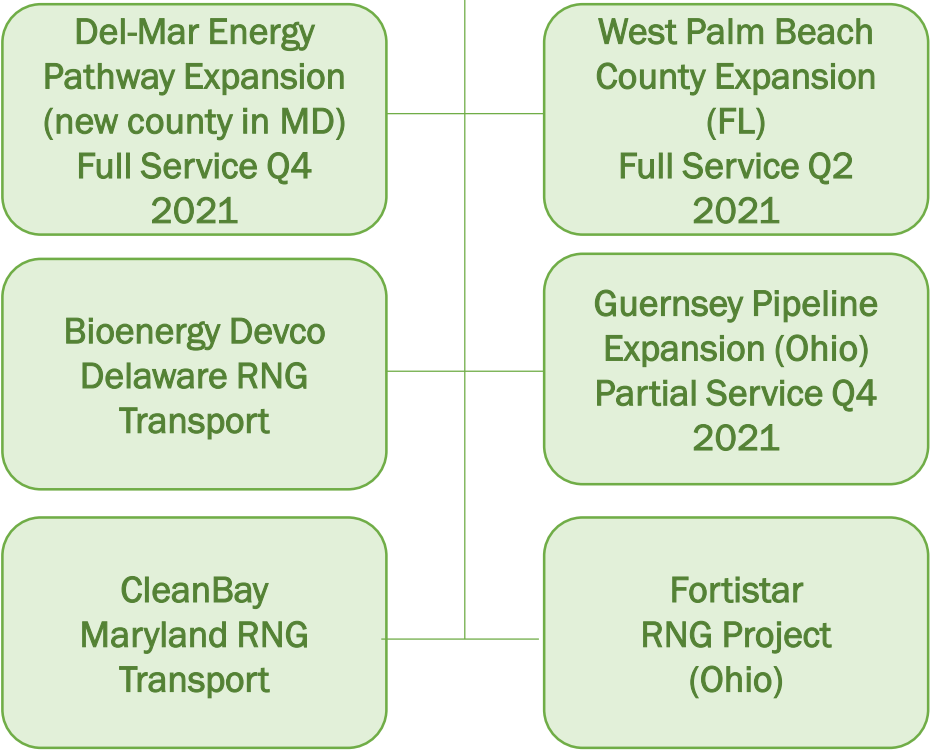
# Recent and Current Business Expansions

## Business Development Continues to Identify New Opportunities

### Recently Completed



### Projects Underway



# Western Natural Gas

## Summary of Transaction

*On October 26<sup>th</sup>, we acquired Western Natural Gas (WNG), Inc., a family-owned retail propane gas distributor founded in 1940's. WNG has no natural gas assets.*

- **Key assets:**
  - Bulk plants = 4 - 296K gallon storage capacity
  - Bobtails = 4
  - Service vehicles = 5
  - 12 Employees
- **Serving Jacksonville, FL in 4 counties:**
  - Approximately 4,000 propane customers
  - 1 million gallon sales annually
  - 80% Duval County
  - 10% St. Johns County
  - 6% Clay County
  - 4% Nassau County
- **Financial Considerations:**
  - \$6.7 million asset acquisition
  - Will operate as Sharp Energy
  - Capitalize on builder relationships
  - Accelerate AutoGas growth
  - Sharp estimates gross margin of \$0.3 million in 2020, and \$1.8 million in 2021



# Key Regulatory Initiatives

## Hurricane Michael Limited Proceeding

- ***In September 2020, the Florida Public Service Commission approved a settlement agreement regarding the final cost recovery and rates associated with Hurricane Michael. The settlement of the Hurricane Michael proceeding improved operating income by \$2.9 million for the third quarter, including \$1.9 million in operating income which was previously billed under interim rates and fully reserved during the first half of 2020.***
- ***The settlement agreement allowed FPU to:***
  - (a) record regulatory assets for storm costs in the amount of \$45.8 million including interest which will be amortized over six years***
  - (b) recover these storm costs through a surcharge for a total of \$7.7 million annually***
  - (c) collect an annual increase in revenue of \$3.3 million to recover capital costs associated with new plant and a regulatory asset for the cost of removal and undepreciated plant***
- ***The new base rates and storm surcharge were effective on November 1, 2020.***

# Hurricane Michael Regulatory Proceeding

## Income Impact three and nine months ended September 30, 2020

<i>(in thousands)</i>	Three Months Ended September 30, 2020 <sup>(1)</sup>	Nine Months Ended September 30, 2020
Gross Margin	\$ 2,754	\$ 8,261
Depreciation	(298)	(883)
Amortization of regulatory assets	2,079	6,238
Operating income	973	2,906
Amortization of liability associated with interest expense	(360)	(1,132)
Pre-tax income	1,333	4,038
Income tax expense	365	1,106
Net income	<u>\$ 968</u>	<u>\$ 2,932</u>

<sup>(1)</sup> The Hurricane Michael impact for the three months ended September 30, 2020, is presented for comparison purposes.

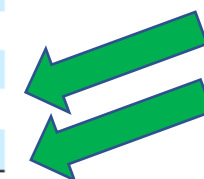


# Major Projects and Initiatives

## Gross Margin Contributions

Project/Initiative <i>in thousands</i>	Gross Margin for the Period							
	Three Months Ended		Nine Months Ended		Year Ended	Estimate for		
	September 30,		September 30,		December 31,	Fiscal		
	2020	2019	2020	2019	2019	2020	2021	
<b>Pipeline Expansions</b>								
West Palm Beach County, Florida Expansion	\$ 1,020	\$ 745	\$ 2,988	\$ 1,068	\$ 2,139	\$ 4,076	\$ 4,984	
Del-Mar Energy Pathway <sup>(1)</sup>	925	189	1,565	542	731	2,398	4,100	
Auburndale	170	113	509	113	283	679	679	
Callahan Intrastate Pipeline (including related natural gas distribution services)	1,609	—	2,146	—	—	4,039	6,437	
Guernsey Power Station	—	—	—	—	—	—	514	
<b>Total Pipeline Expansions</b>	<b>3,724</b>	<b>1,047</b>	<b>7,208</b>	<b>1,723</b>	<b>3,153</b>	<b>11,192</b>	<b>16,714</b>	
<b>Virtual Pipeline Growth</b>								
Compressed Natural Gas Transportation	1,592	993	5,047	4,353	5,410	7,000	8,000	
Renewable Natural Gas Transportation	—	—	—	—	—	—	1,000	
<b>Total Virtual Pipeline Growth</b>	<b>1,592</b>	<b>993</b>	<b>5,047</b>	<b>4,353</b>	<b>5,410</b>	<b>7,000</b>	<b>9,000</b>	
<b>Acquisitions</b>								
Boulden Propane	327	—	2,763	—	329	4,000	4,200	
Elkton Gas	357	—	357	—	—	1,365	3,992	
Western Natural Gas Company	—	—	—	—	—	250	1,800	
<b>Total Acquisitions</b>	<b>684</b>	<b>—</b>	<b>3,120</b>	<b>—</b>	<b>329</b>	<b>5,615</b>	<b>9,992</b>	
<b>Regulatory Initiatives</b>								
Florida GRIP	3,831	3,146	11,135	10,457	13,939	14,976	16,739	
Hurricane Michael regulatory proceeding	8,261	—	8,261	—	—	11,014	11,014	
<b>Total Regulatory Initiatives</b>	<b>12,092</b>	<b>3,146</b>	<b>19,396</b>	<b>10,457</b>	<b>13,939</b>	<b>25,990</b>	<b>27,753</b>	
<b>Total</b>	<b>\$18,092</b>	<b>\$5,186</b>	<b>\$34,771</b>	<b>\$16,533</b>	<b>\$ 22,831</b>	<b>\$49,797</b>	<b>\$63,459</b>	

New  
Gross Margin  
Initiatives



# Renewable Natural Gas

Waste products are converted to Biogas in an anaerobic digester. The raw Biogas does not meet gas pipeline quality standards. An upgrading (clean-up) process, similar to the gas processing CPK currently operates in Ohio, is required to produce Biomethane, typically referred to as Renewable Natural Gas (RNG) prior to pipeline injection.

## What is biogas?

Produced from decomposing organic material without presence of oxygen:

- 50-65% CH<sub>4</sub>
- 35-50% CO<sub>2</sub>
- Trace impurities (H<sub>2</sub>S, VOCs, etc.)

## RNG (biomethane) advantages

- Drop-in substitute for natural gas
- 100% renewable - no new carbon
- Upcycles low-grade organic waste into high-value, low-carbon energy source



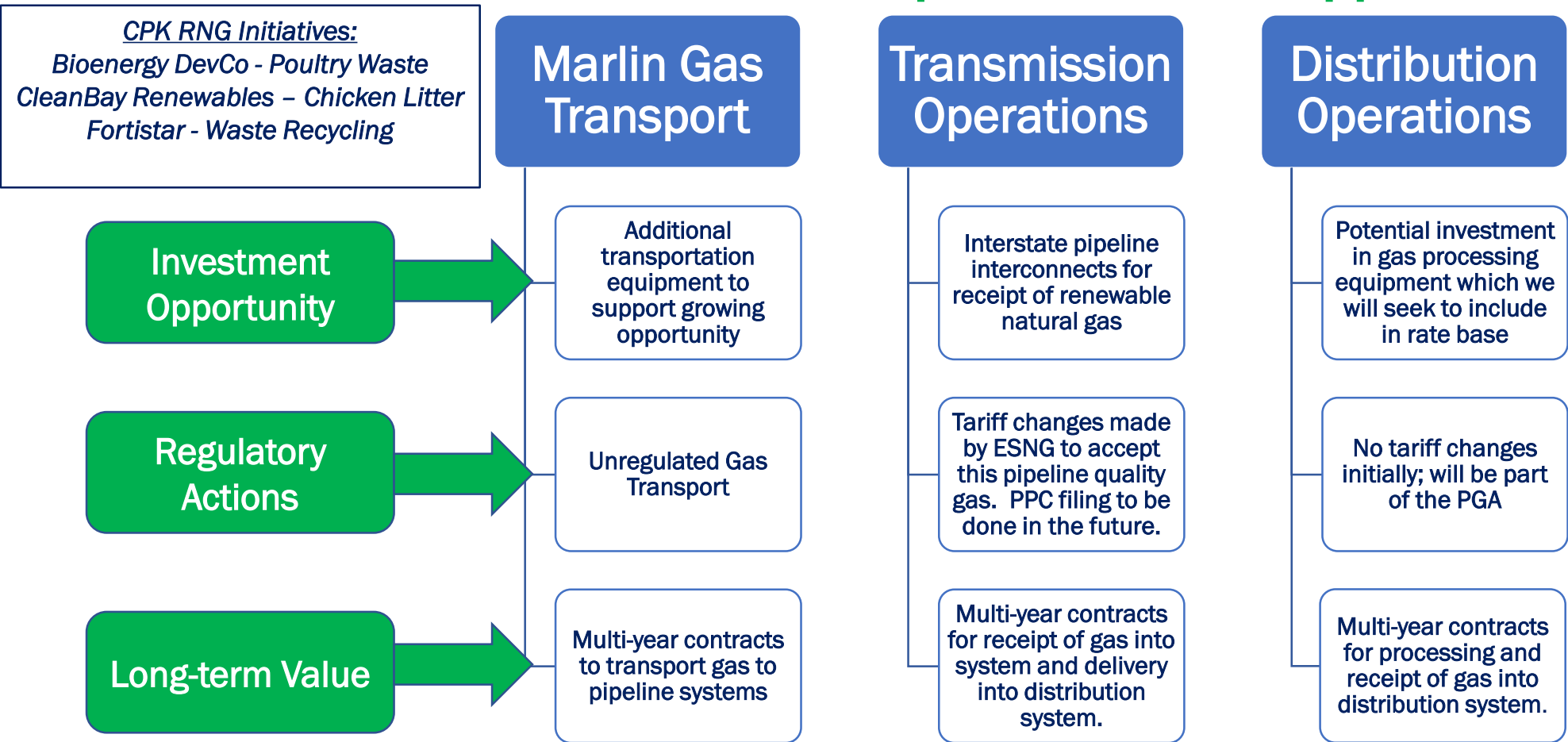
## What is biogas upgrading?

- Cleanse impurities
- Separate CO<sub>2</sub> from CH<sub>4</sub>
- Meet pipeline or vehicle specifications



# CPK's Renewable Natural Gas Proposition

## Presents Multiple Investment Opportunities



- *As a result of the Bioenergy DevCo ., CleanBay and Fortistar projects, the Company expects to generate \$1.0 million in incremental margin in 2021 from renewable gas transportation.*
- *These projects provide the opportunity for the Company to utilize renewable natural gas, and play an active role in the clean-up of poultry waste as well support the sustainability of agribusiness on Delmarva.*
- *There are numerous profitable investment opportunities across the CPK value chain as we play a key role in ensuring a sustainable future for our local communities.*

- We are a responsible company that promotes integrity, accountability and reliability, with the safety of those we serve as our highest priority.
- The key to our success is our strong culture that fully engages all of our team members across the organization.
- Our Equity, Diversity and Inclusion Council promotes our culture -- everyone matters, every day.
- Our Employee Resource Groups celebrate, honor and share the unique experiences among our team members and create a forum for collaboration and innovation that contributes to our strategic growth.
- We are committed to providing safe, reliable, sustainable and efficient energy solutions to customers.
- Our corporate governance is the foundation of our processes and our decision-making throughout the Company, beginning with our Board of Directors and extending to every employee.
- We continue to cultivate the Chesapeake Utilities' sustainability story.

## CHESAPEAKE UTILITIES NAMED TOP WORKPLACE FOR NINTH CONSECUTIVE YEAR

Each employee at Chesapeake Utilities is a valued member of our team, bringing diverse and inclusive perspectives to help achieve our goals. The Company continues to promote the growth and development of its employees, including the strategic thinking and creative energy that are integral to our success. We are honored to work alongside our employees who continue to rise to the occasion, evident even more throughout our Company’s COVID-19 pandemic response.



World Mental Health Day 2020

Energy Efficiency Day 2020

Women in Energy

Safety Practices and Security Tips

#GASisKey...and so are you.

## NEW OHIO-BASED RENEWABLE FUEL PROJECT AIMS TO CAPTURE THE EQUIVALENT OF NEARLY 50K TONS OF CARBON TO DISPLACE DIESEL AND FUEL 725 BIOFUEL TRUCKS

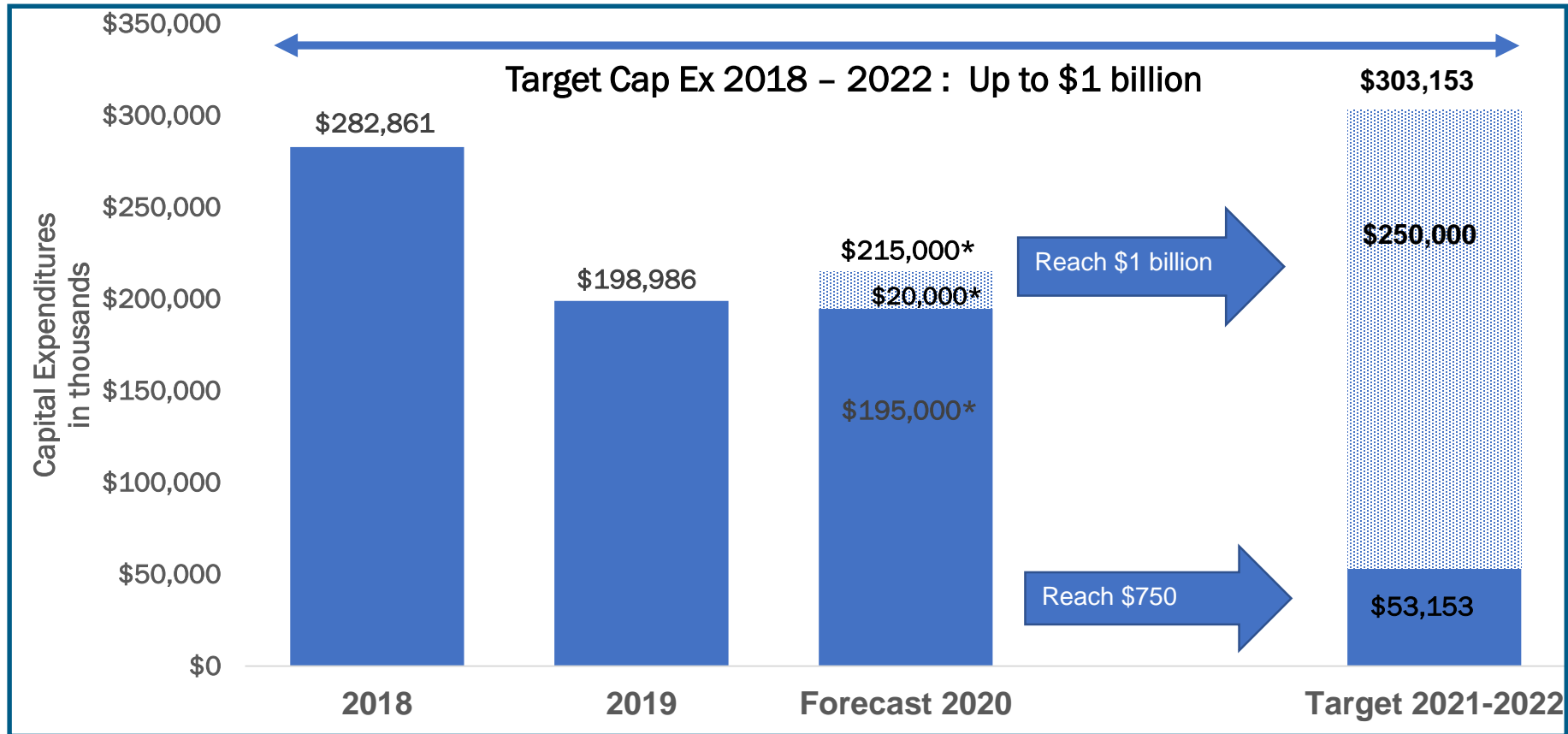
Fortistar, Rumpke Waste & Recycling and Chesapeake Utilities Corporation Announce \$33 Million Project to Address Global Climate Change. The project will extract and capture waste methane from the Noble Road landfill in Ohio and transform it into Renewable Natural Gas.

## CHESAPEAKE UTILITIES CORPORATION PARTNERS WITH ATLANTA GAS LIGHT TO BUILD CNG FILLING STATION AT PORT OF SAVANNAH

The station aligns with our ongoing commitment to environmental responsibility by supplying clean-burning natural gas to fuel vehicles and making it available to customers with limited access to natural gas. CNG-powered vehicles produce lower emissions than gasoline and diesel vehicles, reducing greenhouse gas emissions by up to 30%, and nitrogen oxide emissions by 85%.

# Capital Investment Guidance

## Continued Record Investment in Our Business to Drive Growth

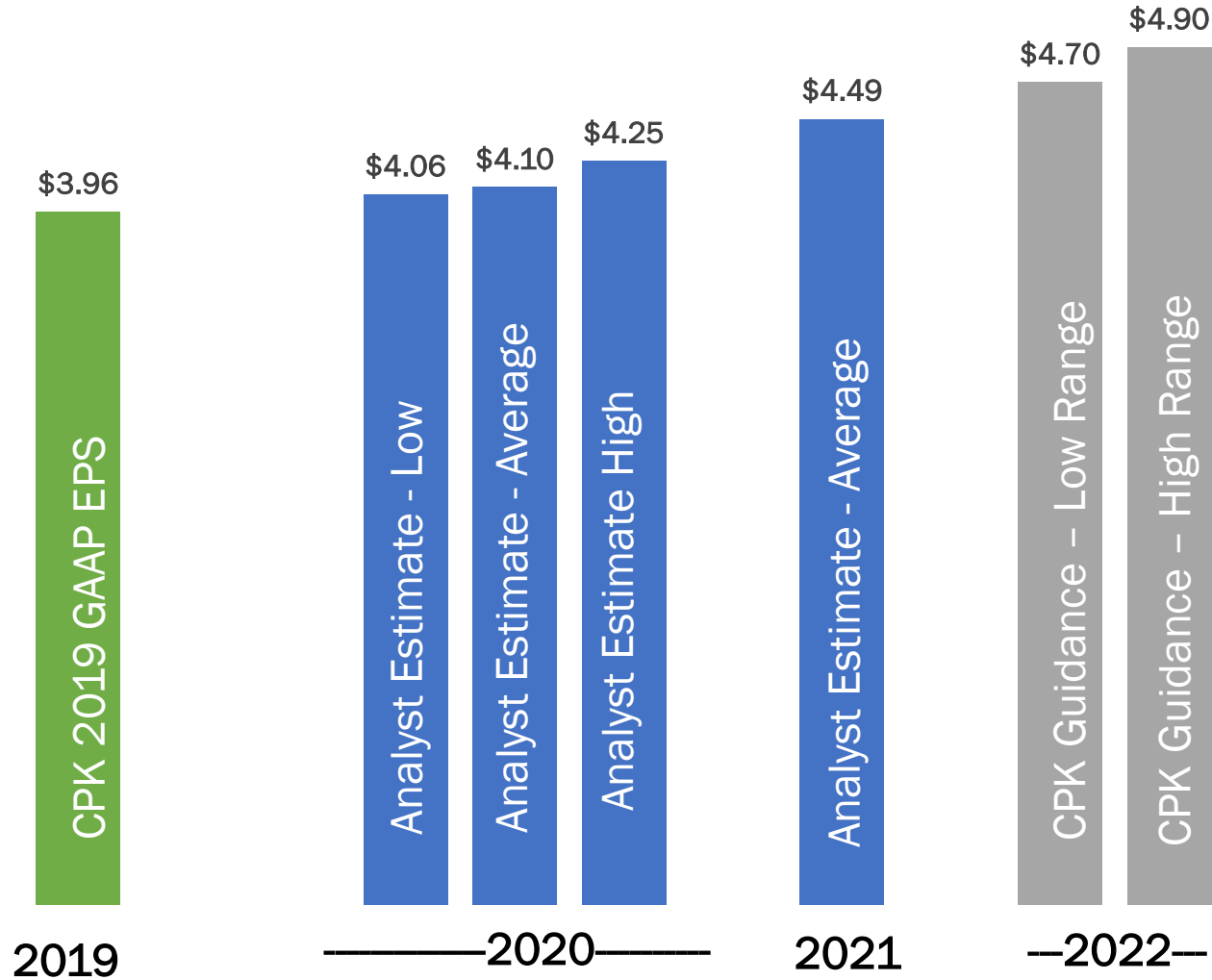


*\*2020 Lower Capital Forecast range updated from \$185 million to \$195 million*

*We will continue to update this forecast as we move through the year, including any capital deployment delays resulting from COVID-19.*

**Management reaffirms its five year capital expenditure guidance up to \$1 billion.  
From 2018 through September 30, 2020, the Company has invested \$626 million on new capital expenditures.**

# GAAP Earnings per Share Guidance

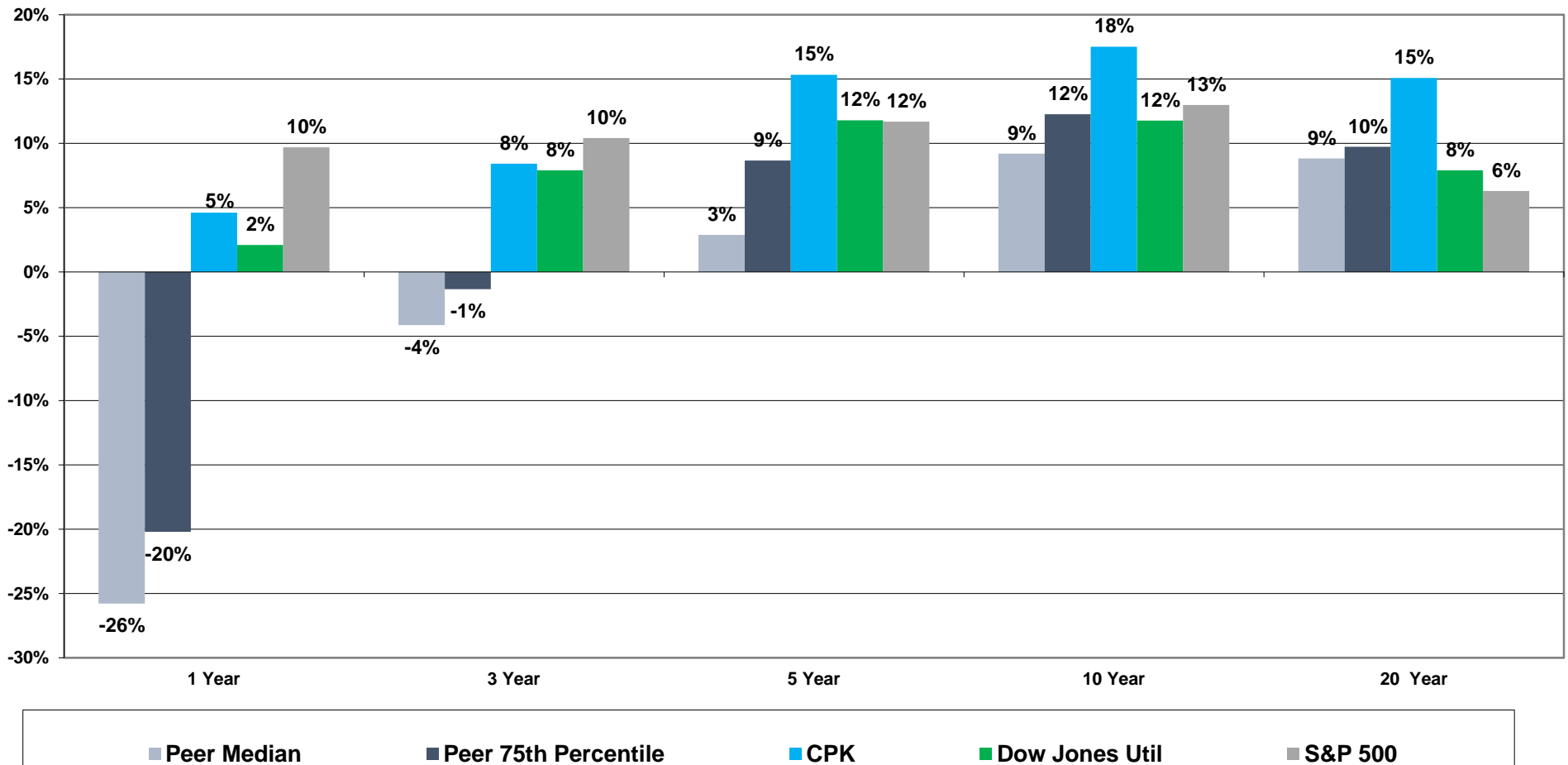


\*Note: 2019 GAAP Diluted EPS (\$3.96) – Diluted EPS from Continuing Operations (\$3.72)

# Total Shareholder Return

## Increased Performance is Driving Increased Value

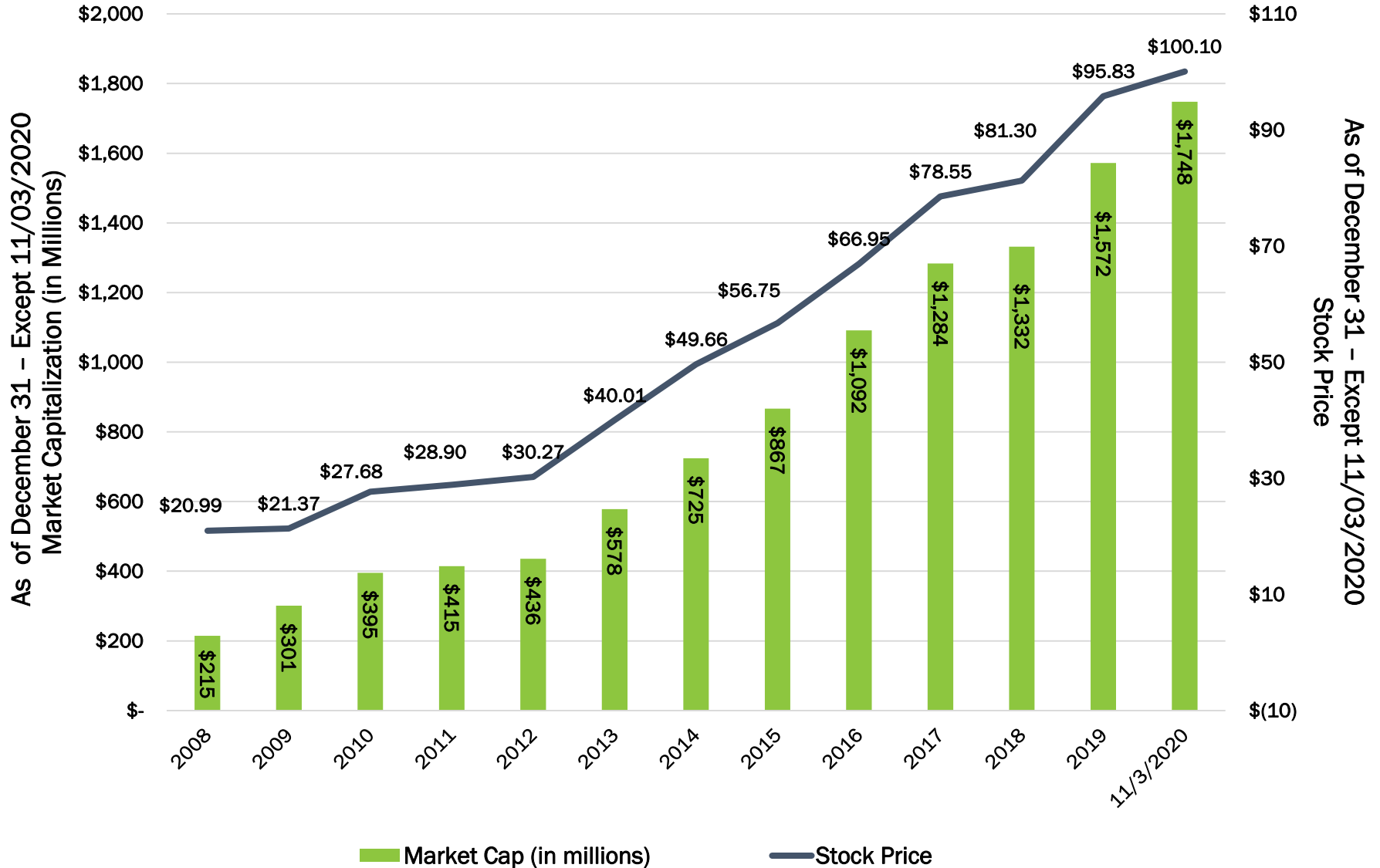
TSR - Annualized CPK Shareholder Returns Against Performance Peer Group for Periods Ending 10/31/2020





# Market Capitalization

## Increased Performance is Driving Increased Value





*Thank You!*