

**COMPANY UPDATE /
ESTIMATE CHANGE**
Key Metrics

WGL - NYSE - as of	2/7/18	\$85.41
Price Target		--
52-Week Range	\$81.59 -	\$86.89
Shares Outstanding (mm)		51.4
Market Cap. (\$mm)		\$4,386.0
1-Mo. Average Daily Volume		277,820
Institutional Ownership		71.6%
LT Debt/Total Capital	Q1'18	50.6%
ROE--adjusted	TTM	12.8%
Book Value / Share	Q1'18	\$31.83
Price / Book Value		2.7x
Dividend Yield		2.4%
EBITDA Margin	TTM	19.6%

EPS FY 9/30 (non-GAAP operating)

	Prior 2016A	Current 2017A	Prior 2018E	Current 2018E	
Q1	\$1.18	--	\$1.24	--	\$1.84 A
Q2	\$1.78	--	\$1.87	--	--
Q3	\$0.33	--	\$0.26	--	--
Q4	(\$0.01)	--	(\$0.17)	--	--
Year	\$3.29	--	\$3.20	\$3.75	\$4.18
P/E	26.0x		26.7x		20.4x

Utility Net Rev (ex-COGS) + Non-Utility Rev (\$mm)

	Prior 2016A	Current 2017A	Prior 2018E	Current 2018E	
Q1	\$563	--	\$534	--	\$530 A
Q2	\$715	--	\$707	--	--
Q3	\$375	--	\$424	--	--
Q4	\$452	--	\$467	--	--
Year	\$2,104	--	\$2,080	\$2,169	\$2,035

Company Description: WGL is a holding company serving the Washington, D.C. metro area. Washington Gas, its leading subsidiary, has provided natural gas service to customers in the D.C. area for over 160 years, and today serves more than one million customers in D.C., MD and VA. Its unregulated subsidiaries provide energy-related services to residential, commercial and governmental customers. WGL agreed to be acquired on 1/25/2017.

Natural Gas Utilities

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WGL Holdings, Inc.

WGL — NYSE — Neutral-4

Q1'18 Results from WGL; Reiterating Neutral.
Investment Highlights

- WGL reported fiscal Q1'18 (ending 12/31/17) non-GAAP operating EPS of \$1.84 versus \$1.24 in the year-ago period. Results beat consensus of \$1.26. GAAP EPS were \$2.68, but include a large one-time gain from the remeasurement of deferred tax items.
- Utility adjusted EBIT rose \$10MM in fiscal Q1, reflecting new base rates in VA and D.C., increased customer growth and increased optimization.
- Retail Energy Marketing contributed Q1 adjusted EBIT of \$6.5MM versus \$9.9MM in the year-ago period, on softer electric margins and higher Op Ex.
- The Commercial Energy Systems segment grew adjusted EBIT by \$1.2MM in Q1, reflecting strength in the distributed generation business. Midstream grew adjusted EBIT \$25.8MM, on increasing impact from major projects.
- We refrain from publishing quarterly estimates for WGL's fiscal 2018, as the company has ceased issuing guidance and we expect quarterly results to have little, if any, impact on the stock price as the company moves toward being acquired.
- Per yesterday's 10-Q filing, indications point to WGL's merger closing in calendar-Q2 of this year. The primary source of uncertainty, from our vantage point, resides in the fact that DC law does not statutorily mandate a timeframe for review. Shareholders are set to receive \$88.25 in cash at close.
- Reflecting upside to Q1, our fiscal 2018 estimate rises to \$4.18; again, we expect reported results to have little impact on the stock price.
- We reiterate our Neutral rating. We view WGL as a merger arbitrage play at this point, which compels our aggressive suitability rating.

**Note Important Disclosures on Pages 5-6
Note Analyst Certifications on Page 5**

SUITABILITY

We assign WGL a suitability rating of '4.' A complete description of our suitability scale is on page 5. Since WGL has agreed to be acquired at a certain price, upside in shares is capped and long-term downside is limited, save for the potential of the deal to fall through, be rejected by WGL shareholders, or otherwise rejected by any number of regulatory bodies. We do not expect fundamental news flow and/or results to impact the share price of WGL. As such, we view WGL stock as a merger arbitrage play, which we view as inherently speculative, and meriting our '4-speculative/most aggressive' rating.

CONSIDERATIONS AND RISKS

WGL has agreed to be acquired. Should the deal not close, we believe WGL would likely experience a share price decline to eliminate the expected takeover premium. This could happen slowly over time, or exceptionally quickly due to a news item or release.

Utility operations are weather sensitive. Warmer weather can lead to lower total margin from lower volumes of natural gas sold or transported, while extremely cold weather may lead to conservation by customers in order to reduce consumption.

Gas utilities face competition from alternative fuels. In the industrial market, many customers have the capability of using both natural gas as well as another source of energy. Increases in the price of natural gas can negatively impact a competitive position by decreasing the price benefits of natural gas to the end user. The cost of natural gas from non-domestic sources may play a greater role in establishing the market price of natural gas in the future.

Gas utilities are subject to regulation at the federal and state levels. Regulatory commissions and policies vary from state to state, and have a significant bearing on the profitability of gas utilities. Additionally, we anticipate a high level of capital expenditure over the coming years; inability to access the capital markets may negatively impact the company's growth prospects.

WGL holds equity interest in several major planned mid-stream projects, which carry considerable timing risk. Any of which, could independently drive delta to our financial projections, if they are cancelled, delayed, or suffer cost over-runs.

Our Suitability rating is 4 on a 1-to-4 scale (1 = most conservative, 4 = most aggressive)

Additional information is available upon request.

WGL Holdings, Inc.		dec		mar		june		sept		dec		mar		june		sept	
Balance Sheet (\$000s), FYE Sept.		FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17	FY'17	FY'18E			
Cash	\$ 8,811	\$ 6,733	\$ 15,778	\$ 9,874	\$ 16,534	\$ 5,573	\$ 5,573	\$ 12,884	\$ 7,462	\$ 9,570	\$ 8,524	\$ 8,524	\$ 8,524	\$ 150,600			
A/R	298,975	276,358	449,035	577,622	457,388	491,020	491,020	441,654	709,854	574,013	553,312	553,312	553,312	564,380			
Storage Gas (FIFO)	333,602	211,443	212,969	133,947	172,718	207,132	207,132	208,841	139,134	210,531	243,984	243,984	243,984	246,420			
Other	194,127	286,849	240,214	202,765	173,914	139,749	139,749	431,831	147,909	168,181	180,069	180,069	180,069	183,670			
Total CAs	835,515	781,383	917,996	924,208	820,554	843,474	843,474	1,095,210	1,004,359	962,295	985,889	985,889	985,889	1,145,070			
Net PP&E	3,314,445	3,672,728	3,746,621	3,832,519	3,950,198	4,127,237	4,127,237	4,223,783	4,272,782	4,346,786	4,630,051	4,630,051	4,630,051	5,293,250			
Pension & Othr Retirement	192,981	212,041	206,153	200,243	194,282	223,242	223,242	215,854	213,143	210,000	139,499	139,499	139,499	129,840			
Other	513,558	628,049	629,485	702,595	777,779	864,752	864,752	940,543	919,451	854,412	870,570	870,570	870,570	870,570			
Total Assets	4,856,499	5,294,201	\$ 5,500,255	\$ 5,659,565	\$ 5,742,813	\$ 6,058,705	6,058,705	\$ 6,475,390	\$ 6,409,735	\$ 6,373,493	\$ 6,626,009	6,626,009	6,626,009	7,438,730			
CP of LTD	20,000	25,000	25,000	-	-	-	-	-	250,000	250,000	250,000	250,000	250,000	50,000			
Notes Payable // Project Financing	453,500	332,000	527,875	329,307	358,342	331,385	331,385	634,392	532,320	538,854	559,844	559,844	559,844	808,700			
A/P & Othr Accrued	313,221	325,146	309,339	349,746	333,160	405,351	405,351	447,467	389,881	377,133	423,824	423,824	423,824	445,020			
Other	233,564	300,768	318,735	306,849	303,421	290,190	290,190	340,181	259,918	267,906	255,320	255,320	255,320	280,850			
Total CLs	1,020,285	982,914	1,180,949	985,902	994,923	1,026,926	1,026,930	1,422,040	1,432,119	1,433,893	1,488,988	1,488,988	1,488,988	1,584,570			
LTD	679,228	944,201	1,194,251	1,194,275	1,194,275	1,444,300	1,444,300	1,435,247	1,235,432	1,235,623	1,430,861	1,430,861	1,430,861	1,632,782			
Deferred Income Tax	660,908	672,963	713,585	724,400	743,677	726,763	726,763	784,001	844,915	845,109	868,067	868,067	868,067	413,070			
Accrued Pension & Benefit	120,446	176,128	179,920	183,445	186,696	228,377	228,377	231,198	234,018	235,050	181,552	181,552	181,552	184,290			
Accrued Asset Removal	327,388	325,496	320,250	317,961	311,469	310,788	310,788	302,296	294,625	290,476	292,173	292,173	292,173	286,230			
Other	773,495	888,237	842,694	830,319	872,519	917,408	917,408	832,970	799,320	778,652	791,630	791,630	791,630	831,210			
Preferred Stock + NCI	28,173	28,173	28,173	28,173	28,173	28,582	28,582	28,173	31,424	33,407	35,024	35,024	35,024	28,173			
Common Sh Equity	1,246,576	1,243,247	1,289,102	1,395,114	1,411,081	1,375,561	1,375,561	1,439,465	1,537,882	1,521,283	1,537,714	1,537,714	1,537,714	2,478,405			
Total Cap & Liab	4,856,499	5,261,359	\$ 5,500,255	\$ 5,659,565	\$ 5,742,813	\$ 6,058,705	6,058,705	\$ 6,475,390	\$ 6,409,735	\$ 6,373,493	\$ 6,626,009	6,626,009	6,626,009	7,438,730			
Cash Flow (\$000s), FYE Sept.	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17	FY'18E				
Net Income	\$ 138,952	\$ 158,247	\$ 59,205	\$ 89,490	\$ 17,009	\$ (590)	\$ 165,114	\$ 63,606	\$ 96,087	\$ 13,635	\$ (8,840)	\$ 164,488	\$ 215,540				
D&A	110,772	121,892	31,412	33,170	33,786	34,198	132,566	35,283	39,110	39,094	40,651	154,138	176,620				
(Inc) / Dec in Wrk Cap	26,637	131,183	(125,408)	16,405	90,300	25,079	6,376	(152,318)	(52,420)	39,412	9,465	(155,861)	29,600.00				
Other Operating	105,806	92,737	(23,294)	55,998	(42,637)	(66,357)	(76,290)	(40,666)	102,587	41,372	(35,433)	67,860	91,526				
Operating CF	\$ 382,167	\$ 504,059	\$ (58,085)	\$ 195,063	\$ 98,458	\$ (7,670)	\$ 227,766	\$ (94,095)	\$ 185,364	\$ 133,513	\$ 5,843	\$ 230,625	\$ 513,286				
Cap Ex	(394,762)	(464,291)	(101,013)	(105,915)	(141,666)	(181,791)	(530,385)	(155,758)	(110,787)	(85,690)	(164,299)	(516,534)	(399,054)				
Net (Investment) in Non-Util Int	(27,299)	(56,667)	(6,309)	(108,534)	(17,523)	(30,000)	(149,798)	(60,442)	(26,026)	(20,358)	(30,000)	(147,294)	(554,468)				
Other Investing	-	(4,151)	-	1,392	15,714	(2,388)	14,718	(863)	10,466	(605)	4,123	13,121	-				
Investing CF	(422,061)	(525,109)	(107,322)	(213,057)	(143,475)	(214,179)	(665,465)	(217,063)	(126,347)	(106,653)	(190,176)	(650,707)	(953,522)				
Common Stock Issued	(55,422)	(41,485)	83	31,817	46,150	237	78,287	251	47	(3)	(2)	293	-				
LTD Issued	175,253	298,227	-	250,000	-	248,125	498,125	-	50,000	-	195,556	245,556	750,000				
LTD (Retired)	(67,000)	(20,000)	-	(25,000)	-	-	(25,000)	-	-	-	-	0	(250,000)				
Notes Issued / (Retired), net	80,400	(121,500)	195,875	(242,875)	21,000	(37,000)	(63,000)	324,001	(93,195)	(13,806)	19,000	236,000	198,856				
Dividends	(85,901)	(91,316)	(23,377)	(22,085)	(23,508)	(23,871)	(92,841)	(23,921)	(25,299)	(26,452)	(26,451)	(102,123)	(110,040)				
Other Financing	(2,103)	(4,954)	1,871	20,233	8,035	10,829	40,968	18,138	4,008	15,509	5,652	43,307	(6,517.00)				
Financing CF	45,227	18,972	174,452	12,090	51,677	198,320	436,539	318,469	(64,439)	(24,752)	193,755	423,033	582,299				
Net Cash Flow	5,333	(2,078)	9,045	(5,904)	6,660	(23,529)	(1,160)	7,311	(5,422)	2,108	9,422	2,951	142,063				
EBITDA	313,024	388,786	151,163	213,144	53,911	33,096	451,314	140,739	242,098	70,341	64,008	517,186	560,398				
EV / TTM EBITDA	9.1x	9.9x	10.5x	11.2x	10.2x	10.3x	10.3x	12.1x	11.7x	11.4x	11.1x	11.1x	10.5x				
Selected Financial Statistics	FY'14	FY'15	Q1'16	Q2'16	Q3'16	Q4'16	FY'16	Q1'17	Q2'17	Q3'17	Q4'17E	FY'17	FY'18E				
Book Value	\$ 24.19	\$ 24.83	\$ 25.77	\$ 27.75	\$ 27.72	\$ 26.93	\$ 26.93	\$ 28.13	\$ 29.88	\$ 29.54	\$ 29.86	\$ 29.86	\$ 48.08				
Price / Book	1.7x	2.3x	2.4x	2.6x	2.6x	2.3x	2.3x	2.7x	2.8x	2.8x	2.8x	2.8x	1.8x				
Sh Equity Capitalization	52.1%	49.0%	46.5%	48.0%	47.9%	43.7%	43.7%	41.2%	43.3%	43.0%	40.8%	40.8%	51.4%				
LT Debt / Total Capital	35.3%	43.2%	42.3%	46.1%	45.8%	51.2%	51.2%	49.9%	44.5%	44.8%	48.2%	48.2%	39.7%				
ROE (TTM)-Adjusted Profit	10.9%	12.6%	12.6%	11.4%	11.7%	12.3%	12.3%	12.3%	12.3%	11.9%	11.1%	11.1%	10.1%				

Source: Company reports and Hilliard Lyons estimates

Analyst Certification

I, Spencer E. Joyce, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1** - A large cap, core holding with a solid history
- 2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	74	66%	9%	91%
Sell	7	6%	0%	100%

As of 7 February 2018

Other Disclosures

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