# Application to the Representative Policy Board For Approval to Purchase the Assets of a ***Confidential*** Protection Plan Company

Regional Water Authority

February 2024

South Central Connecticut Regional Water Authority
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Table of Contents

## Confidential Exhibits (APPENDICIES)

| | |
|---|---|
| **Exhibit A:** | Statement of Costs |
| **Exhibit B:** | Statement of Facts |
| **Exhibit C:** | General Background of Company |
| **Exhibit D:** | Business Location |
| **Exhibit E:** | State and Federal Legislative Drivers |
| **Exhibit F:** | Development of Timeline |
| **Exhibit G:** | Ownership and Control |
| **Exhibit H:** | Management and Employee Details |
| **Exhibit I:** | Financial Records and Tax Returns |
| **Exhibit J:** | Sales and Marketing |
| **Exhibit K:** | Customer Diversification |
| **Exhibit L:** | Competition |
| **Exhibit M:** | Summary of Transaction Documents |
| **Exhibit N:** | Five-Year Forecast |
| **Exhibit O:** | Valuation |

## Statement of Application and Executive Summary

In accordance with Section 19 of Special Act 77-98, as amended, the South Central Connecticut Regional Water Authority (RWA) is pleased to present this application to the Representative Policy Board (RPB) for review and approval of the acquisition of all physical and intangible assets of a Protection Plan Company. The acquisition also includes deferred revenue and only the associated post-acquisition obligations. Section 19 of Special Act 77-98, as amended, requires RPB approval before the RWA acquires or makes a subsequent investment in any non-core business in an amount more than $1 million. Due to the confidential nature of negotiations, the proposed asset purchase cost is confidential, however, it is between $9 and $13 million dollars. Statement of cost figures can be found in confidential Exhibit A. The proposed transaction is an extension of the RWA's existing protection plan offerings and executed by the RWA, not by a subsidiary entity.

With the objective of mitigating water rate increases, the RWA worked with local and state elected officials, environmental groups, and community organizations to make changes to our enabling legislation that governs what we can do as an organization. In 2017, Special Act 17-5 amended our enabling legislation allowing the RWA to conduct and invest in non-core business activities defined as including water related, environment, agriculture, and certain renewable energy sources. This allows the RWA to enhance its revenue sources, especially with a mature service territory and an approximately 1% year-over-year declining trend in consumption.

After working with bond and legal counsel regarding the structure for these non-core commercial initiatives and building on this strategic approach, the RWA entered the plumbing and well services market with the acquisition of three smaller companies, Roach Plumbing & Heating in 2021, Water System Specialties in 2022, and Carboni Plumbing & Heating in 2023, all operating under RWA Well Services, LLC. In addition, the RWA has launched the WellSafe product – a protection plan solution offering maintenance and repair services to well owners throughout the state. The first two acquisitions, structured as an asset purchase, have exceeded their valuation earning's targets and are cash flow positive and we anticipate the same from our October 2023 acquisition.

This proposed acquisition will build not only on these prior smaller transactions but on the RWA's long term, and successful, experience with protection plans. This acquisition will immediately expand the RWA protection plan footprint and market share as well as support the market penetration of our WellSafe product offering. This action further supports the RWA's mission to provide customers with high-quality water and services at a reasonable cost by expanding commercial revenue sources. In doing so, the RWA invests in the utility infrastructure and mitigates water rate increases by transferring monies into the Construction Fund to help fund the RWA's capital program and reduce debt leverage. Due to the confidential nature of negotiations, the name of the company has been protected and is herein referred to as Target Three.

The proposed purchase will be executed through an asset purchase not a stock transaction – thereby mitigating risk. Due to its significance, this transaction does contemplate the transfer of deferred revenue and only the associated post-acquisition obligations. Due to the alignment with our current protection plan offerings provided by the utility, this transaction will be executed and operated under the RWA and not a subsidiary.

Target Three has similar offerings to the RWA, a stable earnings profile and is positioned to compliment the RWA's existing protection plan offerings with significant market expansion and positive revenue impact.

This application will provide a description of the investment, an explanation of why it is favorable, a discussion of the alternatives considered, and the estimated cost. The accuracy and completeness of this document are critical to the RPB's ability to make an informed decision on behalf of the RWA's customers and member communities. To that end, the RWA worked with Murtha Cullina

LLP, attorneys at law, and other advisors regarding various legal and other considerations of the proposed acquisition.

## (i). Need for Proposed Action

Strategically, the RWA has been working to expand its protection plan offerings. We have learned that this can be a lengthy process. The RWA now has an opportunity to significantly increase market share and its overall footprint.

The acquisition of a company that complements our existing offerings will significantly enhance the RWA's innovative service solutions for residential customers. This would not only increase the company's market share but also provide an opportunity to sell services such as WellSafe within the acquired footprint, thereby increasing revenue. Furthermore, post-acquisition we will integrate the acquired offerings into our current suite of services, leveraging existing resources and procurement protocols. This could potentially lead to cost reductions not currently reflected in our valuation and further enhance the RWA's financial position.

This acquisition will benefit the RWA and its customers and will result in significant progress toward achieving the commercial revenue target in our 2020-2025 strategic plan. This expansion of commercial revenue sources will help to mitigate rate increases through our Year-End Dispositions and associated transfers into the Construction Fund to help fund the utility's capital program by reducing the debt financing requirements and lowering debt leverage. This acquisition is consistent with that mission and the RWA's goal to expand into water and environmental-related services.

## (ii). Analysis of Alternatives

The alternative action is not to pursue the proposed acquisition – No Action Alternative – or to grow organically by expanding the existing PipeSafe operations. – ***Figure 1.0 Analysis of Alternatives***.

***Figure 1.0 Analysis of Alternatives – Comparative Analytics***

| **Criteria** | **No Action** | **Organic Growth** | **Proposed Transaction** |
|---|---|---|---|
| Growth Rate | -1 | 0 | +1 |
| Returns | -1 | 0 | +1 |
| Market Share | -1 | 0 | +1 |
| Execution Risk | 0 | +1 | 0 |
| **Total Score** | **-3** | **+1** | **+3** |

The main goal of the RWA's strategic expansion through the acquisition of a protection plan company is to more immediately and significantly expand our existing protection plan offerings and enhance our revenue streams, mitigate rate increases for customers, and expand into water and environmental-related services. This aligns with our strategic initiative to pursue commercial revenue growth to the benefit of our customers and the RWA's long-term sustainability and financial stability.

The acquisition strategy is preferred over organic growth and inaction due to several reasons:

**Limitations of Organic Growth**

- **Slower Growth:** As we have experienced, organic growth is a slower process and there is an increasingly competitive landscape, potentially hindering the RWA's ability to quickly seize new opportunities. The RWA would still grow organically but at a lower rate versus the potential acquisition.

- **High Competition:** Solely relying on organic growth in a competitive industry may not suffice for the RWA to significantly expand its footprint and market share.
- **Resource Intensity:** Organic growth requires substantial investments in marketing and human resources, which can strain and divert the company's resources.

**Risks of Inaction (No Acquisition)**

- **Missed Opportunities:** Not pursuing the acquisition could lead to missed chances for the RWA to enhance its differentiated service offerings, expand its market presence, and further achieve economies of scale.
- **Vulnerability to Competition:** Maintaining the status quo may leave the RWA spending considerable time and efforts to grow its existing protection plan offerings and being susceptible to competitive pressures.

**Advantages of Acquisition**

- **Rapid Expansion:** The acquisition will lead to immediate growth, allowing the RWA to quickly increase its market share and customer base.
- **Economies of Scale:** The acquisition will be integrated with existing operations and may lead to further cost reductions and operational efficiencies. Post-acquisition, efforts will begin to integrate the offerings with the RWA's existing protection plan program.
- **Financial Stability:** Additional revenue sources from the acquisition can be used to fund the utility's capital program and support infrastructure improvements, enhancing service quality and reliability.

In conclusion, while organic growth is a more controlled and sustainable form of expansion that the RWA will continue to pursue, it does not offer the same level of speed and market penetration as acquisitions. The strategic decision to pursue an acquisition that complements the existing protection plan offerings is the optimal choice for the RWA, providing a faster route to market share expansion and further potential cost synergies.

## (iii). Statement of Costs

The proposed asset purchase includes the purchase of all physical and intangible assets of Target Three as well as deferred revenue as described above. The proposed acquisition projected cost is between $9 million to $13 million.

The first two acquisitions, structured as an asset purchase, have exceeded their valuation earning's targets and are cash flow positive and we anticipate the same from our latest acquisition.

The available cash flow generated from Target Three will be part of the RWA's Revenue Fund and will be available for transfer into the Construction Fund to help finance the capital program and mitigate rate increases by lowering debt financing and reducing leverage.

(Exhibit A contains the confidential and proprietary elements of the statement of costs)

## (iv). Statement of Facts

- In 2017, Special Act 17-5 amended our enabling legislation allowing the RWA to conduct and invest in non-core commercial business activities defined as including water related, environment, agriculture, and certain renewable energy sources.

- In fiscal 2018, the establishment of the Growth Fund was created as a means to reserve funds intended for non-core commercial investments.
- The RWA's 2020-2025 Strategic Plan, which serves as a road map for achieving our vision to be an innovative water utility, outlines a strategy to invest in environmental and water-related businesses to achieve commercial service net revenue of $9.2 million by May 2025.
- The RWA has bought and integrated three smaller operations since 2021.
- The first two acquisitions, structured as an asset purchase, have exceeded their valuation earning's targets and are cash flow positive and we anticipate the same from our latest acquisition.
- This transaction will be executed under the RWA, not a subsidiary entity. Therefore, revenues will be deposited into, and expenses will be paid out of the Revenue Fund, with the earnings available as part of the Year-End-Disposition to be transferred into the Construction Fund to help fund the RWA's capital program, mitigate future rate increases, and reduce debt leverage.
- The asset-based deal structure and purchase price results in mitigating risk.
- The funding source is primarily the Growth Fund, with additional financing from the General Fund and debt issuance. (***Exhibit A*** contains confidential funding details)
- Post transaction, operations will be subject to the controls, limitations, and approvals therein, including the governance by the Authority Board and the RPB.

(***Exhibit B*** contains the confidential and proprietary elements of the statement of facts)

## (v). Unusual Circumstances

While the proposed transaction is an asset purchase, whereas the transaction contemplates only the purchase of the physical and intangible assets of Target Three, there is an unusual circumstance related to deferred revenue. Therefore, the transaction incorporates a transfer of deferred revenue and only post-acquisition associated claims.

Since the RWA has years of successful experience with offering protection plans, unlike prior acquisitions, this transaction will be executed by the RWA' and will be integrated into the existing operational and management structure.

Due to the size of the acquisition and a desire to not deplete the Growth Fund, we are proposing to partially fund this transaction with monies from the General Fund and debt financing. Post transaction, the General Fund will remain above its target and there will be minimal impact on our debt leverage. (***Exhibit A*** contains confidential funding details)

## 1. General Background of Target Three

Target Three offers protection plans, and their services help customers avoid the inconvenience and high costs associated with water or sewer emergencies and in-home plumbing problems. The company's protection plans cover the repair of any leaking water or drain lines inside homes and the water and sewer connections between properties and the road. They currently provide protection plans to customers in multiple states.

(***Exhibit C*** contains the confidential proprietary Target Three background information)

## 1.1 Type of Business

Target Three offers protection plans for water lines, sewer lines, and in-home plumbing.

## 1.2 Products and Services Offered

The company's protection plans cover the repair of any leaking water or drain lines inside homes and the water and sewer connections between properties and the road.

## 1.3 Business Location

Target Three is a Delaware company registered to conduct business in Connecticut, with a primary location in Connecticut, and currently operates throughout New England. Post-acquisition Target Three will operate out of 90 Sargent Drive, and there is no real estate as part of the transaction.

(***Exhibit D*** contains the specific confidential location)

## 1.4 Annual Revenue for Prior Four Years

(**Exhibit C** contains confidential revenue for the prior 5 years)

## 1.5 Number of Employees

The Company currently has a small team that operates the business. As part of our acquisition strategy, one employee with product and billing system knowledge will have the option to join the RWA or there will be a transitional agreement with Target Three to ensure our team is adequately trained on their product offerings, billing systems, and operational procedures. This training period will extend for a sufficient duration to ensure a smooth transition, with a minimum commitment of six months.

(**Exhibit C** contains confidential employee information)

## 1.6 Form of Organization

As noted above, Target Three is s a Delaware Corporation, registered to do business in the State of Connecticut and other parts of New England.

(***Exhibit D*** contains the confidential further details on the form of organization)

## 1.7 Subsidiaries and Company Affiliations

The Company has no known subsidiaries. The affiliated company is noted in Exhibit B and G.

## 1.8 State & Federal Legislative Drivers

Target Three is registered to conduct business in Connecticut. There is no specific licensing associated with this transaction.

## 2. History of Company

### 2.1 Development Timeline

Target Three was founded in the late 1990's and has built a very successful protection plan business.

(***Exhibit F*** contains the confidential proprietary key dates and full history of the Company)

This purchase opportunity came about as a result of the RWA engaging in business development initiatives.

### 2.2 Ownership and Control

Please see **Exhibit G** for ownership and control details.

### 2.3 Key Individuals

As noted in section 1.5 above, we are anticipating one employee who is knowledgeable about the offerings and billing system to transition to the RWA or there will be a transitional support agreement. Currently, the President of the company for Target Three is responsible for the P&L of the business. However, post-acquisition operations will be integrated into the RWA's operational and management structure.

### 2.4 Why the Business is for sale.

Target Three has decided to focus on their core business, and additional confidential information in listed in Exhibit G.

## 3. Management and Employees

### 3.1 Leadership Team Overview

The management team consists of the President who is responsible for the business and four employees who manage the day-to-day operations. Post-acquisition, this acquisition will be integrated within the RWA's existing operations and management structure.

### 3.2 Key Employees

As noted in section 1.5 above, either one knowledgeable employee will transition to the RWA or there will be a transitional support agreement for at least six months. This will allow ample time for knowledge transfer of systems, operations, and products.

### 3.3 Employee Matters

It is not currently anticipated that there will be any employment agreements associated with this transaction. As noted above, either one employee will join the RWA or there will be a transitional support agreement. Post-acquisition, this business will be integrated into the RWA's existing operations and management structure further confidential information in Exhibit H.

### 3.4 Employee Benefits

If there is an employee that joins the RWA, the employee will receive the same benefits as RWA employees and treated in the same manner as other employees who have joined through acquisition.

### 3.5 RWA Employee Interaction & Qualifications

Target Three will be integrated into the RWA post-acquisition. Therefore, operations will be subject to all the controls, limitations, and approvals therein, including the governance by the Authority Board and RPB.

Day-to-day operations will be integrated into the existing team responsible for the RWA's existing protection plan offerings. In addition, this business will be supported by the existing functional areas such as Human Resources, Finance, Procurement, and Information Technology. (See Exhibit H)

## 4. Financial Records

### 4.1 Financial Records and Financial Summary

(***Exhibit I*** financials for the last 5 years)

### 4.2 Significant Contracts

Target Three has contracts with customers who purchase their protection plan, including contracts with partners and vendor agreements. We have reviewed assignability clauses in partnership contracts and only one requires approval by other than the seller. We will seek to secure approval prior to closing.

The Terms and Conditions for individual subscribers and protection are included in (***Exhibit K*** contains confidential Terms and Conditions).

The RWA will assess the current vendor relationships of Target Three and post-acquisition negotiate favorable terms for the RWA.

(***Exhibit K*** contains the confidential management, key employee details and major contracts)

**33-A Acquisition Special Financial Components**

### 4.4 Financial Condition of the Authority

The financial condition of the RWA is stable and improving and well positioned for growth. The source of the funding for the proposed transaction is primarily the Growth Fund. Sources will also come from the General Fund, while keeping this fund above its target, as well as limited debt financing. The debt financing will have minimal impact on our leverage. This transaction will significantly increase our commercial revenues and result in additional transfers to the Construction Fund to help finance the capital program of the utility and mitigate future water rate increases for customers.

### 4.5 Financial Condition of the Acquisition Company

The financial condition of Target Three is stable with a steady revenue stream.

### 4.6 Financial Condition of the Authority Post Acquisition

The financial condition of the RWA post-acquisition remains stable and well positioned.
Please also see 4.4 above.

## 5. Regulatory

### 5.1 Environmental and Legal Issues

The RWA has retained the firm of Murtha Cullina LLP, attorneys at law, to perform legal diligence. To date, there are no known legal issues identified, and The Asset Purchase Agreement requires notification of changes in the business conditions.

### 5.2 Current or Threatened Litigation

The RWA has retained the firm of Murtha Cullina LLP, attorneys at law, to perform legal diligence. The review to date did not identify any current or threatened litigation against Target Three. The Asset Purchase Agreement requires notification of changes in the business conditions, including litigation.

### 5.3 Undisclosed Liabilities

The proposed transaction is an asset-based purchase and, as such, the RWA will only assume post-acquisition claim liabilities associated with the deferred revenue.

### 5.4 Contractual Obligations

The proposed transaction is an asset purchase transaction. Only post-acquisition claims associated with transferring deferred revenues will be assumed, all other liabilities will remain with the previous entity. The Asset Purchase Agreement is clear in this construct and contains customary disclosures, representations, and warranties, and can be found in Exhibit M.

## 6. Sales and Marketing

Target Three employs a traditional approach to sales and marketing, which includes advertising through websites, direct mail, postcards, and forming partnerships. The company income statement includes considerable funding for marketing efforts and, post-acquisition, we will begin integrating marketing efforts with the efforts associated with the RWA's existing protection plans and reduce expenses.

(***Exhibit J*** provides a confidential marketing overview)

### 6.1 Sales and Marketing of Products and Services

Target Three marketing collateral can take various forms, each designed to inform, educate, and persuade potential customers about the benefits of the program. Here are some examples based on the search results:

- **Introduction Letters:** These are often the first point of contact with potential customers. They introduce the protection program, explain its benefits, and provide information on how to enroll.

- **Brochures:** These provide detailed information about the protection program, including its features, benefits, and enrollment process.
- **Enrollment Forms:** These are practical pieces of collateral that allow homeowners to sign up for the protection program. They typically include fields for personal information, property details, and preferred payment method.
- **Website Content:** Detailed information about the protection program can be provided on a dedicated webpage. This can include FAQs, and a step-by-step guide to the enrollment process.

## 6.2 Sales Compensation

Target Three forms partnership agreements, offering a revenue-sharing model as part of the collaboration. The details of these arrangement are found in Exhibit J.

## 6.3 Customer Transition

Target Three customers will be notified of the ownership change and will initially remain on the existing technology platforms, which will transfer as part of the transaction, and over a period of time this will be transitioned into the RWA's technology platforms. This will be completed in a manner to avoid any potential customer interruptions.

## 6.4 Product and Services Pricing

Target Three's product and service pricing approach varies based on different factors.

(***Exhibit J*** contains the confidential and proprietary product and pricing)

## 6.5 Target Three Market

Target Three has a significant presence and operates in Connecticut and throughout New England.

(See Confidential ***Exhibit J****)*

## 6.6 Market Growth

The acquisition of Target Three by the RWA represents a strategic move to significantly expand the market and territory share of the RWA's service line protection programs, particularly PipeSafe and WellSafe. This expansion is not only aimed at broadening the geographical footprint of the RWA's services but also at leveraging the acquisition to enhance marketing potential and customer reach in new territories.

**Territory Expansion**

The integration of Target Three into the RWA's operations is set to substantially increase the service territory of PipeSafe, a product line that has been primarily confined to the RWA's existing service area. The acquisition opens multiple cities and towns highlighted in Confidential Exhibit J, thereby providing the RWA with a significant opportunity to extend its services beyond its current geographical limits. This expansion strategy aligns with the RWA's broader goal of not just growing within its existing service territory but also venturing into new markets where the utility's presence has been minimal.

Moreover, the expansion of WellSafe services into new territories outside of the RWA's traditional service map is a strategic move to capitalize on the growing demand for specialty protection plans for private wells and water treatment services. The acquisition of Target Three, therefore, serves as a catalyst for the RWA to diversify and strengthen its service offerings in regions where Target Three has established a market presence.

**Marketing Potential**

The acquisition significantly enhances the RWA's marketing potential by providing immediate access to Target Three’s established customer base in its operational territories. This presents a direct opportunity for the RWA to cross-sell its PipeSafe and WellSafe services to a new audience, thereby increasing market penetration and customer acquisition rates. The expanded geographical footprint also allows the RWA to leverage Target Three’s brand recognition and customer loyalty in these new markets, facilitating smoother entry and faster growth.

Furthermore, the strategic expansion into new territories through the acquisition of Target Three enables the RWA to tap into untapped markets, potentially leading to increased revenues and profits. By identifying and targeting these new customer segments, the RWA can effectively utilize its expanded service lines to meet the diverse needs of a broader customer base, thereby driving overall business growth.

## 7. Customer Diversification

Customer diversification will benefit the RWA by reducing its reliance on a concentrated market within its current territory. By integrating the Target Three market presence, the RWA can offer its protection plan programs to a broader customer base, including residential water and sewer utility customers in new communities. This expansion will increase revenue streams and market share for the RWA.

Furthermore, the acquisition will enable the RWA to leverage Target Three’s established relationships, potentially generating new revenue. The expanded territory will also provide the RWA with opportunities to introduce its WellSafe plans into these new markets.

In summary, the purchase of the Target Three assets will benefit the mission, vision, and strategic goals of the RWA as well as its current and future customers.

(**E*xhibit K*** contains confidential customer information.)

## 8. Competition

### 8.1 Description of Competitive Market

The acquisition of Target Three would strategically position the RWA in the competitive market of service line protection, a sector with numerous participants offering various coverage plans. This market includes numerous key players, each with their unique offerings and customer base. The acquisition would serve as a significant step in the RWA’s strategy to expand beyond its current service territory.

(***Exhibit L*** contains confidential competitive market)

### 8.2 Primary Competitors

See Confidential ***Exhibit L***

### 8.3 Barriers to Entry

The home service line protection market, specifically focusing on service line protection plans, presents several potential barriers to entry for new companies. These barriers can significantly impact the ability of new entrants to compete effectively with established players. The following outlines key barriers to entry in this market:

**High Capital Requirements**

The primary barriers to market entry are the established major players. By reducing competition through strategic acquisitions, this transaction consolidates our position in the market.

**Competition and Market Saturation**

The home service line protection market is competitive with several key players offering similar services. Established companies have brand recognition and customer loyalty, making it difficult for new entrants to gain a foothold. The presence of numerous competitors can lead to market saturation, where the growth opportunities for new entrants are limited.

**Access to Distribution Channels**

New entrants may face challenges in accessing effective distribution channels. Established companies often have exclusive agreements with suppliers, contractors, and sales platforms. Without access to these channels, new companies may struggle to reach potential customers and distribute their services efficiently.

**Customer Loyalty and Brand Recognition**

Building brand recognition and customer loyalty is crucial in the home service line market. Established players have the advantage of a loyal customer base and strong brand identity. New entrants must invest significantly in marketing and customer service to build their brand and attract customers away from competitors.

The acquisition of Target Three could strategically position the RWA in this competitive market. Target Three, with its established brand, customer base, and distribution channels, will provide a significant advantage. This acquisition could help overcome the barriers to entry, allowing the RWA to expand its operations and compete effectively in the service line protection market outside of the RWA territory.

## 9. Industry Trends

The home service line protection plan market is evolving, influenced by various industry trends that reflect changing consumer needs, regulatory landscapes, and technological advancements. Here are some key industry trends:

**Consumer Awareness**

There's growing consumer awareness about the potential gaps in homeowners' insurance policies regarding service line repairs, which has increased interest in service line protection plans.

**Shift Towards Customer-Centric Business Models**

In addition to traditional home protection plan providers, the insurance industry, are shifting toward a more customer-centric business model. This shift is driven by the need to meet changing consumer expectations for personalized and convenient services. Insurers are exploring direct-to-consumer sales channels and leveraging technology to improve customer engagement and streamline the claims process and is consistent with RWA's approach.

**Technological Integration**

Technological advancements are playing a crucial role in the evolution of the home service line protection plan market. Companies are integrating technology to enhance service delivery, improve operational efficiency, and offer more comprehensive coverage options. This includes the use of advanced diagnostics to prevent service line failures and mobile applications for easier claim filing and tracking.

**Regulatory and Environmental Considerations**

Regulatory and environmental factors are influencing the market for home service line protection plans. There's an increasing focus on compliance with local codes and environmental protections, which impacts the services provided under these plans. Additionally, the increasing frequency and severity of weather-related disasters, such as floods and severe storms, are driving demand for more robust residential protection plans.

**Market Expansion and Diversification**

Companies in the home service line protection plan market are looking to expand their offerings and reach new customers. This includes diversifying their service lines to cover a broader range of home repair needs and exploring opportunities for out-of-territory expansion.

In summary, the home service line protection plan market is characterized by a growing consumer awareness and demand for comprehensive coverage, a shift toward customer-centric models, technological integration, regulatory and environmental considerations, and strategic market expansion efforts. These trends mimic RWA's customer centric model and reflects the dynamic nature of the industry and the ongoing efforts of companies to adapt to changing consumer needs and market conditions.

## 10. Transaction Document(s)

***(Exhibit M*** contains a summary of the proposed acquisition transaction documents)

The transaction documents are separately available, these include:

- Term Sheet
- The Asset Purchase Agreement

## 11. Five-Year Forecast

See Confidential ***Exhibit N***

## 12. Conflicts of Interest

Currently there are no conflicts of interest that impact the RWA's existing operations. In addition, a "no conflict of interest" certification is being used with this application.

## 13. Valuation

The methodology for the Target Three valuation was a Discounted Cash Flow model. A DCF is a valuation method that estimates the value of an investment using its expected future cash flows. DCF analysis determines the value of an investment today, based on projections of how much money that investment will generate in the future and ongoing operations.

(***Exhibit O*** contains the confidential and proprietary elements of the valuation and payback)

## 14. Risks

The scope of risk includes the associated integration and achieving targeted growth rates, specifically:

Stay-Out clause see Exhibit M, the Term Sheet and APA agreement.

### Strategic Fit Risks:

| Risk | Mitigation |
|---|---|
| Business | Water related & Protection Plans |
| Legislative | Fits completely within our enabling legislation |
| Product | Existing product expertise |

### Operational Integration Risks:

| Risk | Mitigation |
|---|---|
| Strategy | Immediate market expansion for the RWA and our existing protection plan |
| Compliance | Low risk, similar compliance requirements as PipeSafe |
| Operation | Low risk, operational and product expertise from PipeSafe |
| Financial | Consistent revenues for the last five years |

### Transactional Risks:

| Risk | Mitigation |
|---|---|
| Technology | Utilize their billing system until integrated into RWA billing |
| Market | Increased market share and potential for growth for PipeSafe and WellSafe |
| Competition | Expands RWA presence in the space and Exhibit L has further details on competition risk |
| Leadership | Utilize RWA strong leadership to run business |
| Duration | The RWA has significant expertise in the product offerings, which accelerates the integration time into the utility |
| Monetization | Substantial increase in revenue, potential for further synergies, and most of the customers are off bill thus requiring more marketing resources to maintain the book |

## 15. Conclusion

The annual declining trend in billed water consumption and our increasing capital program continues to have a financial impact on RWA customers as highlighted in the Ten-Year financial model.

Consequently, the RWA places continuous emphasis on growing commercial revenue sources to help mitigate future water rate increases, accomplished through having monies available for the RWA's Year-End Disposition, for transfer into the Construction Fund to help finance the capital program and reduce debt leverage. These efforts drive the RWA's continuous emphasis on growing commercial revenue sources. As part of that focus, in December 2020, the RWA outlined a strategic road map with a multi-pronged approach for stimulating revenue growth from the RWA's non-core businesses by way of new product development, investments and acquisitions. This application is in direct alignment with that strategy and will help grow the portfolio and market share of the RWA's commercial activities.

Moreover, the proposed acquisition of Target Three will expand our protection plan footprint, bolster our market share, and support the proliferation of our new WellSafe offering.

In conclusion, the RWA's acquisition of Target Three's protection plans is a unique strategic opportunity that will enhance the utility's market presence, diversify its customer base, and complement its existing utility protection plan programs. This expansion will allow the RWA to serve new communities and increase revenue, focusing on a key strategic goal to enhance revenue sources and increase customer diversification.

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