

# 2018 Third Quarter Earnings Conference Call

November 8, 2018



**Southwest Gas**™  
HOLDINGS

# Participants



**Southwest Gas**<sup>™</sup>  
HOLDINGS

**John Hester**  
President and CEO  
Southwest Gas Holdings



**Greg Peterson**  
SVP/CFO  
Southwest Gas Holdings



**Justin Brown**  
SVP/General Counsel  
Southwest Gas Corporation



**Ken Kenny**  
VP/Finance/Treasurer  
Southwest Gas Holdings



# Safe Harbor Statement



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This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (“SEC”). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2018 expectations for our infrastructure services and natural gas operations segments, as well as statements regarding our expansion projects and other investment opportunities.

Forward-looking statements are based on assumptions which we believe are reasonable, based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” of our 2017 Annual Report on Form 10-K filed with the SEC, and other reports that we file with the SEC from time to time, and the following:

- The timing and amount of rate relief;
- Changes in operating expenses;
- Changes in rate design, infrastructure tracking mechanisms;
- Customer growth rates;
- Conditions in housing markets;
- The effects of regulation/deregulation;
- The impacts of construction activity at our infrastructure services segment;
- The impacts from acquisitions;
- The impacts of stock market volatility; and
- Other factors discussed from time to time in our filings with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. The statements in this presentation are made as of the date hereof, even if subsequently made available on our Web site or otherwise. We do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

# 2018 Highlights



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## Consolidated Results

- E.P.S. of \$4.30 for 12 months ended September 2018
- Return on equity of 11.3% for 12 months ended September 2018
- Period results favorably impacted by tax reform

## Natural Gas Segment

- Added 33,000 net new customers over the past 12 months
- Nevada general rate case nearing completion
- Received approval for \$35.3 million of Gas Infrastructure Replacement expenditures for 2019 in Nevada
- Received order from PUCN approving expansion to Mesquite, Nevada

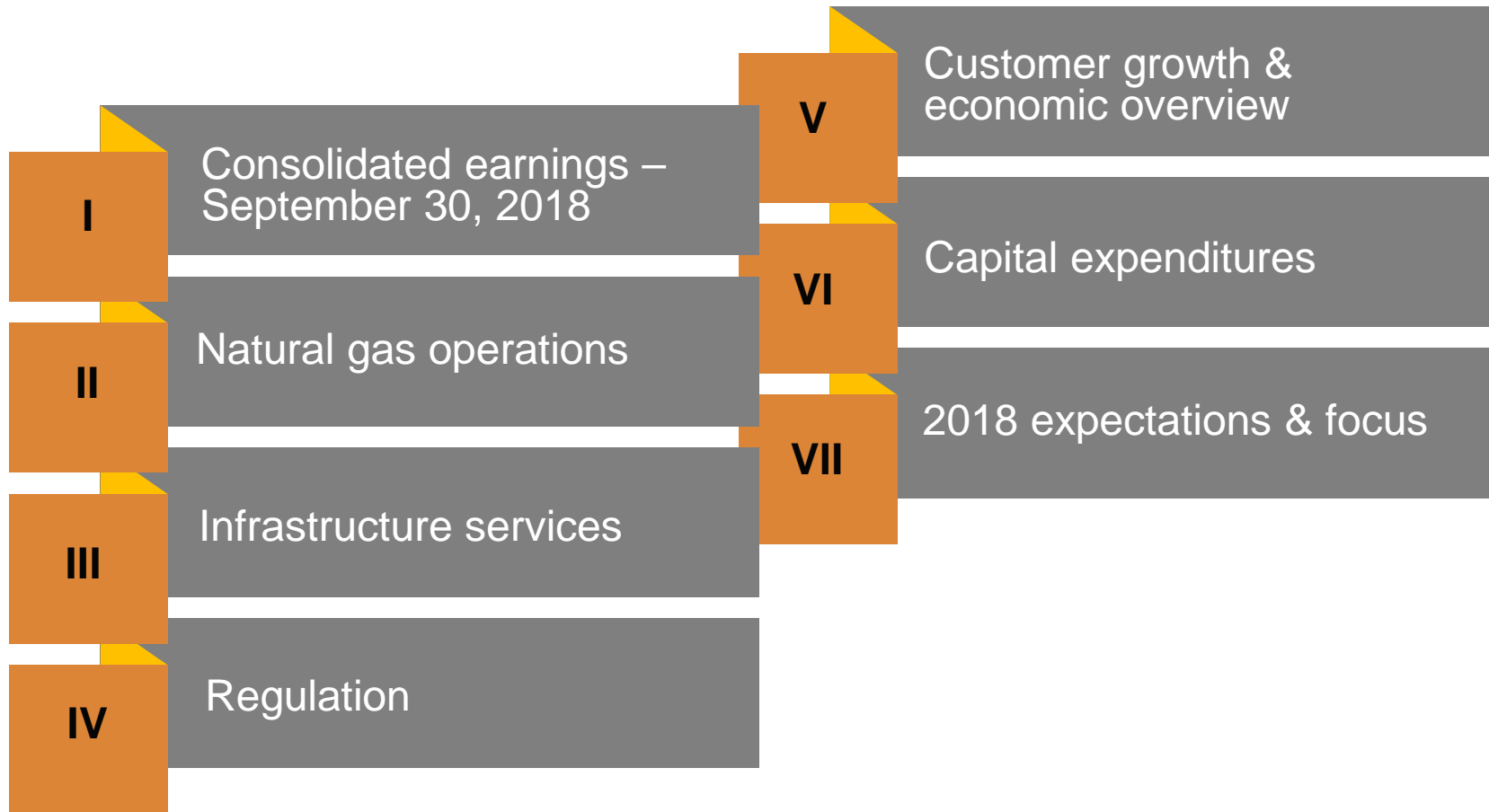
## Infrastructure Services Segment

- Record quarterly earnings of \$26.8 million
- Net income for 12 months of \$57.7 million
- Neuco acquisition exceeding expectations
- Enthusiastic about full-year Centuri performance

# Call Outline



**Southwest Gas**<sup>™</sup>  
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# Summary Operating Results

(In thousands, except per share amounts)



**Southwest Gas**<sup>™</sup>  
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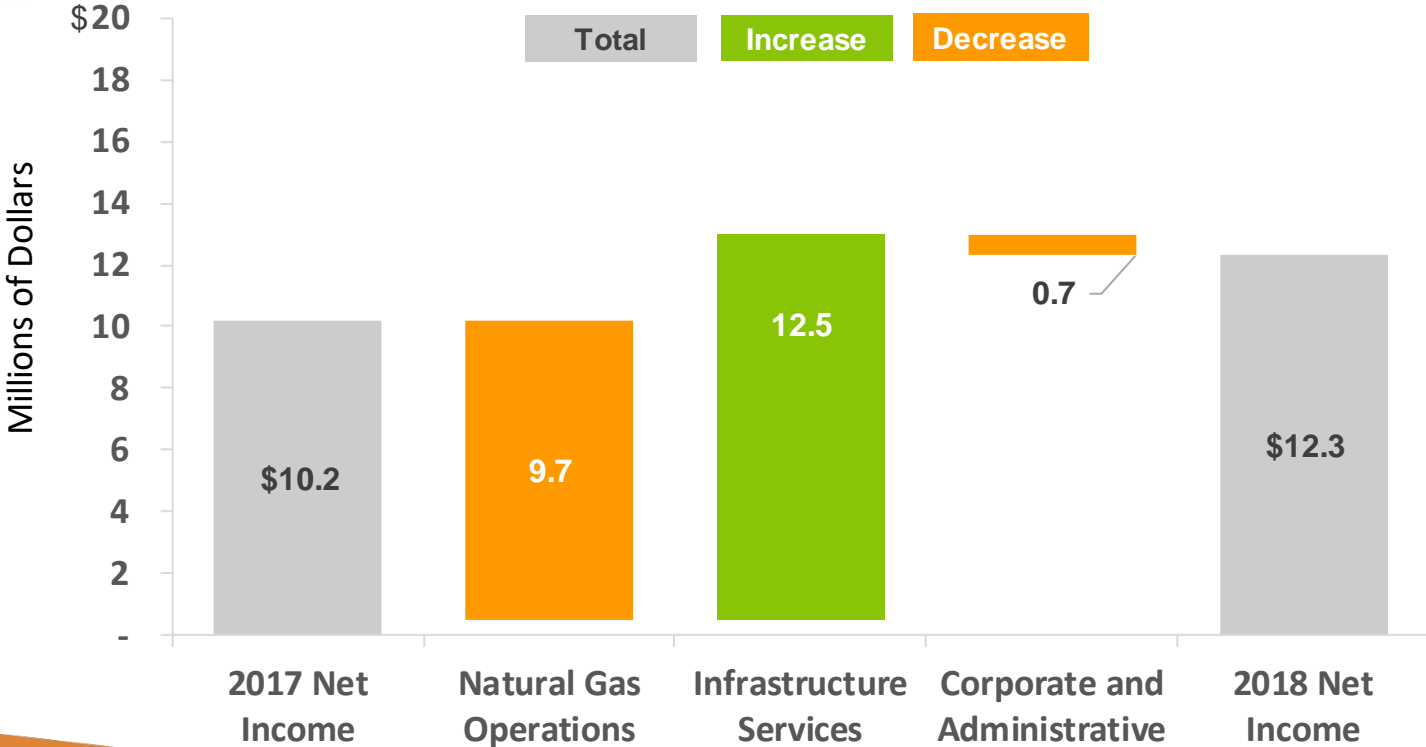
	<u>THREE MONTHS ENDED SEPTEMBER 30,</u>		<u>TWELVE MONTHS ENDED SEPTEMBER 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Results of Consolidated Operations</b>				
Gas operations income (loss)	\$ (13,670)	\$ (4,024)	\$ 153,683	\$ 134,323
Infrastructure services income	26,798	14,335	57,677	29,010
Other - corporate and administrative	(797)	(107)	(1,922)	(777)
Net income	<u>\$ 12,331</u>	<u>\$ 10,204</u>	<u>\$ 209,438</u>	<u>\$ 162,556</u>
Basic earnings per share	<u>\$ 0.25</u>	<u>\$ 0.21</u>	<u>\$ 4.30</u>	<u>\$ 3.42</u>
Diluted earnings per share	<u>\$ 0.25</u>	<u>\$ 0.21</u>	<u>\$ 4.29</u>	<u>\$ 3.39</u>
Average number of common shares	49,493	47,628	48,728	47,553
Average shares (assuming dilution)	49,553	47,986	48,781	47,896

# Consolidated Net Income

Three Months Ended September 30, 2018



**Total Increase - \$2.1 million**

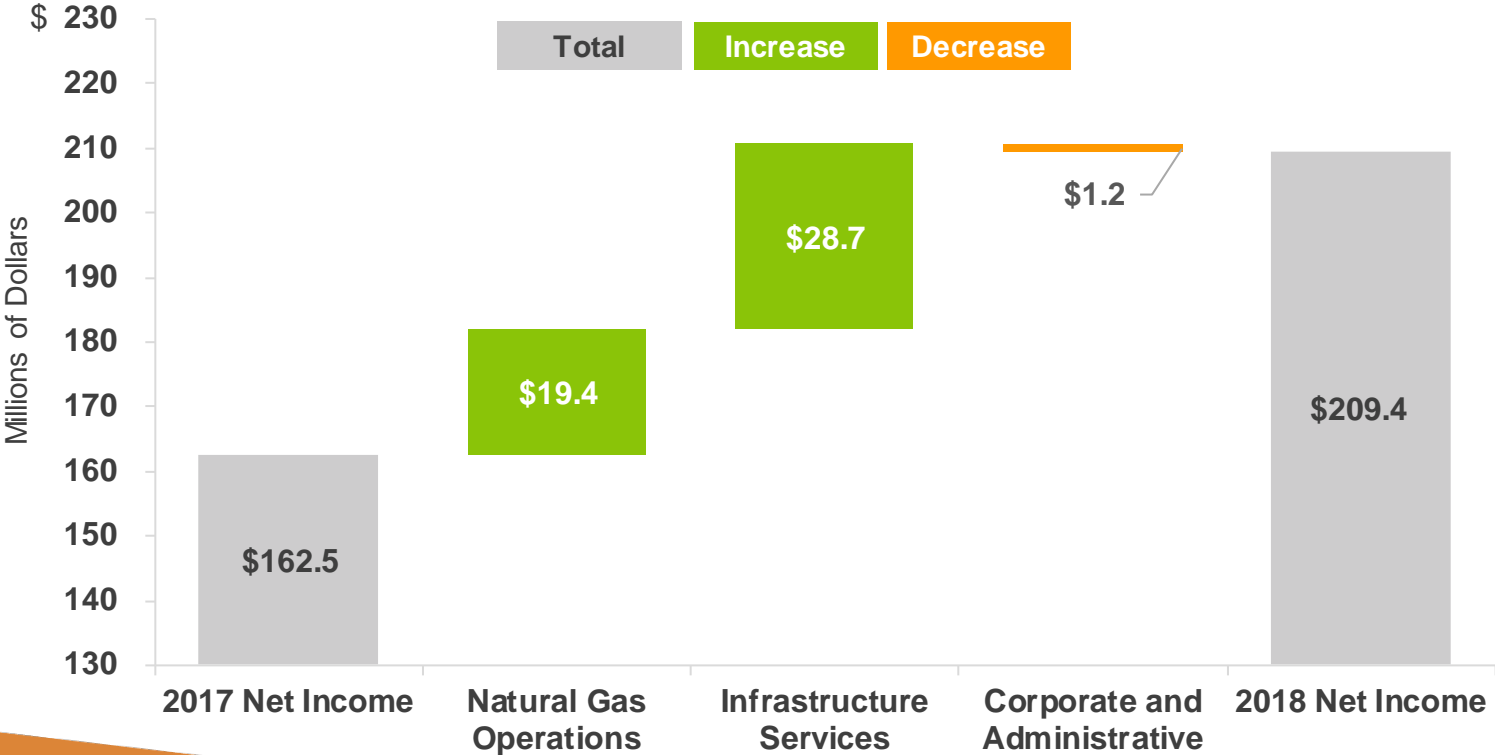


# Consolidated Net Income

Twelve Months Ended September 30, 2018



**Total Increase - \$46.9 million**





# Net Income (loss)

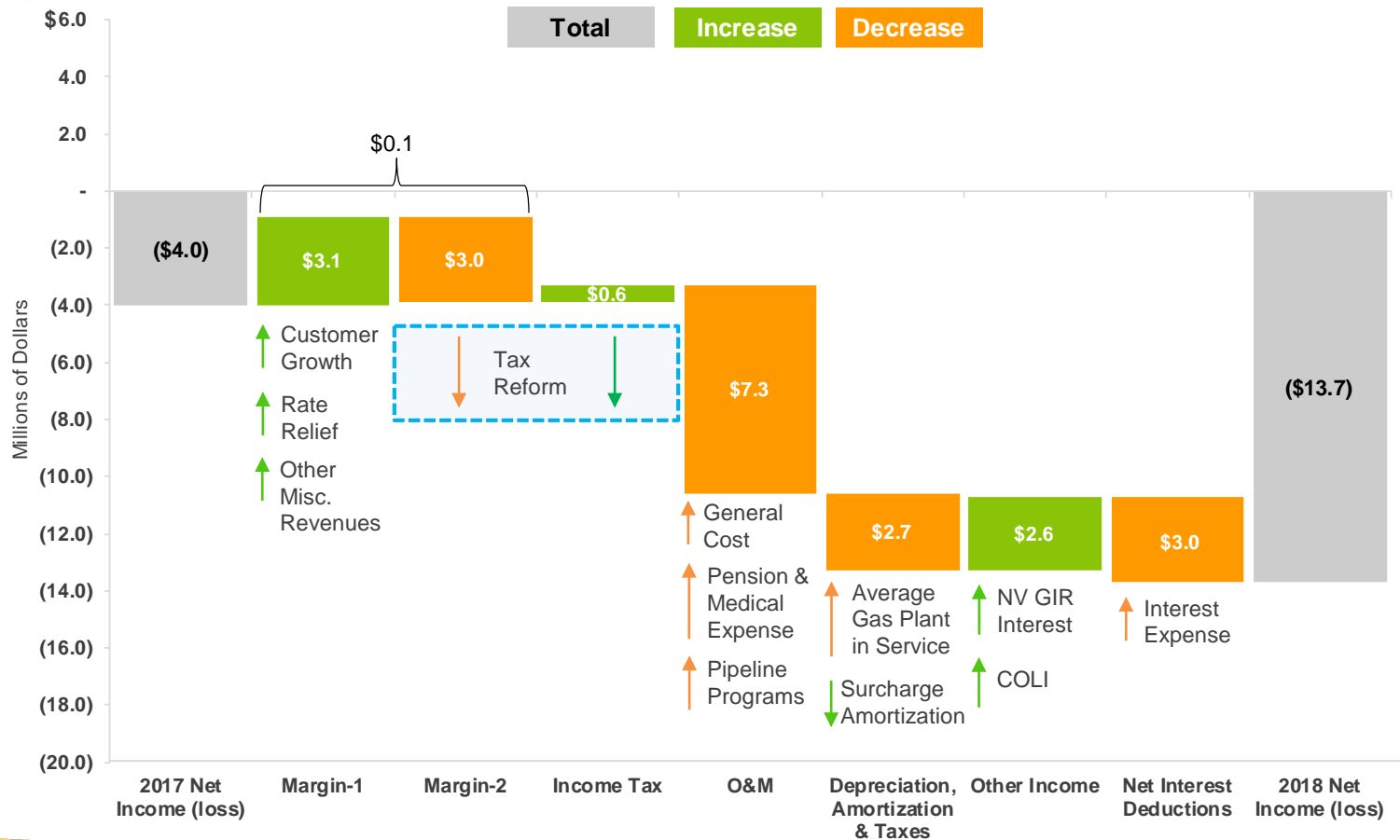
Three Months Ended September 30, 2018

Natural Gas Operations



**SOUTHWEST GAS**

**Total Decrease - \$9.7 million**



# Net Income

Twelve Months Ended September 30, 2018

Natural Gas Operations



**SOUTHWEST GAS**

**Total Increase - \$19.4 million**

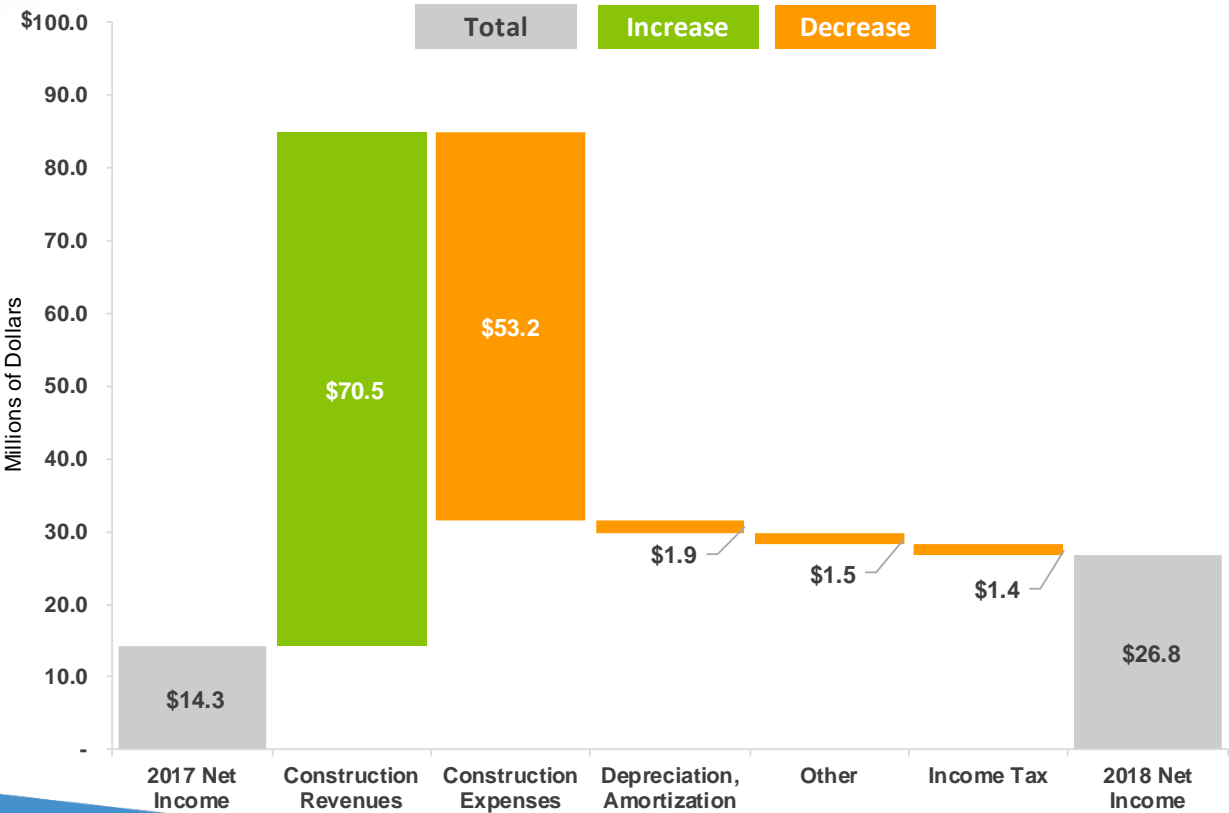


# Net Income

Three Months Ended September 30, 2018  
Infrastructure Services



**Total Increase - \$12.5 million**



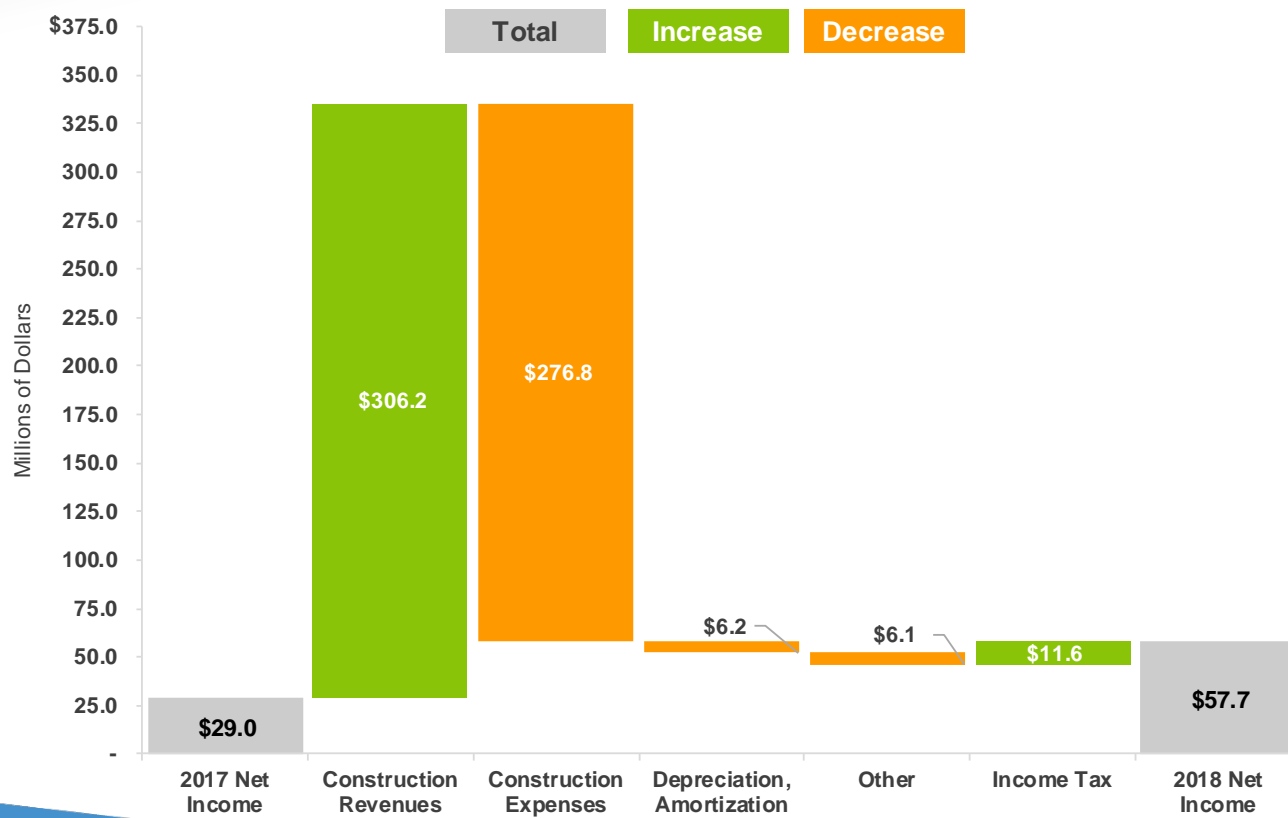
# Net Income

Twelve Months Ended September 30, 2018

Infrastructure Services



**Total Increase - \$28.7 million**



# Regulation Key Highlights

## Natural Gas Operations



**SOUTHWEST GAS**

### Regulatory Proceedings

- Nevada General Rate Case
- Next California General Rate Case
- Next Arizona General Rate Case
- Tax Reform Proceedings

### Infrastructure Replacement Programs

- Arizona Customer-Owned Yard Line (COYL) program
- Arizona Vintage Steel Pipe Replacement (VSP) program
- Nevada Gas Infrastructure Replacement (GIR) program

### Expansion Projects

- Mesquite expansion project approved (SB 151 legislation)
- Liquefied Natural Gas (LNG) facility in Arizona – construction proceeding
- 2018 expansion project – Paiute Pipeline Company (FERC regulated)

# Regulation – Regulatory Proceedings



**SOUTHWEST GAS**

## Nevada General Rate Case

### Natural Gas Operations

#### Base Rates

- Requested Rate Relief – \$29.7 million (reflects new tax rate)
- Rate Base – ↑\$311 million (\$1.25 billion)
- ROE – 10.3%
- Common Equity – 49.7%
- Depreciation Study – ↑\$3.8 million

#### Regulatory Mechanisms

- Continue decoupled rate design (GRA)
- Reset capex tracker program and rate (GIR)
- Pension tracker proposal

#### Key Milestones

- Application filed – May 2018
  - Original request of \$32.5M (certification period July 31, 2018)
- Certification filed – August 2018
  - Updated request of \$29.7M (certification period July 31, 2018)
- Intervenor testimony – September 21, 2018 – October 5, 2018
- Hearings held – October 22, 2018 – October 30, 2018
- Effective date for new rates – Expected January 2019

# Regulation – Regulatory Proceedings



**SOUTHWEST GAS**

## Natural Gas Operations

### Next California General Rate Case

- Expected to file next rate case by September 2019
- Continuation of post test year annual attrition increases of 2.75% through 2020
  - Incremental revenue of \$2.7 million effective January 2018

### Next Arizona General Rate Case

- Currently targeting May 2019 for next general rate case filing, consistent with agreed to moratorium

### Tax Reform

- Arizona
  - ACC approved an annual refund of \$20M
- Nevada
  - Proposal pending as part of Company's general rate case
- California
  - CPUC approved memorandum account to track changes for attrition years 2019-2020
- Paiute Pipeline Company
  - Paiute anticipates making a filing with FERC before year end

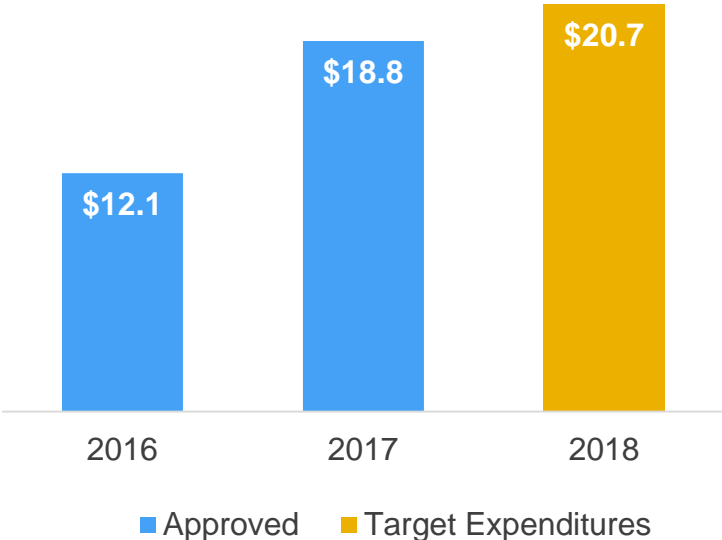
ACC – Arizona Corporation Commission  
PUCN - Public Utilities Commission of Nevada  
CPUC - California Public Utilities Commission  
FERC - Federal Energy Regulatory Commission

# Regulation – Infrastructure Replacement Programs

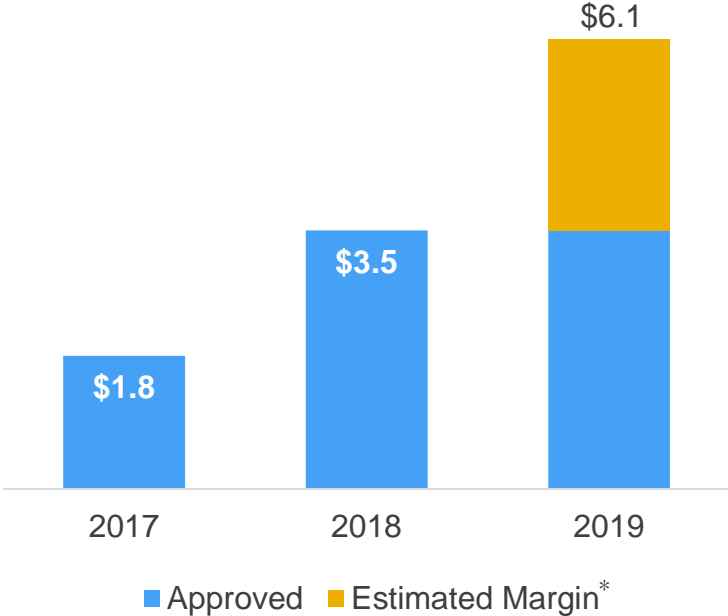


Natural Gas Operations  
(In millions)

Arizona COYL  
Capital Investment



Arizona COYL  
Surcharge Revenue



\*Estimated margin is based upon cumulative capital investments of \$51.6M, including target expenditures for 2018 of \$20.7M. New annualized surcharge revenue would not become effective until June 2019 so not all surcharge revenue will be experienced in 2019.

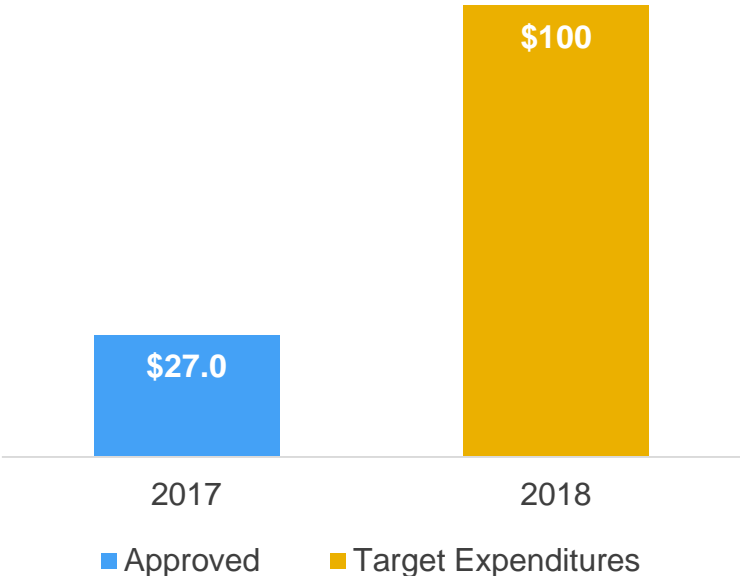


# Regulation – Infrastructure Replacement Programs

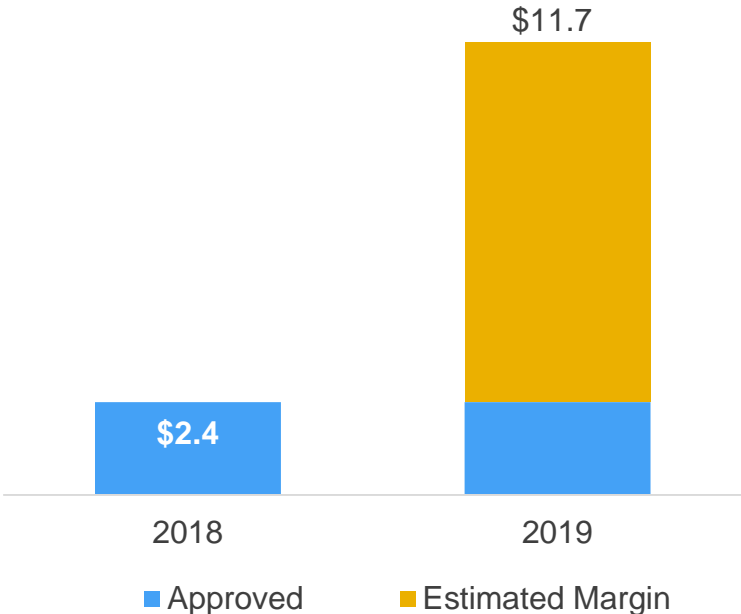


Natural Gas Operations  
(In millions)

Arizona VSP  
Capital Investment



Arizona VSP  
Surcharge Revenue



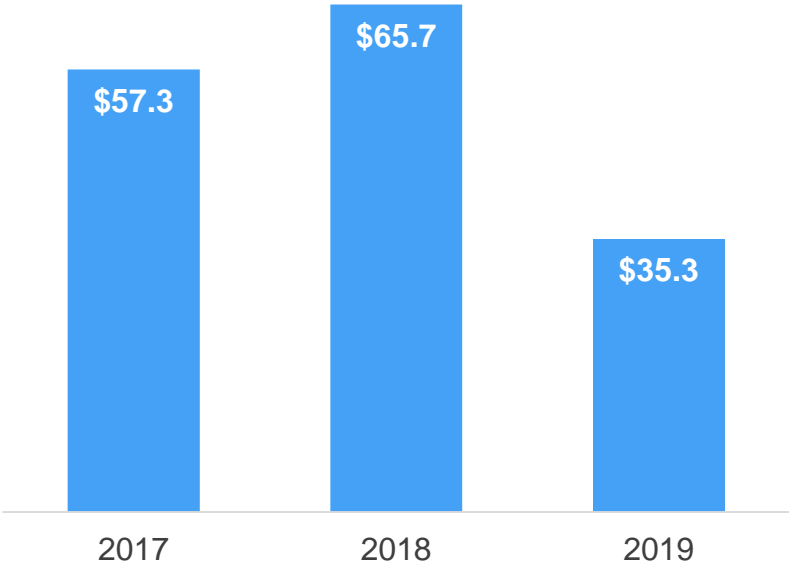
\*Estimated margin is based upon cumulative capital investments of \$127M, including target expenditures for 2018 of \$100M. New annualized surcharge revenue would not become effective until June 2019 so not all surcharge revenue will be experienced in 2019.

# Regulation – Infrastructure Replacement Programs

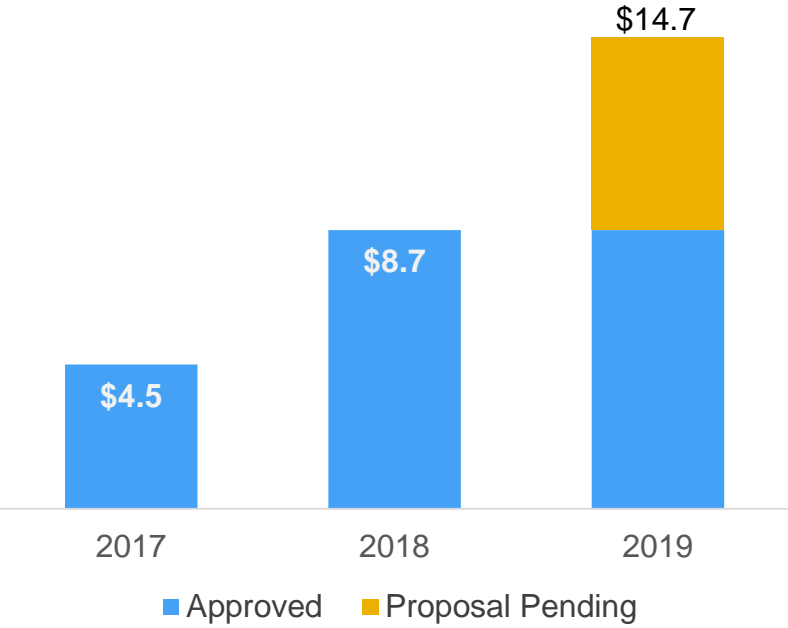


Natural Gas Operations  
(In millions)

Nevada GIR Program  
Capital Investment



Nevada GIR Program  
Surcharge Revenue



Since 2012, the PUCN has authorized Southwest Gas to invest over \$262 million in various pipe replacement projects and recover its costs through the GIR mechanism.

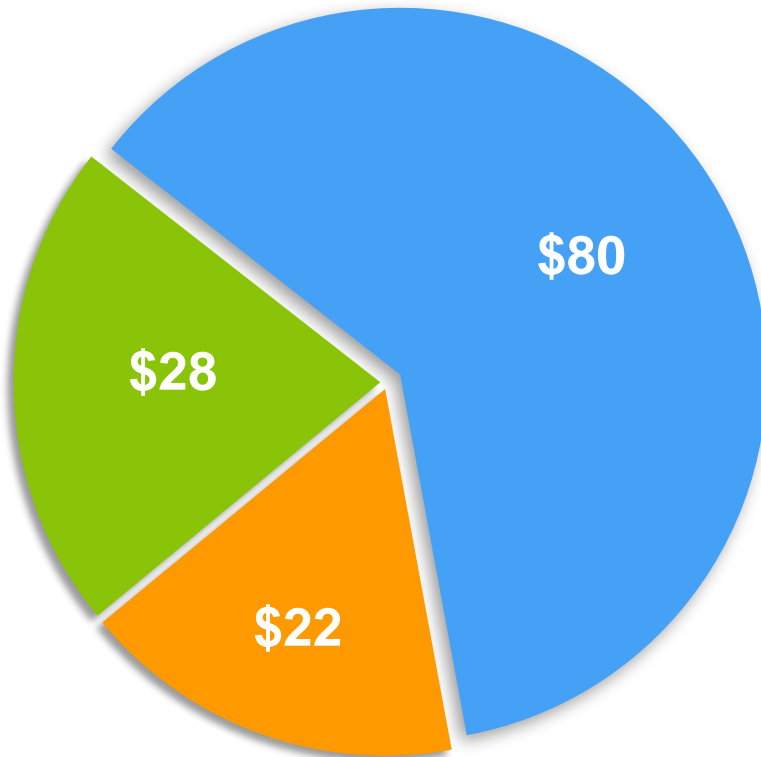
# Regulation – Expansion Projects

## Natural Gas Operations



**SOUTHWEST GAS**

\$ in millions



### ARIZONA LNG FACILITY

- Approved \$80 million, 233,000 dekatherm LNG facility
- Approximately \$51 million spent through September 2018
- LNG facility is expected to be completed and placed in service before year end 2019

### SOUTHERN NEVADA EXPANSION

- PUCN approved \$28 million expansion project in May 2018 to extend facilities to Mesquite, NV (SB 151 project)
- Anticipate providing service to certain customers as early as the first half of 2019

### PAIUTE PIPELINE COMPANY EXPANSION

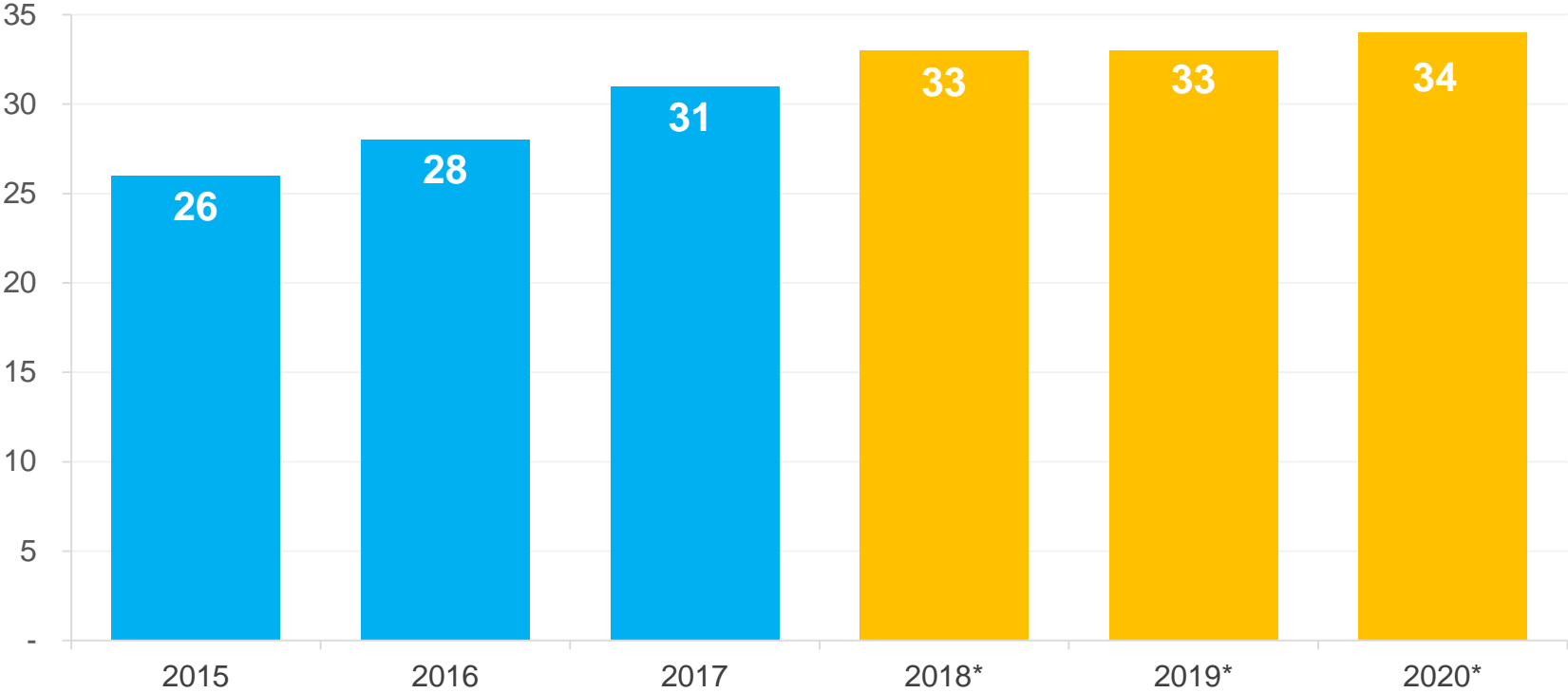
- Construction of \$22 million project began in July 2018
- FERC Order authorizing Paiute to construct its 2018 Expansion Project was issued May 2018
- The new facility is expected to be completed and placed in service by the end of November 2018

# Customer Growth

## Natural Gas Operations



**Twelve Months Ended December 31**  
(In thousands)



Added 33,000 net new customers as of twelve months ended September 30, 2018

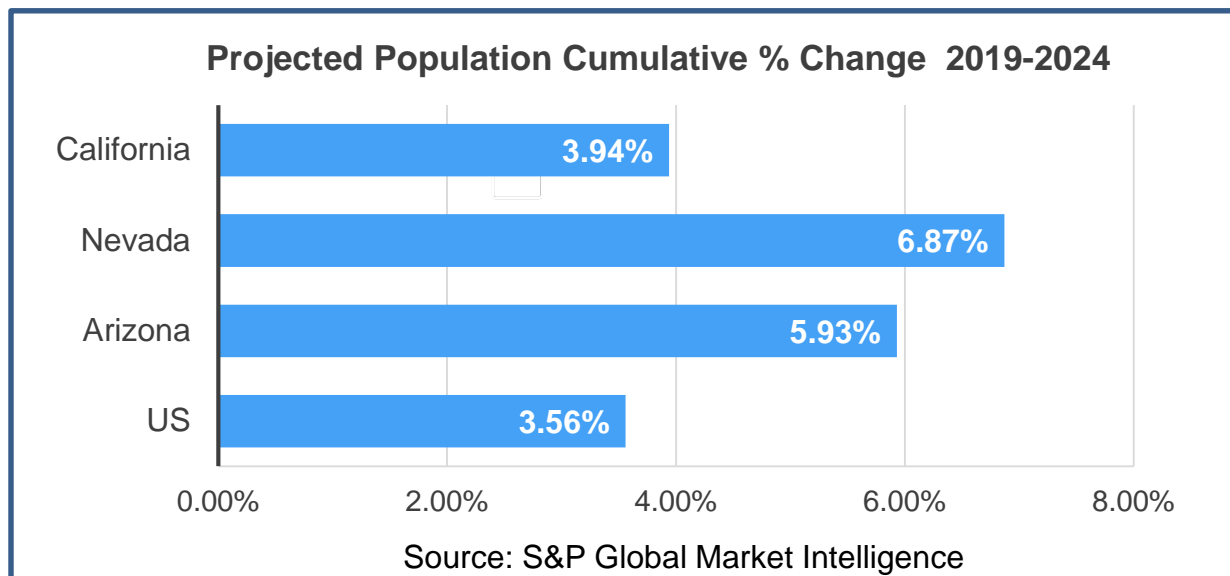
\* Projected

# Growth & Economic Conditions

## Natural Gas Operations



**SOUTHWEST GAS**



	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>September 2017</u>	<u>September 2018</u>	<u>September 2017</u>	<u>September 2018</u>
<b>Southern California</b>	5.4%	4.1%	2.5%	2.9%
<b>Southern Nevada</b>	5.2%	4.7%	2.6%	2.0%
<b>Northern Nevada</b>	4.5%	3.9%	0.9%	0.2%
<b>Southern Arizona</b>	4.2%	4.5%	-0.6%	2.4%
<b>Central Arizona</b>	4.0%	4.2%	1.7%	3.8%

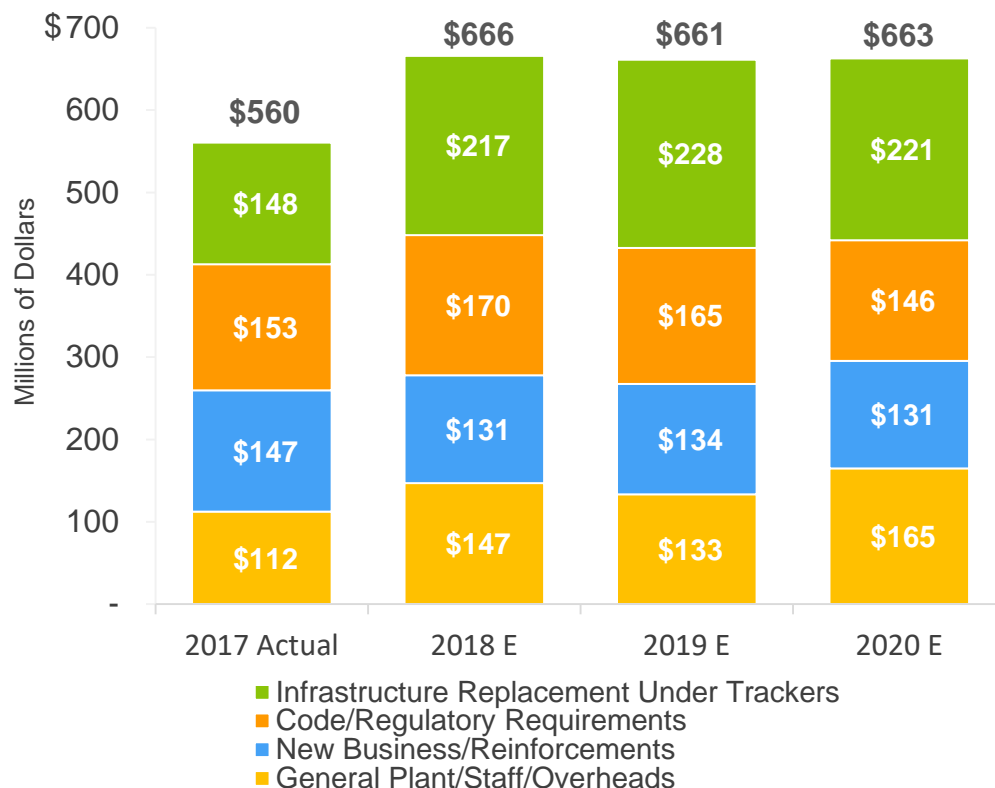
# Capital Expenditures

## Natural Gas Operations

(In millions)



**SOUTHWEST GAS**



**2018-2020 estimate of \$2 billion**

### LONG-TERM FINANCING ACTIVITY

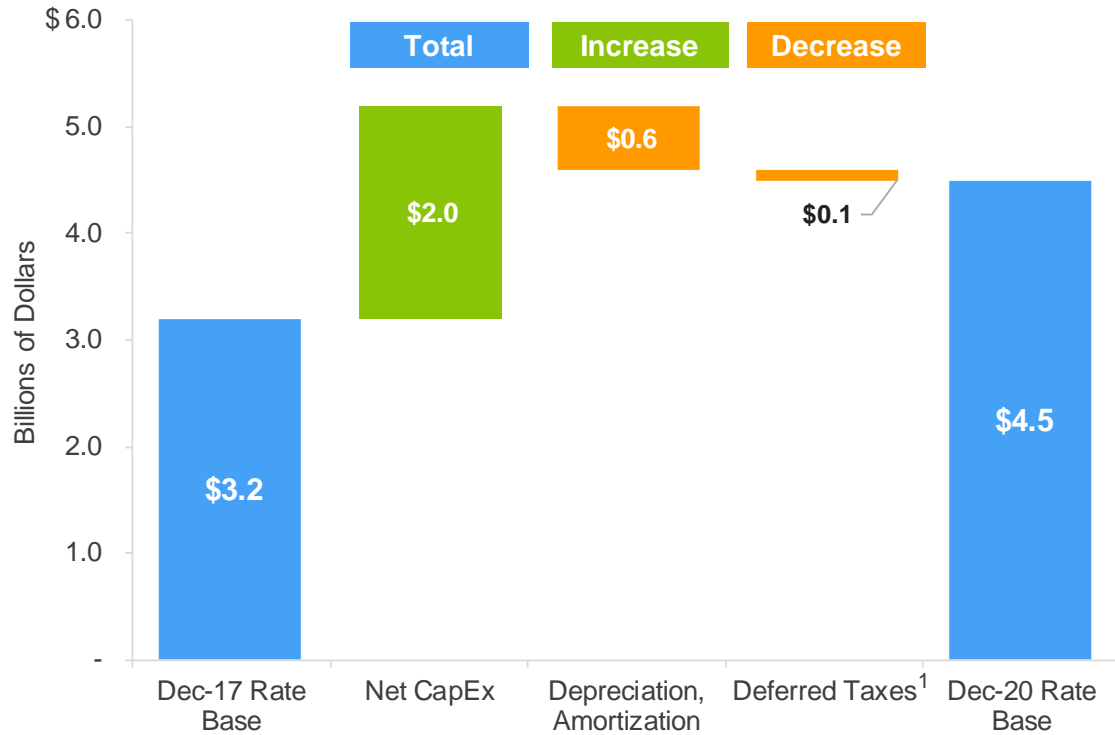
- Expect to fund 50-60% through internal cash flow
- March 2018 issued \$300 million, 3.7% senior unsecured notes due April 2028
- Anticipate funding remaining needs through a balance of debt and equity
- Equity Shelf program initiated at \$150 million, \$42 million utilized in 2017 and \$85 million utilized in 2018 YTD, with \$23 million available

# Projected Rate Base Growth

## Natural Gas Operations



**SOUTHWEST GAS**



Rate base amounts reflect estimated total investment in facilities necessary to provide utility service. This is different than our authorized rate base, which is the rate base investment that has been approved by our regulatory bodies and that is reflected in rates.

Projecting 12% CAGR in rate base over next 3 years

<sup>1</sup> Includes changes in the regulatory liability created due to tax reform.

# 2018 Estimated Line-Items Guidance



**SOUTHWEST GAS**

## Natural Gas Operations

Description	2017 (in millions)	2018E
Operating Margin	\$947	~ 2% increase (less approximately \$20 million impact due to tax reform)
O&M Expense	391 <sup>[1]</sup>	~ 3% increase and \$8 million in increased pension expense
Depreciation & General Taxes	260	Decline slightly – result of rate reduction from Arizona rate case (April 2017)
Operating Income	296	Flat to modestly up (less approximately \$20 million tax reform impact)
Net Interest Deductions	70	Increase \$10-\$12 million
Other Income (Loss)	(6) <sup>[1]</sup>	COLI – normal returns of \$3-\$5 million
Income Taxes	63	23% - 24% rate
Net Income	\$157	
Capital Expenditures	\$560	\$670 million + (\$2 billion for years 2018-2020)

<sup>[1]</sup> Reflects reclassification of non-service pension costs



# 2018 Estimated Line-Items Guidance



**CENTURI**  
CONSTRUCTION GROUP

## Infrastructure Services

Description	2017 (in millions)	2018E
Revenues	\$1,246	~ 12% - 16% greater
Operating Income	48	~ 5% - 5.5% of revenues
Net Interest Deductions	8	Expected between \$13 - \$14 million
Foreign Exchange		Changes in foreign exchange rates could influence outcomes
Income Taxes	2	27% - 28% rate
Net Income	<u>\$38</u>	

# Expected Long-Term Value Drivers



## Natural Gas Operations

- Customer growth exceeding 33,000 a year for 2018-2020
- Approximately \$2 billion in capital investment for three years, 2018-2020
- A 12% CAGR in rate base for 2018-2020
- Constructive rate mechanisms reduce regulatory lag

## Infrastructure Services

- One of the largest, and still growing, underground pipeline contractors in North America
- Serving 25 markets across the U.S. and Canada
- Average relationship with top customers is over 20 years
- Increased pipe replacement work due to aging infrastructures and heightened regulation and safety



# APPENDIX

# Business Segments & Net Income



Southwest Gas<sup>™</sup>  
HOLDINGS

Natural Gas Operations



**SOUTHWEST GAS**

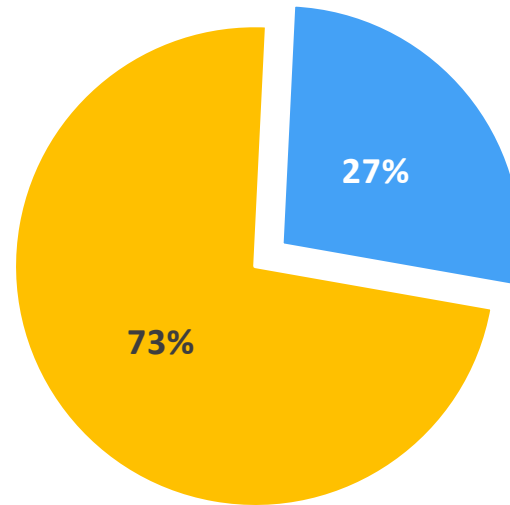
Infrastructure Services



**CENTURI**  
CONSTRUCTION GROUP

**\$209MM**

TMTD 09/30/18 Net Income



# Stable Customer Base

Natural Gas Operations

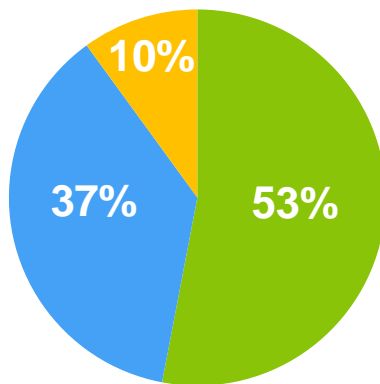


**SOUTHWEST GAS**

## TMTD September 30, 2018 Customer & Operating Margin Distribution

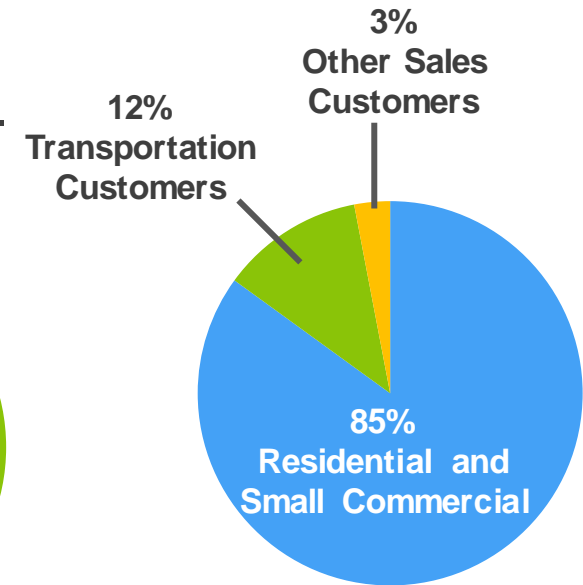
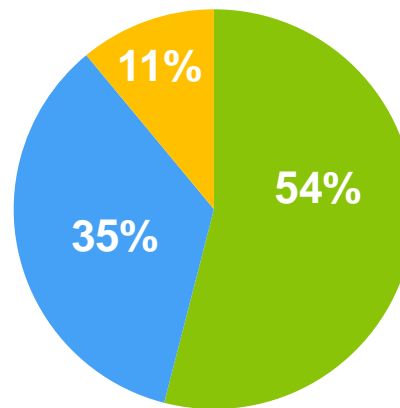
### By State

Customers



- Arizona
- Nevada
- California

Margin



**Consistent trends year over year**

# Customers by State

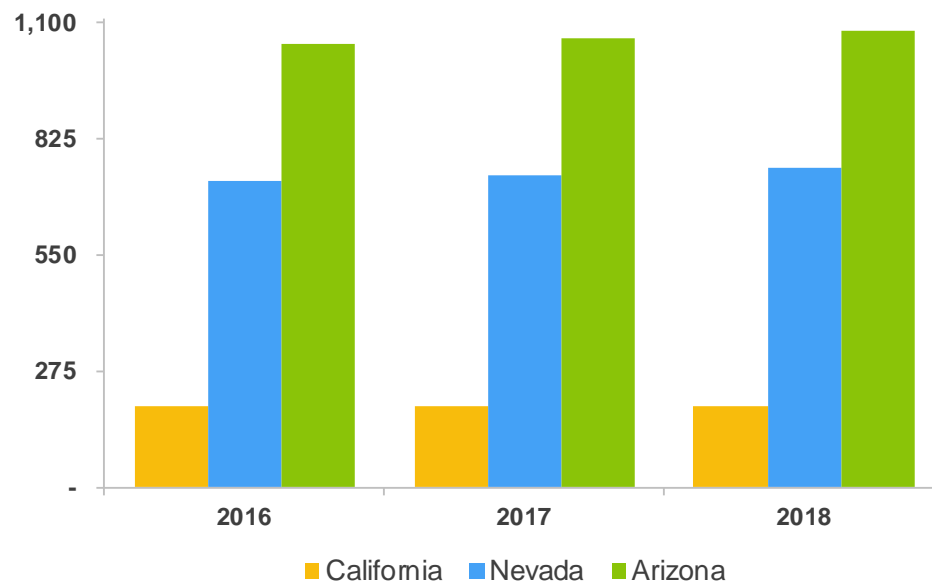
## Natural Gas Operations

(In thousands)



**As of September 30,**

	2016	2017	2018
Arizona	1,049	1,065	1,082
Nevada	727	740	755
California	191	194	195
Total	1,967	1,999	2,032



# Summary Operating Results

## Natural Gas Operations

(In thousands)



**SOUTHWEST GAS**

### THREE MONTHS ENDED SEPTEMBER 30,

#### Results of Natural Gas Operations

	2018	2017
Gas operating revenues	\$ 217,523	\$ 213,059
Net cost of gas sold	49,903	45,539
Operating margin	167,620	167,520
Operations and maintenance expense	104,657	97,359
Depreciation and amortization	47,924	46,194
Taxes other than income taxes	15,036	14,046
Operating income	3	9,921
Other income (deductions)	836	(1,775)
Net interest deductions	20,399	17,421
Income (loss) before income taxes	(19,560)	(9,275)
Income tax expense (benefit)	(5,890)	(5,251)
Segment net income (loss)	\$ (13,670)	\$ (4,024)

# Summary Operating Results

## Natural Gas Operations

(In thousands)



**SOUTHWEST GAS**

### TWELVE MONTHS ENDED SEPTEMBER 30

#### Results of Natural Gas Operations

	2018	2017
Gas operating revenues	\$ 1,354,000	\$ 1,276,308
Net cost of gas sold	412,307	334,888
Operating margin	941,693	941,420
Operations and maintenance expense	404,549	393,632
Depreciation and amortization	193,828	212,693
Taxes other than income taxes	59,580	56,221
Operating income	283,736	278,874
Other income (deductions)	(6,425)	(9,200)
Net interest deductions	77,914	69,464
Income before income taxes	199,397	200,210
Income tax expense	45,714	65,887
Segment net income	\$ 153,683	\$ 134,323



# Purchased Gas Adjustment (PGA)

## Balances



Natural Gas Operations  
(In thousands)

	September 30, 2018	December 31, 2017	September 30, 2017
Arizona	\$ (70,863)	\$ 5,069	\$ 1,324
Northern Nevada	(1,287)	8,189	4,906
Southern Nevada	(16,125)	(6,841)	(13,711)
California	(4,748)	1,323	(1,260)
Total Receivable/(Payable)	<u>\$ (93,023)</u>	<u>\$ 7,740</u>	<u>\$ (8,741)</u>

# Regulation

## Nevada General Rate Case Natural Gas Operations



Date	Procedural Schedule - Docket No. 18-05031
May 29, 2018	Application Filed
<b>Certification Filing (Certification Period Ended July 31, 2018)</b>	
August 24, 2018	Cost of Capital
August 31, 2018	Revenue Requirement and Rate Design
September 14, 2018	Gas Infrastructure Rate Reset
<b>Cost of Capital</b>	
September 21, 2018	Direct Testimony (PUCN Staff & Intervenors)
October 5, 2018	Rebuttal Testimony (Southwest Gas )
<b>Revenue Requirement &amp; Depreciation</b>	
October 3, 2018	Direct Testimony (PUCN Staff & Intervenors)
October 12, 2018	Rebuttal Testimony (Southwest Gas )
<b>Rate Design</b>	
October 5, 2018	Direct Testimony (PUCN Staff & Intervenors)
October 16, 2018	Direct Testimony (Negotiated Rate Intervenors)
October 18, 2018	Rebuttal Testimony (Southwest Gas )
October 22, 2018	Hearings
January 1, 2019	New Rates (Expected Date)

# Authorized Rate Base and Rates of Return

## Natural Gas Operations



<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>% of Total Rate Base</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity (ROE)</u>	<u>Decoupled</u>	<u>Authorized Common Equity Ratio</u>
Arizona	\$ 1,324,902	51 %	7.42 %	9.50 %	✓	51.70 %
Southern Nevada	825,190	32	6.55	10.00	✓	42.74
Northern Nevada	115,933	4	7.88	9.30	✓	59.06
Southern California	159,277	6	6.83	10.10	✓	55.00
Northern California	67,620	3	8.18	10.10	✓	55.00
South Lake Tahoe	25,389	1	8.18	10.10	✓	55.00
Paiute Pipeline Company <sup>1</sup>	87,158	3	8.46	11.00	✓	51.75
Total	<u>\$ 2,605,469</u>	<u>100 %</u>				
Weighted average authorized ROE				<u>9.76 %</u>		

<sup>1</sup>Estimated amounts based on rate case settlement.

# Centuri Construction Group

## Infrastructure Services



- Headquartered in Phoenix, Arizona
- Operates in 25 markets across U.S. and Canada
- One of North America's largest full-service underground pipeline contractors



A CENTURI COMPANY



A CENTURI COMPANY



A CENTURI COMPANY

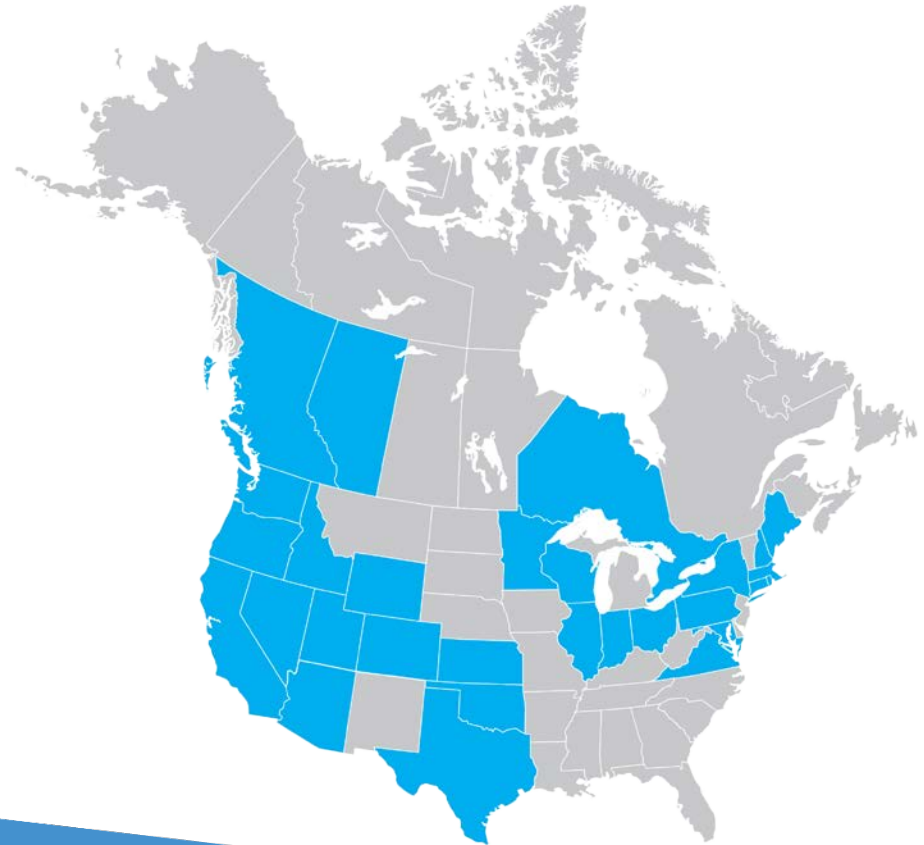


NEW ENGLAND UTILITY CONSTRUCTORS INC.

A CENTURI COMPANY



A CENTURI COMPANY



# Centuri Construction Group

## Infrastructure Services



# Summary Operating Results

## Infrastructure Services

(In thousands)



	THREE MONTHS ENDED SEPTEMBER 30,	
	2018	2017
Construction revenues	\$ 450,623	\$ 380,094
Construction expenses	395,862	342,629
Depreciation and amortization	14,232	12,335
Operating income	40,529	25,130
Other income (deductions)	38	(210)
Net interest deductions	3,945	1,962
Income taxes	9,824	8,407
Noncontrolling interests	-	216
Segment net income	<u>\$ 26,798</u>	<u>\$ 14,335</u>

# Summary Operating Results

## Infrastructure Services

(In thousands)



	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2018	2017
Construction revenues	\$ 1,479,792	\$ 1,173,576
Construction expenses	1,349,862	1,073,090
Depreciation and amortization	53,975	47,764
Operating income	75,955	52,722
Other income (deductions)	(24)	1,187
Net interest deductions	13,339	6,813
Income taxes	5,781	17,402
Noncontrolling interests	(866)	684
Segment net income	\$ 57,677	\$ 29,010

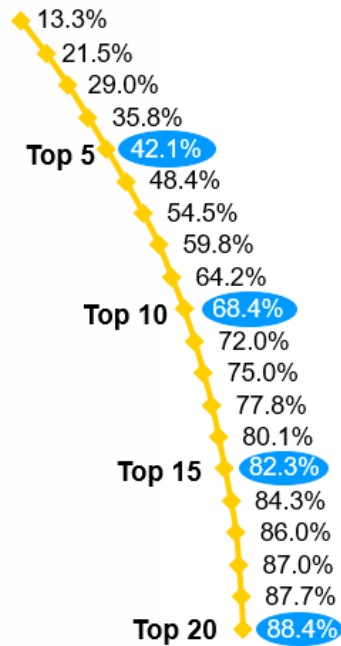
# Top 20 Customers

## Infrastructure Services



\$ in millions

Rank #	Revenue as % of Total <sup>1</sup>	Revenue <sup>1</sup>	Relationship Length (Years)	Total Contract Length (Years)
1	13.3%	\$196	41	5
2	8.2%	121	34	6
3	7.5%	111	15	3
4	6.8%	101	18	5
5	6.4%	94	24	5
6	6.3%	93	12	5
7	6.0%	89	42	5
8	5.4%	80	23	7
9	4.4%	65	11	8
10	4.2%	62	3	4
11	3.6%	53	25	4
12	3.0%	45	14	3
13	2.8%	42	30	8
14	2.3%	34	8	5
15	2.2%	32	51	3
16	2.0%	30	10	3
17	1.7%	25	20	4
18	1.0%	14	3	3
19	0.8%	11	27	2
20	0.7%	10	11	3
<b>Total (Avg)</b>		<b>\$1,308</b>	<b>21</b>	<b>4</b>



<sup>1</sup>Twelve months ended September 30, 2018



# Economic Overview – Service Area

## Natural Gas Operations



**SOUTHWEST GAS**

### Unemployment Rate

### Employment Growth

	<u>September 2017</u>	<u>September 2018</u>	<u>September 2017</u>	<u>September 2018</u>
<b>Southern California</b> <sup>1</sup>	5.4%	4.1%	2.5%	2.9%
<b>Southern Nevada</b> <sup>2</sup>	5.2%	4.7%	2.6%	2.0%
<b>Northern Nevada</b> <sup>3</sup>	4.5%	3.9%	0.9%	0.2%
<b>Southern Arizona</b> <sup>4</sup>	4.2%	4.5%	-0.6%	2.4%
<b>Central Arizona</b> <sup>4</sup>	4.0%	4.2%	1.7%	3.8%

<sup>1</sup> Source: State of California Employment Development Department, California Labor Market Review, <http://www.labormarketinfo.edd.ca.gov>

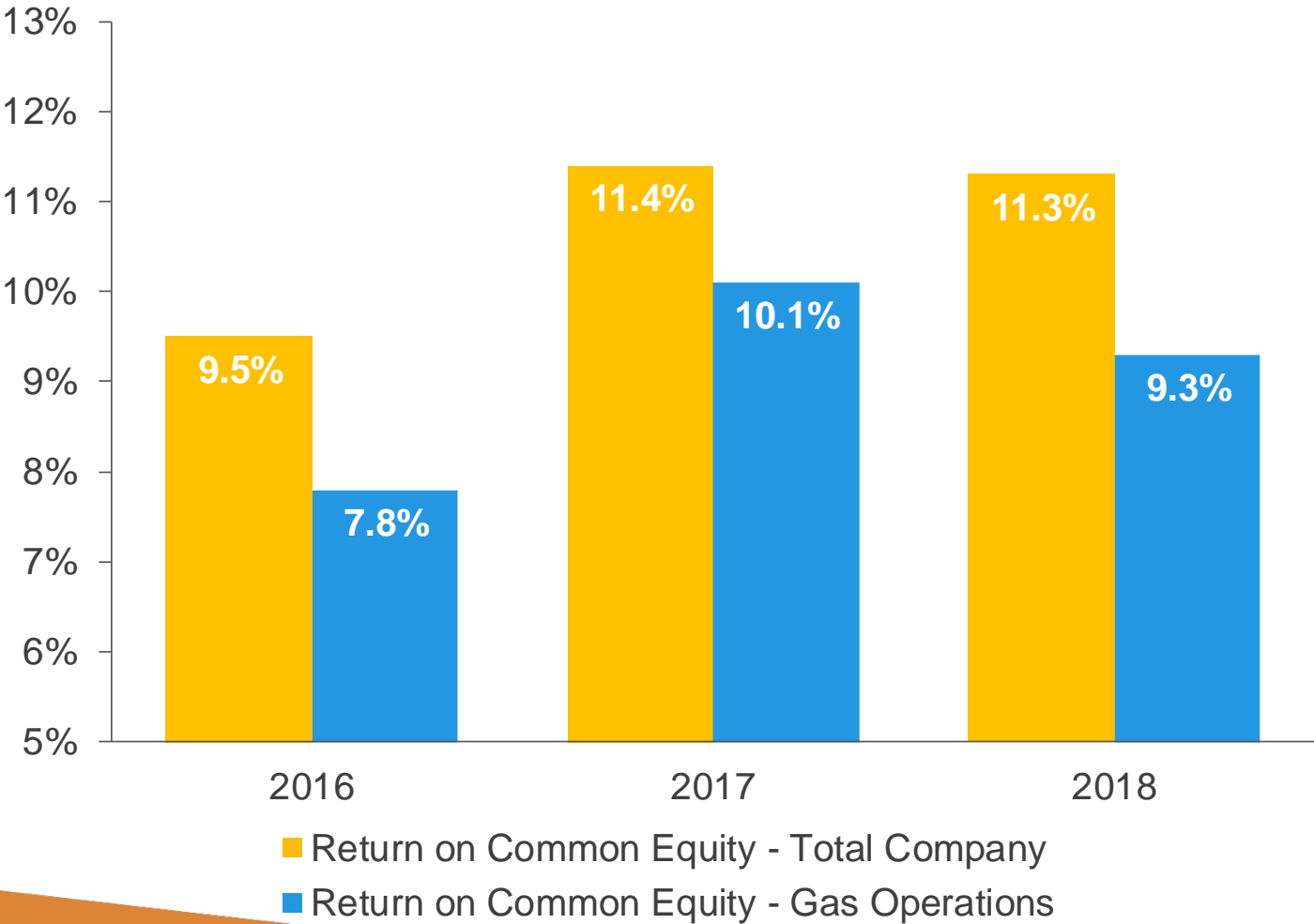
<sup>2</sup> Source: Nevada Department of Employment, Training and Rehabilitation (DETR), Economy In Brief, <http://nevadaworkforce.com>

<sup>3</sup> Source: Nevada DETR, Data Search: Total Employment (Carson City, Churchill, Douglas, Elko, Humbolt, Lyon, and Pershing Counties), <http://nevadaworkforce.com>

<sup>4</sup> Source: Arizona Office of Employment & Population Statistics, Employment Report, <http://laborstats.az.gov>

# Return on Common Equity

Twelve months ended September 30, 2018



# Stock Performance



**Southwest Gas**  
HOLDINGS

**Southwest Gas Holdings, Inc.**  
**Common Stock Closing Price**  
September 30, 2008 – September 30, 2018



# Comparative Total Returns



**Southwest Gas**  
HOLDINGS

## Total Returns for Periods Ended September 30, 2018

	1-Year	3-Year	5-Year	10-Year
<b>Southwest Gas Holdings</b>	<b>4.61%</b>	<b>13.57%</b>	<b>12.52%</b>	<b>13.27%</b>
<b>S&amp;P 400 MidCap Gas Index</b>	<b>12.80%</b>	<b>18.02%</b>	<b>14.01%</b>	<b>13.94%</b>
<b>S&amp;P Composite Utilities Index</b>	<b>3.94%</b>	<b>11.56%</b>	<b>11.37%</b>	<b>9.68%</b>
<b>S&amp;P 500 Index</b>	<b>17.95%</b>	<b>17.32%</b>	<b>13.95%</b>	<b>11.96%</b>

**Total Return = Price appreciation plus gross dividends reinvested**

# Consolidated Capital Structure

(In millions)



**Southwest Gas**  
HOLDINGS

<u>Capitalization at September 30,</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Equity <sup>1</sup>	\$ 1,452	\$ 1,562	\$ 1,640	\$ 1,713	\$ 1,946
Long-Term Debt <sup>2</sup>	1,449	1,560	1,643	1,761	2,157
<b>Total Permanent Capital</b>	<b>\$ 2,901</b>	<b>\$ 3,122</b>	<b>\$ 3,283</b>	<b>\$ 3,474</b>	<b>\$ 4,103</b>
<u>Capitalization ratios</u>					
Equity <sup>1</sup>	50.1%	50.0%	50.0%	49.3%	47.4%
Long-Term Debt <sup>2</sup>	49.9%	50.0%	50.0%	50.7%	52.6%
<b>Total Permanent Capital</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup>Includes redeemable noncontrolling interest for periods prior to September 30, 2017

<sup>2</sup>Includes current maturities of long-term debt

# Investment Grade Credit Ratings



**Southwest Gas**<sup>™</sup>  
HOLDINGS

## Southwest Gas Holdings, Inc.

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
Issuer Rating	Baa1	BBB+	BBB+
Outlook	Stable	Stable	Stable

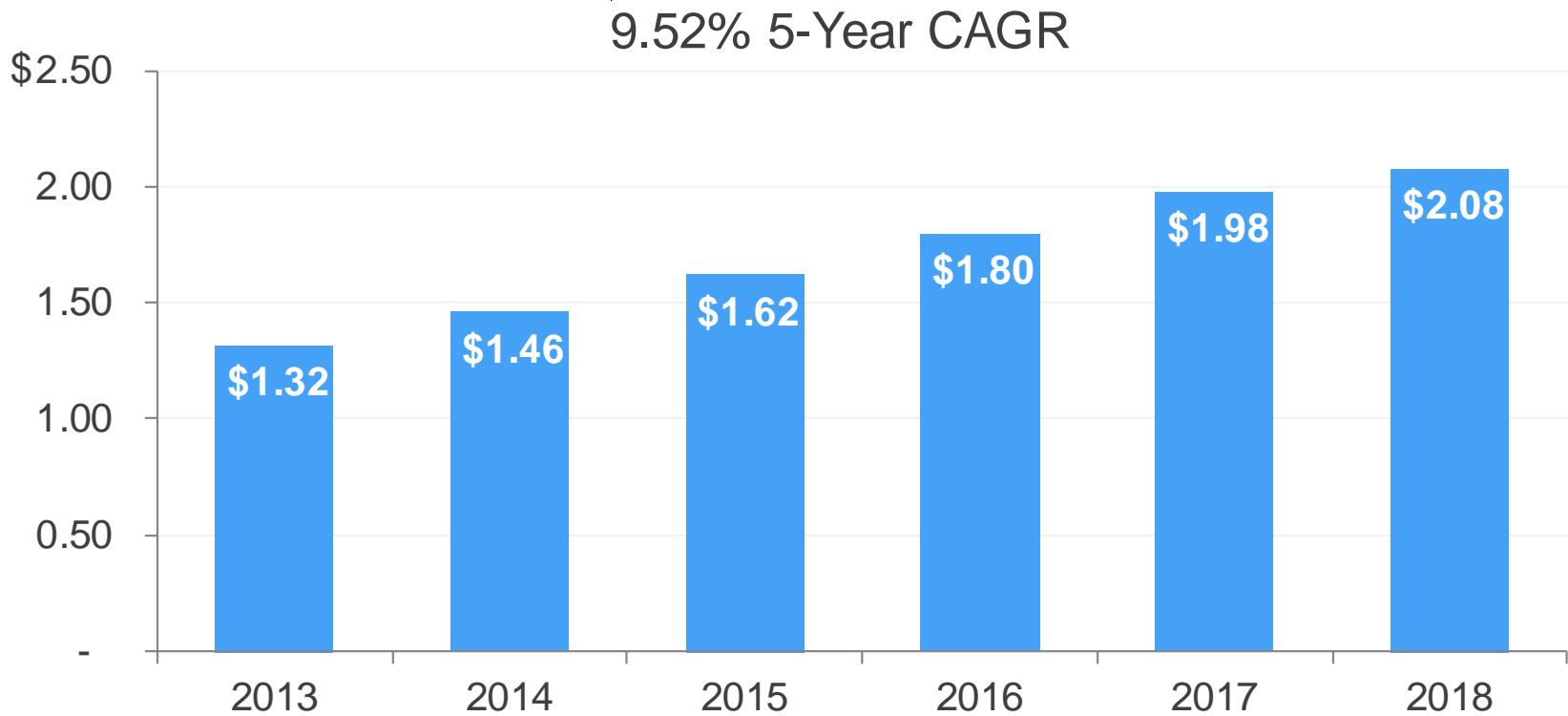
## Southwest Gas Corporation

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
Senior Unsecured	A3	BBB+	A
Outlook	Stable	Stable	Stable

# Dividend Growth



**Southwest Gas**  
HOLDINGS



CAGR = compound annual growth rate

# Non-GAAP Measures



**SOUTHWEST GAS**

**Non-GAAP Measures** – Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Gas cost is a tracked cost, which is passed through to customers without markup under purchased gas adjustment (“PGA”) mechanisms, impacting revenues and net cost of gas sold on a dollar-for-dollar basis, thereby having no impact on Southwest’s profitability. Therefore, management routinely uses operating margin, defined as operating revenues less the net cost of gas sold, in its analysis of Southwest’s financial performance. Operating margin also forms a basis for Southwest’s various regulatory decoupling mechanisms. Operating margin is not, however, specifically defined in accounting principles generally accepted in the United States (“U.S. GAAP”) and is considered a non-GAAP measure.

## **Reconciliation of Revenue to Operating Margin (Non-GAAP measure)**

	<u>THREE MONTHS ENDED SEPTEMBER 30,</u>		<u>TWELVE MONTHS ENDED SEPTEMBER 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(In thousands)			
<b><u>Natural Gas Operations</u></b>				
Gas Operating Revenue	\$ 217,523	\$ 213,059	\$ 1,354,000	\$ 1,276,308
Less: Net cost of gas sold	49,903	45,539	412,307	334,888
Operating Margin	<u>\$ 167,620</u>	<u>\$ 167,520</u>	<u>\$ 941,693</u>	<u>\$ 941,420</u>