

# 2018 Year End Earnings Conference Call

February 28, 2019



**Southwest Gas**™  
HOLDINGS

# Participants



**Southwest Gas**<sup>™</sup>  
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**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 2019 expectations for our utility infrastructure services and natural gas operations segments, projected natural gas operations customer growth through 2021, estimated natural gas operations capital expenditures through 2021, our 2019 EPS guidance and expected long-term value drivers, 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 most recent 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

- Diluted EPS of \$3.68
- Financial results negatively impacted by COLI results
- Dividend increase for the 13<sup>th</sup> straight year

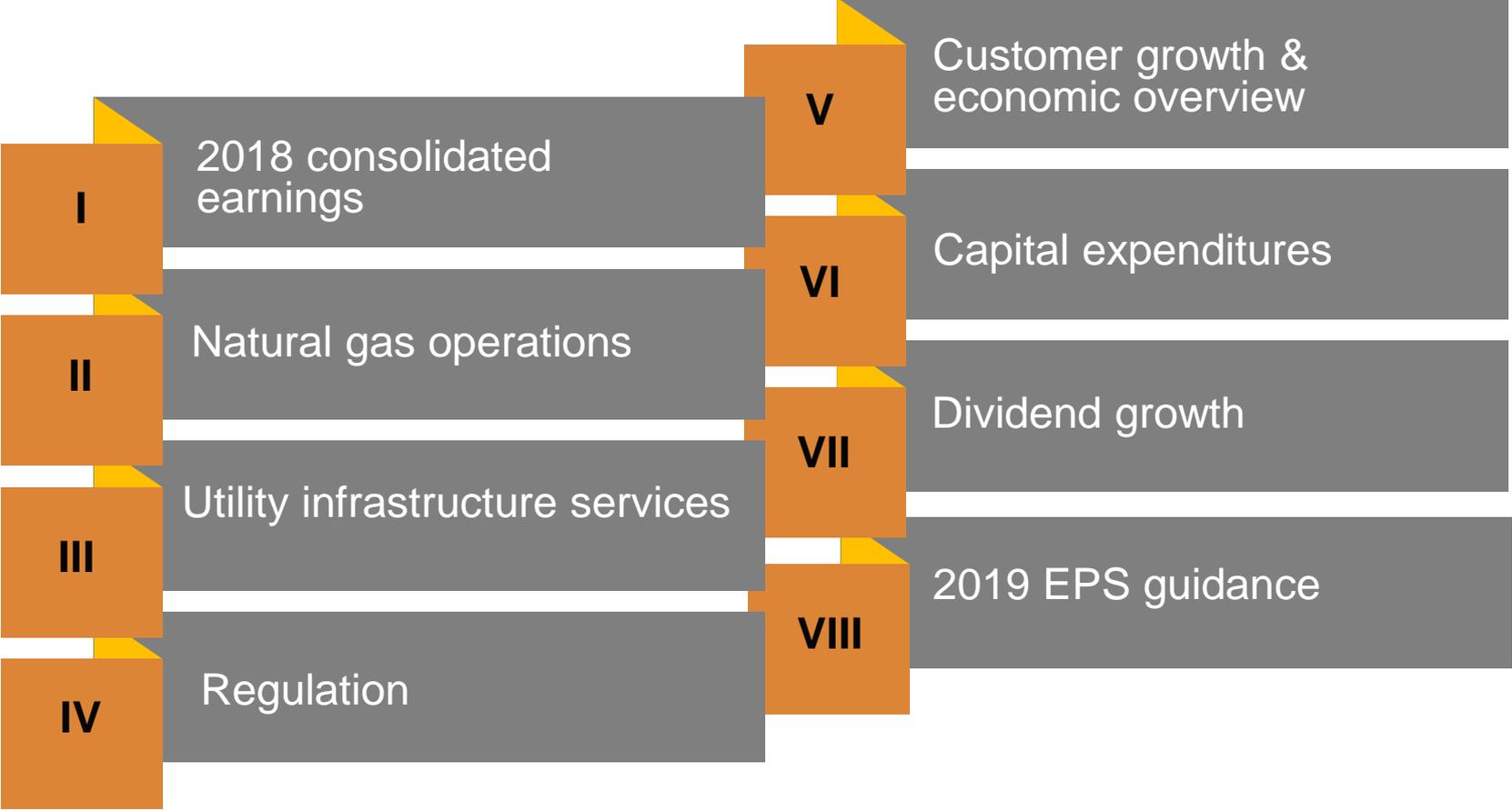
## Natural Gas Segment

- Added 32,000 net new customers (1.6% growth rate)
- Nevada general rate case completed
- \$6 million Nevada GIR surcharge increase approved for 2019
- Mesquite, Nevada expansion approved (service initiated in February 2019)

## Utility Infrastructure Services Segment

- Record revenues of \$1.5 billion
- Record annual net income of \$45 million
- Results from Neuco acquisition exceeded expectations
- Linetec acquisition completed in November 2018

# Call Outline



# Summary Operating Results

(In thousands, except per share amounts)



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	Year ended December 31,		
	2016	2017	2018
<b>Results of Consolidated Operations</b>			
Natural gas operations	\$ 119,423	\$ 156,818	\$ 138,842
Utility infrastructure services	32,618	38,360	44,977
Corporate and administrative	-	(1,337)	(1,542)
Consolidated net income	<u>\$ 152,041</u>	<u>\$ 193,841</u>	<u>\$ 182,277</u>
Basic earnings per share	<u>\$ 3.20</u>	<u>\$ 4.04</u>	<u>\$ 3.69</u>
Diluted earnings per share	<u>\$ 3.18</u>	<u>\$ 4.04</u>	<u>\$ 3.68</u>
Average common shares	47,469	47,965	49,419
Average shares (assuming dilution)	47,814	47,991	49,476

# Business Segments & Net Income

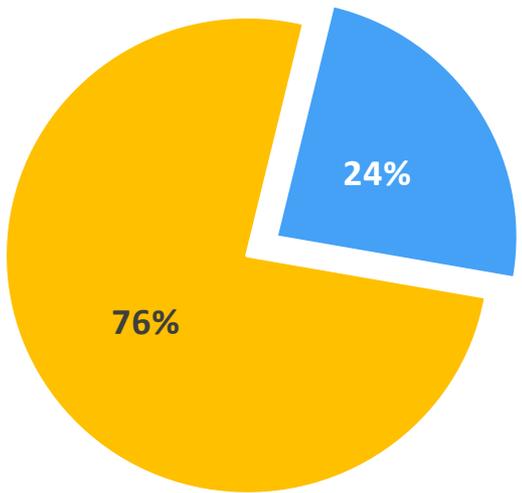


Natural Gas Operations

Utility Infrastructure Services



\$182MM  
2018 Net Income

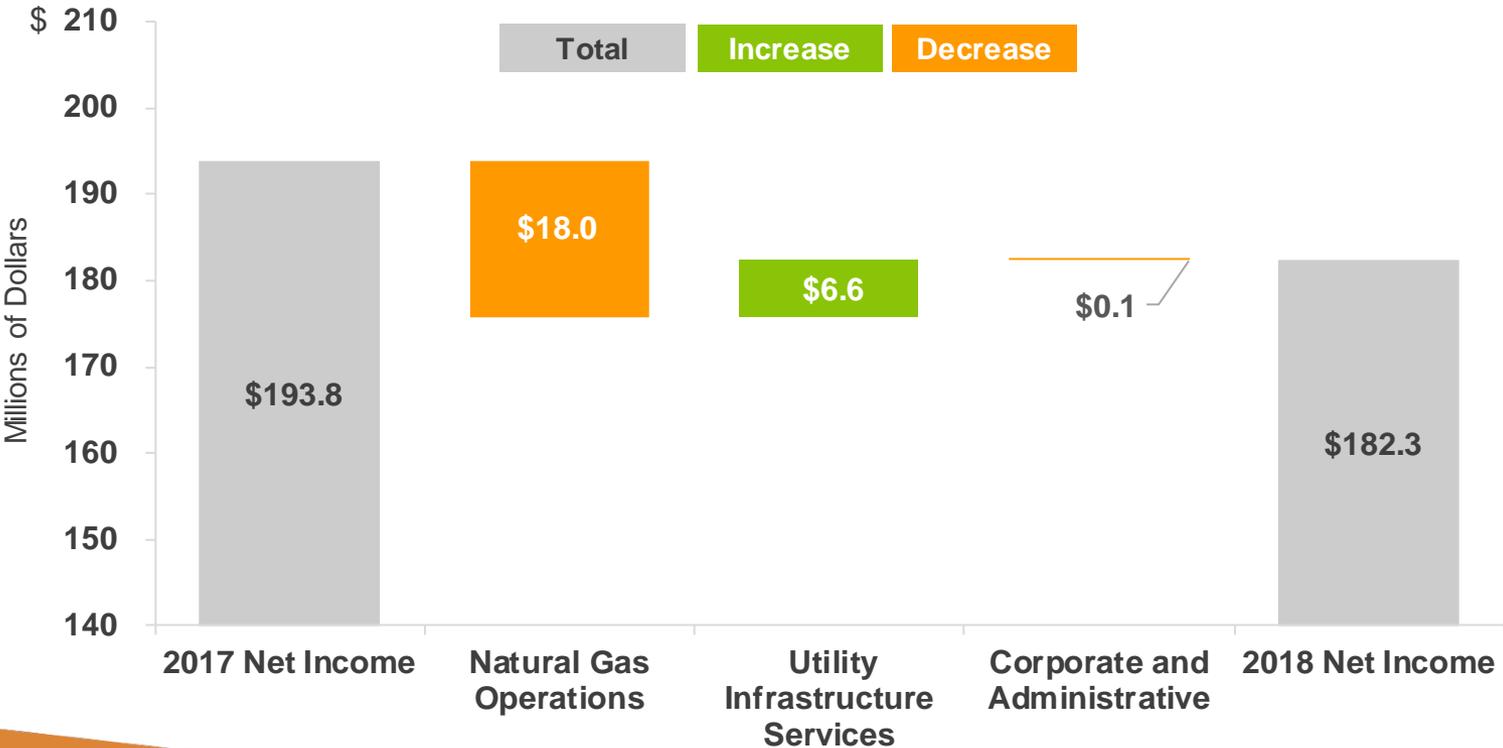


# Consolidated Net Income

Year ended December 31, 2018



**Total Decrease - \$11.5 million**



# Net Income

Year ended December 31, 2018

Natural Gas Operations



**SOUTHWEST GAS**

**Total Decrease - \$18.0 million**



# Net Income

Year ended December 31, 2018

Utility Infrastructure Services



**Total Increase - \$6.6 million**



# Linetec Acquisition

## Utility Infrastructure Services



**CENTURI**  
CONSTRUCTION GROUP

- Centuri Construction Group, Inc. acquired an 80% interest in Linetec Services, LLC (“Linetec”) in November 2018
- Linetec is a non-union provider of electrical distribution and transmission utility infrastructure services in the Gulf Coast and Mid-Atlantic region
- Preliminary purchase price of \$326.6 million for 80% interest
  - Includes \$24.1 million for 338(h)(10) election
  - Based on 8.5 times EBITDA for 2018
  - Final purchase price still subject to adjustments during 2019
  - Option to acquire remaining 20% over time
- Seasoned leadership team
  - Approximately 700 employees (and growing)



# Regulation Key Highlights

## Natural Gas Operations



**SOUTHWEST GAS**

### Regulatory Proceedings

- Nevada General Rate Case
- Upcoming General Rate Cases in Arizona and California
- Upcoming General Rate Case for Pipeline Company (FERC regulated)
- 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), service initiated February 2019
- Liquefied Natural Gas (LNG) facility in Arizona – construction proceeding
- 2018 expansion project – Paiute Pipeline Company

# Regulation – Regulatory Proceedings

## Nevada General Rate Case Natural Gas Operations



**SOUTHWEST GAS**

<b>Nevada General Rate Case</b>	<b>Southwest Gas Requested</b>	<b>Commission Authorized</b>
Rate Relief	\$29.7 Million	\$7.1 Million
Depreciation Study - Impact to Depreciation Expense	\$3.8 Million	(\$0.8) Million
Rate Base	\$1.25 Billion	\$1.24 Billion
Return on Equity	10.30%	9.25%
Capital Structure - Equity Ratio	49.66%	49.66%
Full Revenue Decoupling	✓	✓
Pension Tracker	✓	
Gas Infrastructure Replacement Cost Recovery	✓	✓
New Biogas and Renewable Natural Gas Tariff	✓	✓
New Compression Tariff	✓	✓

# Regulation – Regulatory Proceedings

## Natural Gas Operations



**SOUTHWEST GAS**

### Upcoming General Rate Cases

- Arizona
  - Currently targeting May 2019 for next general rate case filing, consistent with agreed to moratorium
- California
  - 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 \$2.8 million effective January 2019
- Paiute Pipeline Company
  - Expected to file a general rate case in May 2019

### Tax Reform

- Arizona
  - ACC approved an annual refund of \$20M
- Nevada
  - Addressed 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 filed its Form No. 501-G in the fourth quarter of 2018

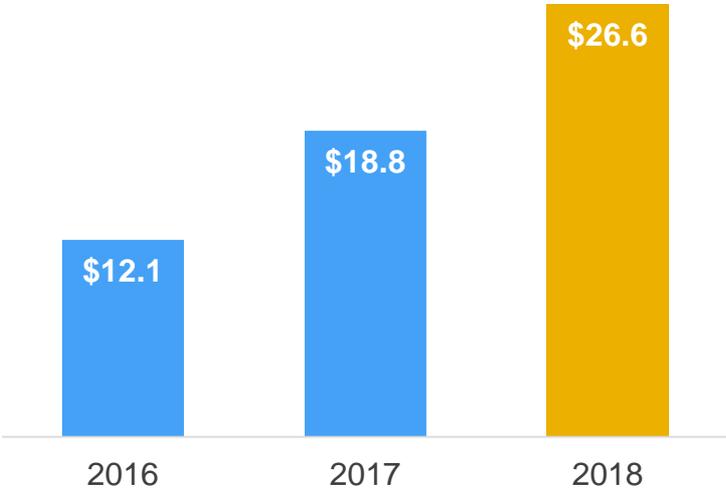
ACC – Arizona Corporation Commission  
PUCN - Public Utilities Commission of Nevada  
CPUC - California Public Utilities Commission  
FERC - Federal Energy Regulatory Commission

# Regulation – Infrastructure Replacement Programs

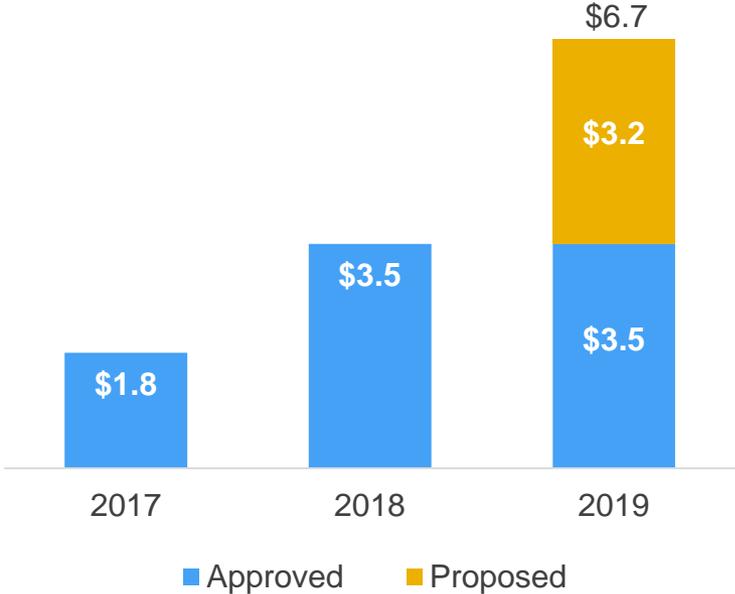


Natural Gas Operations  
(In millions)

Arizona COYL  
Capital Investment



Arizona COYL  
Surcharge Revenue

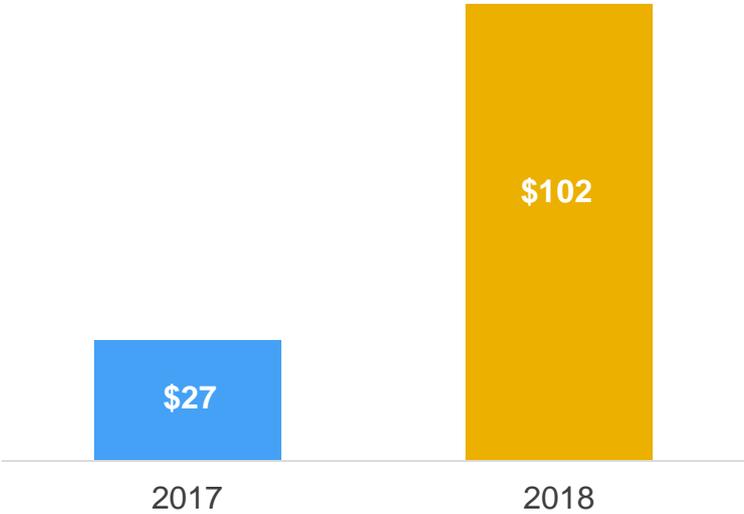


# Regulation – Infrastructure Replacement Programs

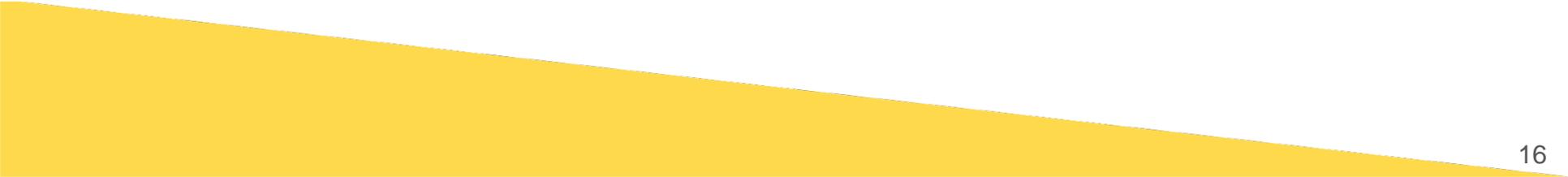
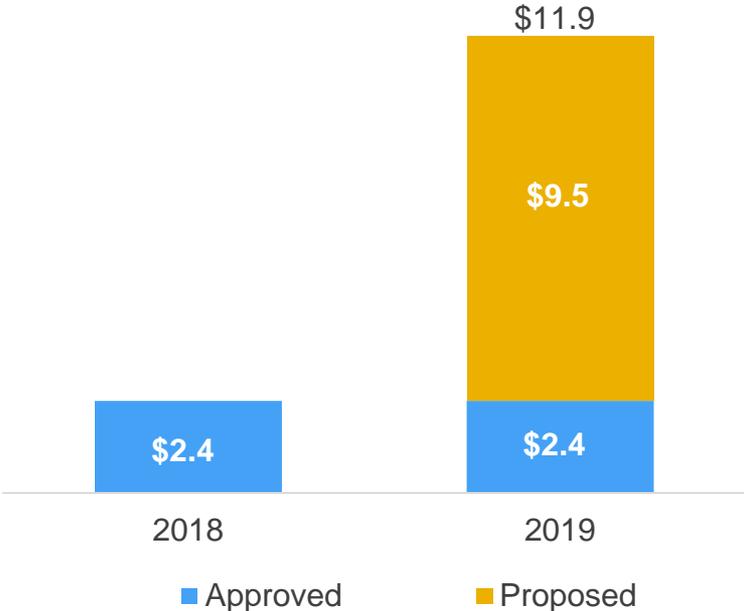


Natural Gas Operations  
(In millions)

Arizona VSP  
Capital Investment



Arizona VSP  
Surcharge Revenue

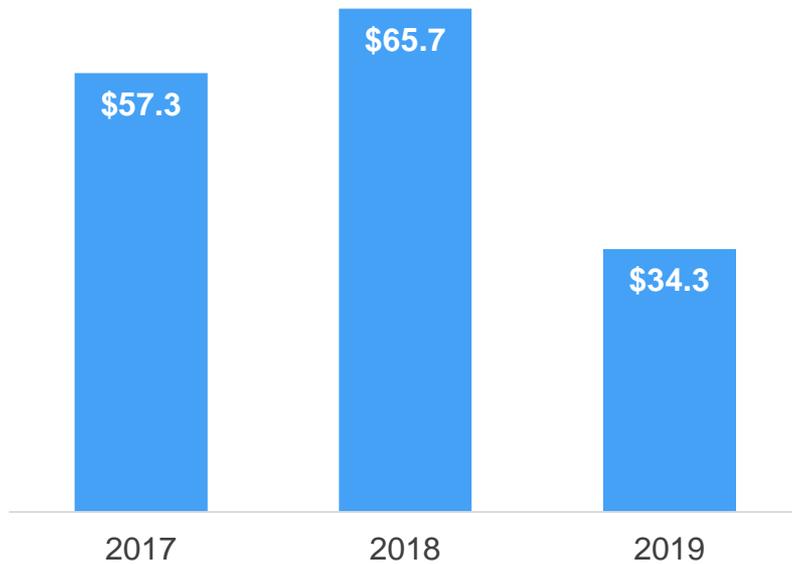


# Regulation – Infrastructure Replacement Programs

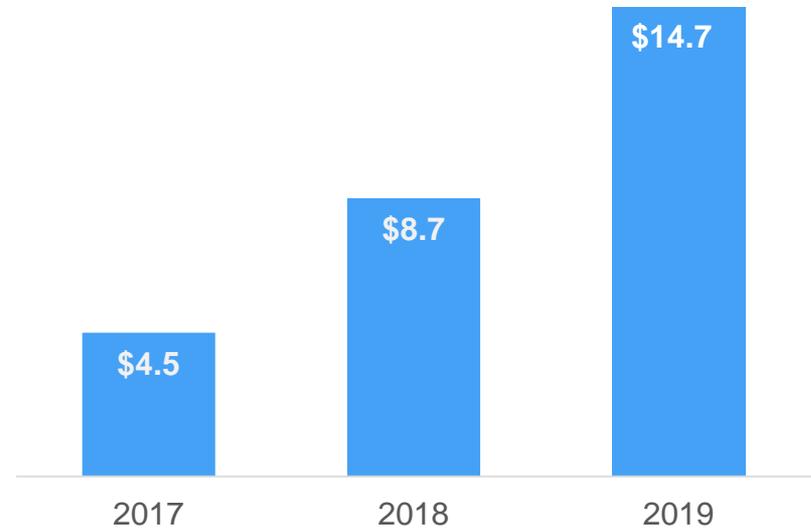


Natural Gas Operations  
(In millions)

Nevada GIR Program  
Capital Investment



Nevada GIR Program  
Surcharge Revenue



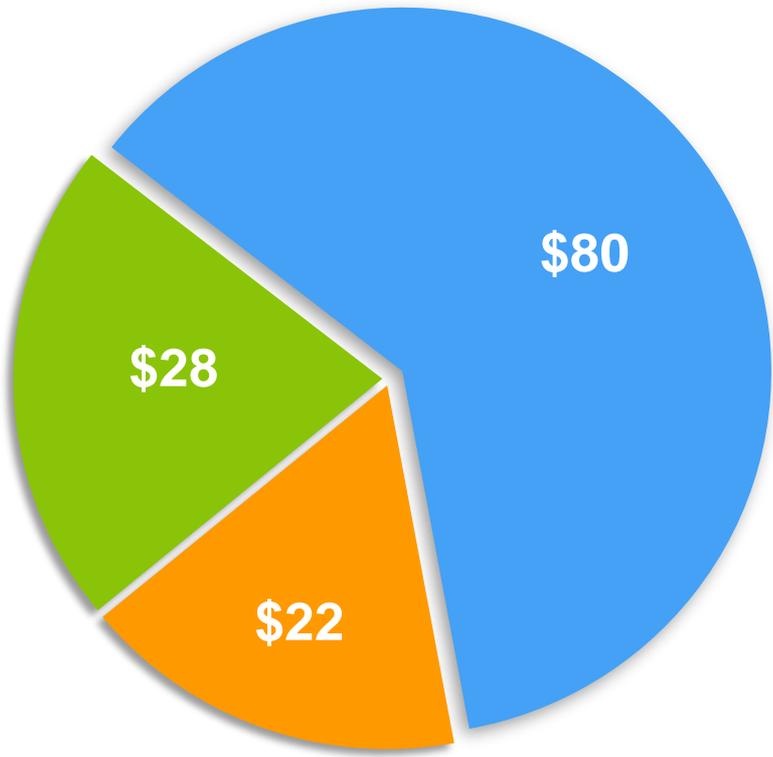
# Regulation – Expansion Projects

## Natural Gas Operations



**SOUTHWEST GAS**

\$ in millions



### ARIZONA LNG FACILITY

- Approved \$80 million, 233,000 dekatherm LNG facility
- Approximately \$60 million spent through 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)
- Estimated annual revenue requirement of \$2.8 million
- Began serving customers in February 2019 using a temporary virtual pipeline and compressed natural gas
- Approach main to provide permanent supply is anticipated to take an additional two years to complete

### PAIUTE PIPELINE COMPANY EXPANSION

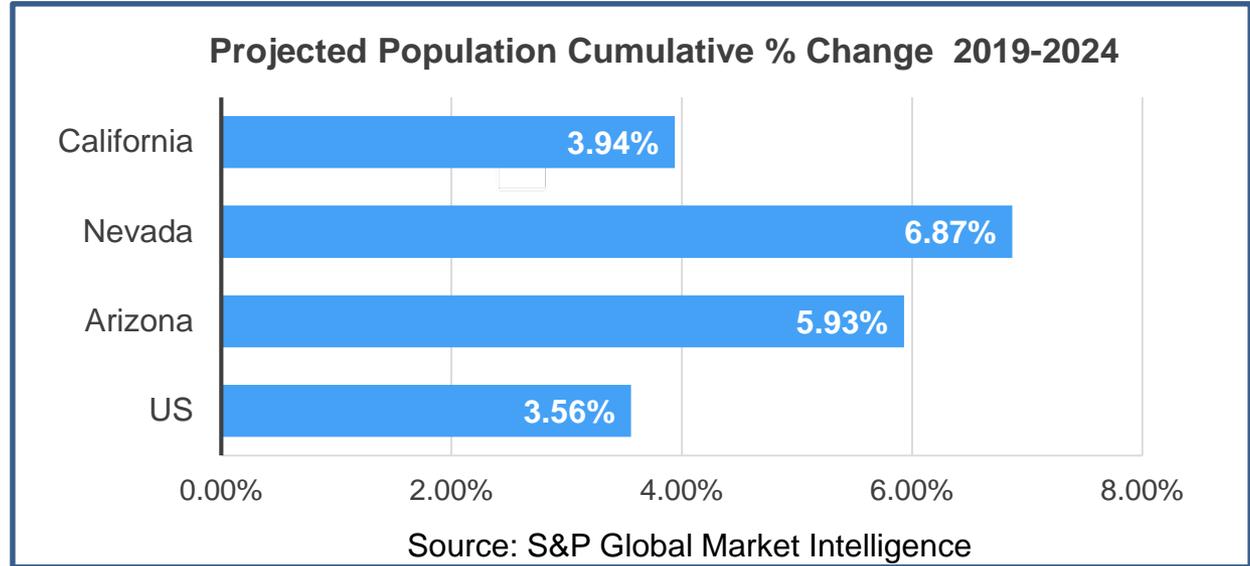
- Construction of \$22 million project began in July 2018
- FERC Order authorizing Paiute to construct its 2018 Expansion Project was issued May 2018
- The new facility was completed and placed into service November 2018

# Growth & Economic Conditions

## Natural Gas Operations



**SOUTHWEST GAS**



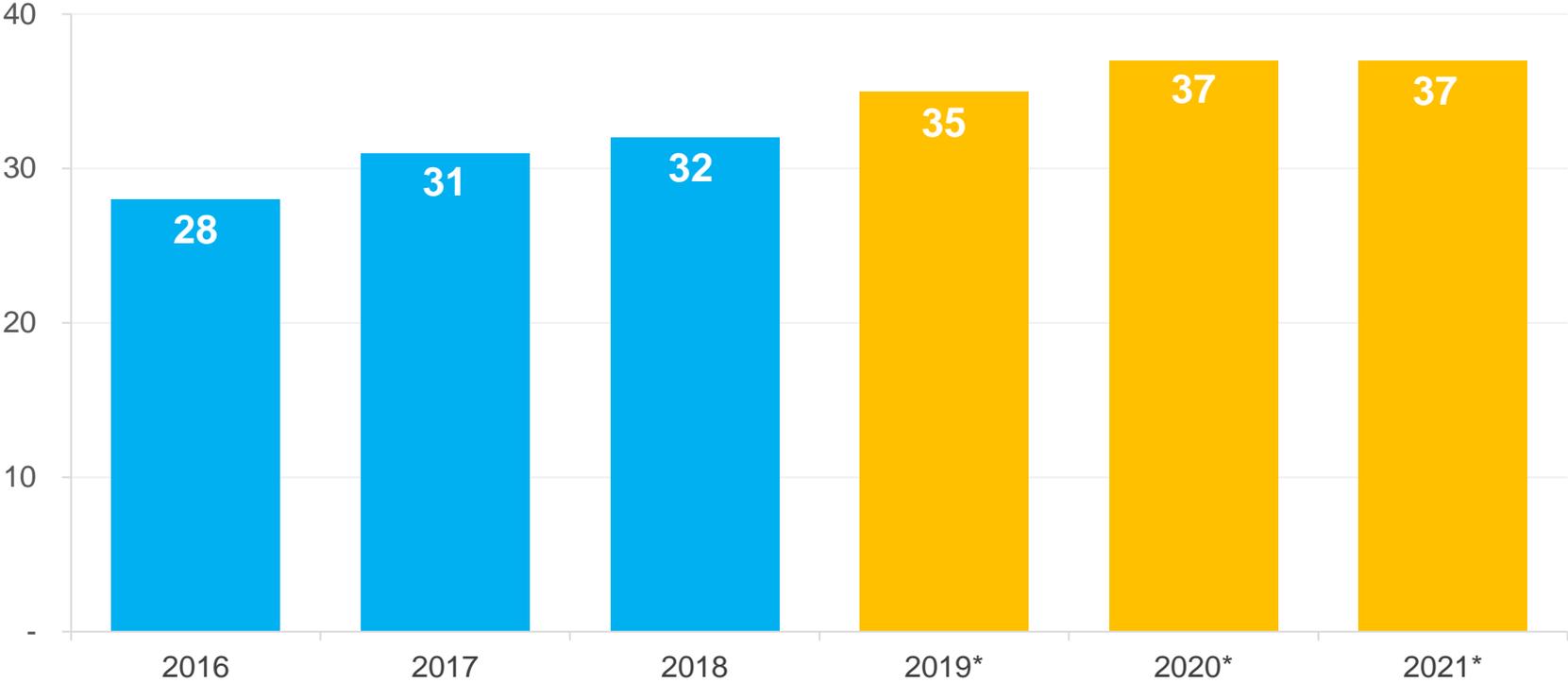
	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>December 2017</u>	<u>December 2018</u>	<u>December 2017</u>	<u>December 2018</u>
<b>Southern California</b>	4.1%	4.2%	3.4%	1.9%
<b>Southern Nevada</b>	4.9%	4.5%	3.1%	4.1%
<b>Northern Nevada</b>	4.4%	4.2%	3.3%	2.0%
<b>Southern Arizona</b>	4.2%	4.8%	0.5%	2.4%
<b>Central Arizona</b>	3.9%	4.5%	1.8%	3.7%

# Customer Growth

## Natural Gas Operations



Year ended December 31,  
(In thousands)



\* Projected

# Capital Expenditures

## Natural Gas Operations

(In millions)



**SOUTHWEST GAS**



**2019-2021 estimate of \$2.1 billion**

### LONG-TERM FINANCING ACTIVITY

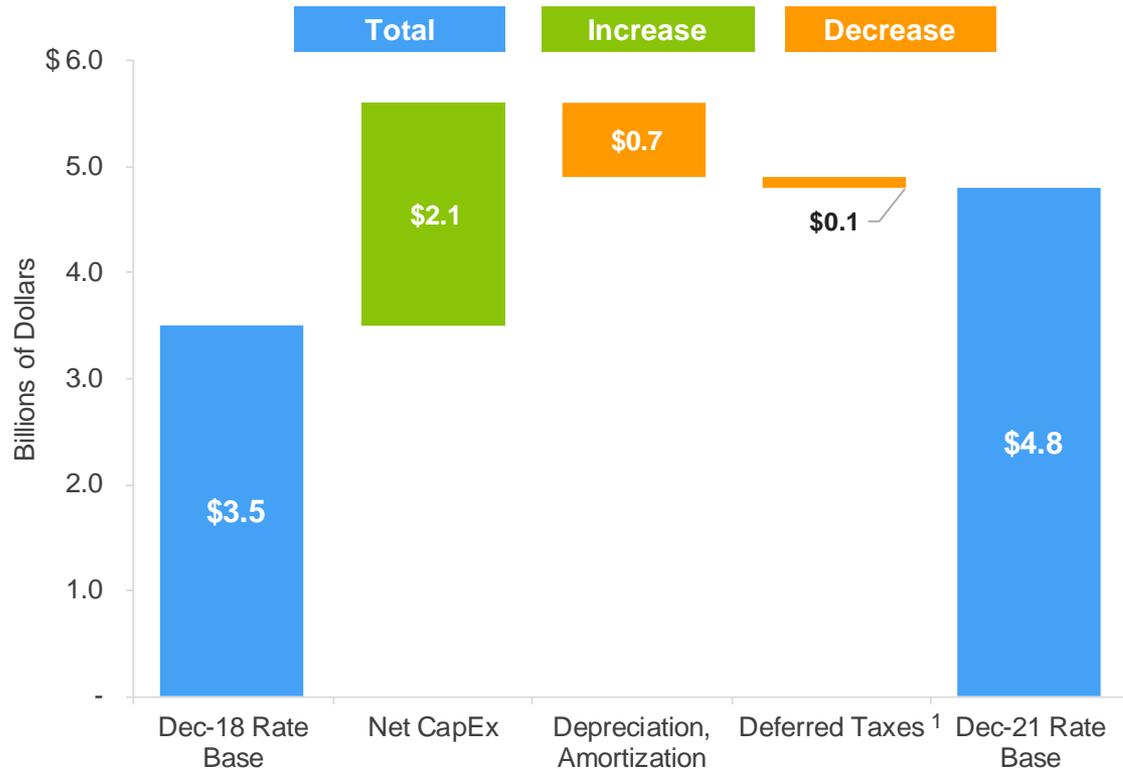
- Expect to fund approximately 45% to 50% through internal cash flow
- Anticipate funding remaining needs through a balance of debt and equity

# 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.

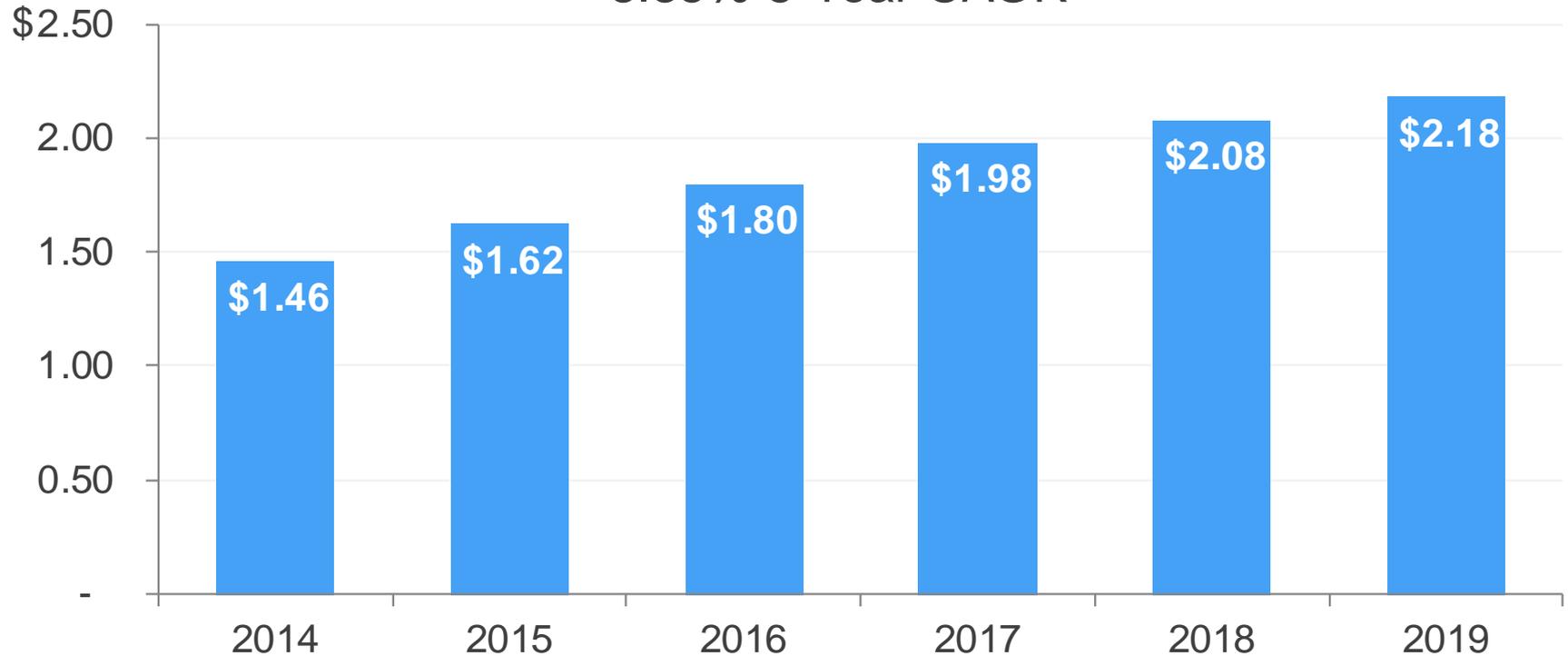
Projecting 11% CAGR in rate base over next 3 years

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

# Dividend Growth



8.35% 5-Year CAGR

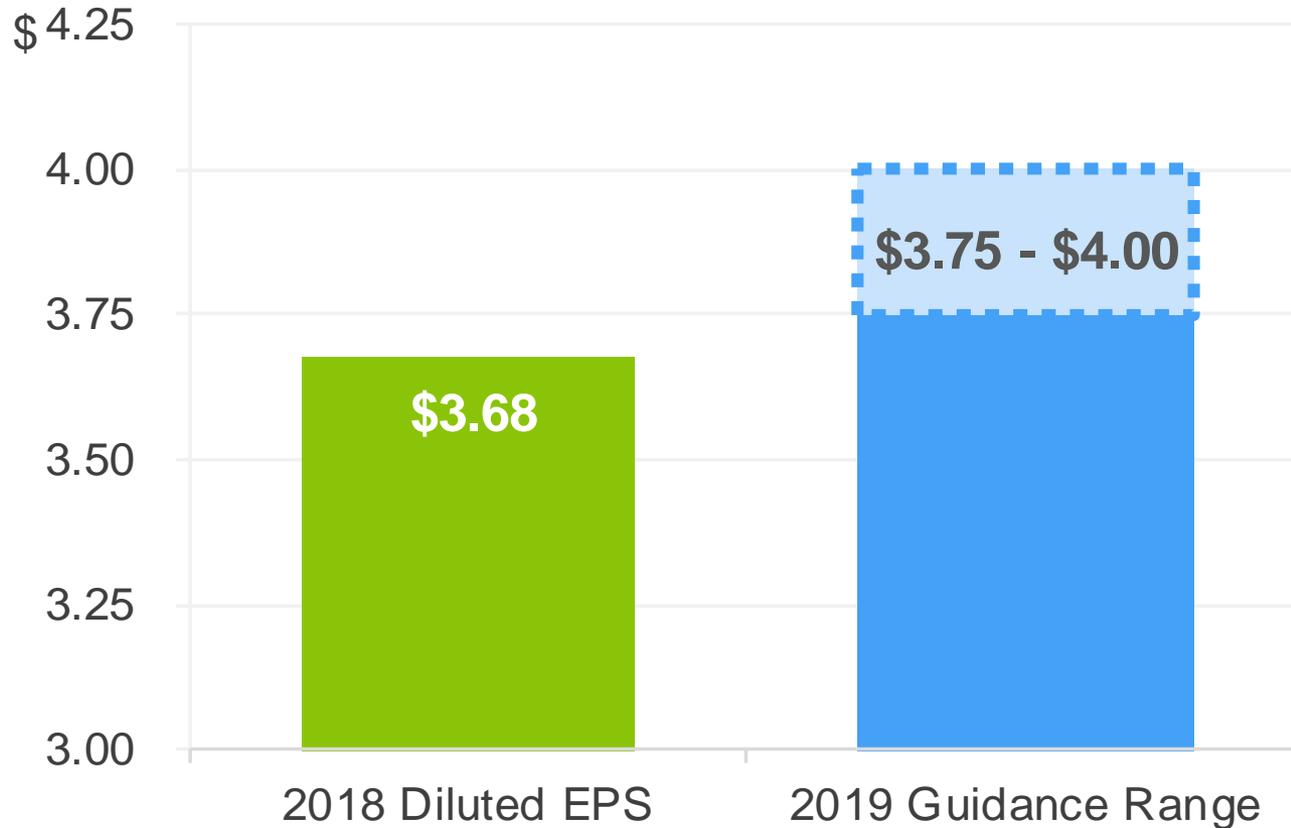


CAGR = compound annual growth rate

# 2019 EPS Guidance\*



## Diluted Earnings Per Share



\* Changes in economic conditions, events, or other circumstances that the Company cannot currently anticipate could materially impact earnings and, in turn, could result in earnings for 2019 significantly above or below this EPS guidance.

# 2019 EPS Guidance\*



**Southwest Gas**  
HOLDINGS

## Natural Gas Operations

- Operating margin for 2019 is anticipated to benefit from customer growth (similar to 2018), infrastructure tracker mechanisms, expansion projects, and rate relief, including from the recently concluded Nevada general rate proceeding and California attrition. Combined, these items are expected to produce an increase in operating margin of 4% to 5%.
- On a comparative basis, operating income is expected to increase modestly.
- Capital expenditures in 2019 are estimated at approximately \$710 million, in support of customer growth, system improvements, and accelerated pipe replacement programs.

## Utility Infrastructure Services

- Centuri has a strong base of large utility clients (many with multi-year pipe replacement programs) that are expected to sustain, and over time, grow its business. That, coupled with the recent Linetec acquisition, is expected to result in revenues for 2019 that are 15% to 20% greater than 2018 levels.
- Operating income is expected to be approximately 6.0% to 6.5% of revenues.
- Net income expectations reflect earnings attributable to Southwest Gas Holdings, net of noncontrolling interests. Changes in Canadian exchange rates could influence results.

\* Changes in economic conditions, events, or other circumstances that the Company cannot currently anticipate could materially impact earnings and, in turn, could result in earnings for 2019 significantly above or below this EPS guidance.

# Expected Long-Term Value Drivers



## Natural Gas Operations

- Customer growth exceeding 35,000 a year for 2019-2021
- Over \$2.1 billion in capital investment for three years, 2019-2021
- 11% CAGR in rate base for 2018-2021
- Constructive rate mechanisms reduce regulatory lag

## Utility Infrastructure Services

- One of the largest specialty utility contractors in North America
- Serving 28 markets across the U.S. and Canada
- Average relationship with top customers is over 20 years
- Increased utility service work due to aging infrastructures and heightened safety regulations

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# APPENDIX

# Stable Customer Base

Natural Gas Operations

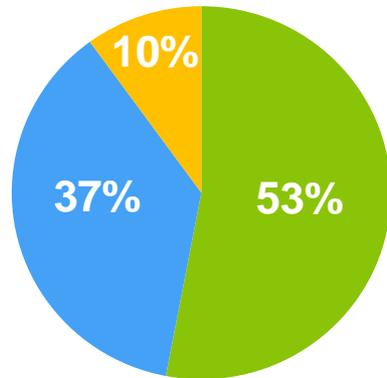


**SOUTHWEST GAS**

## Year ended December 31, 2018 Customer & Operating Margin Distribution

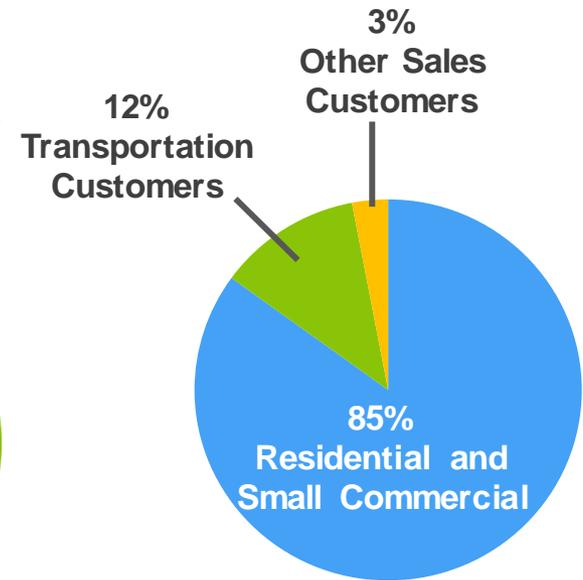
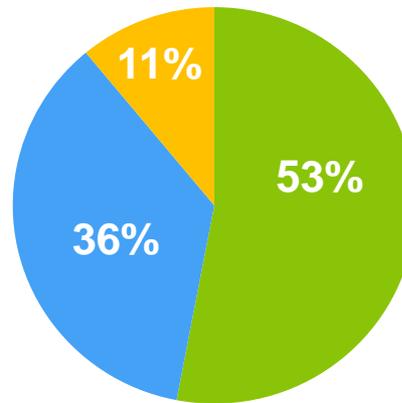
### By State

Customers



- Arizona
- Nevada
- California

Margin



**Consistent trends year over year**

# Customers by State

## Natural Gas Operations

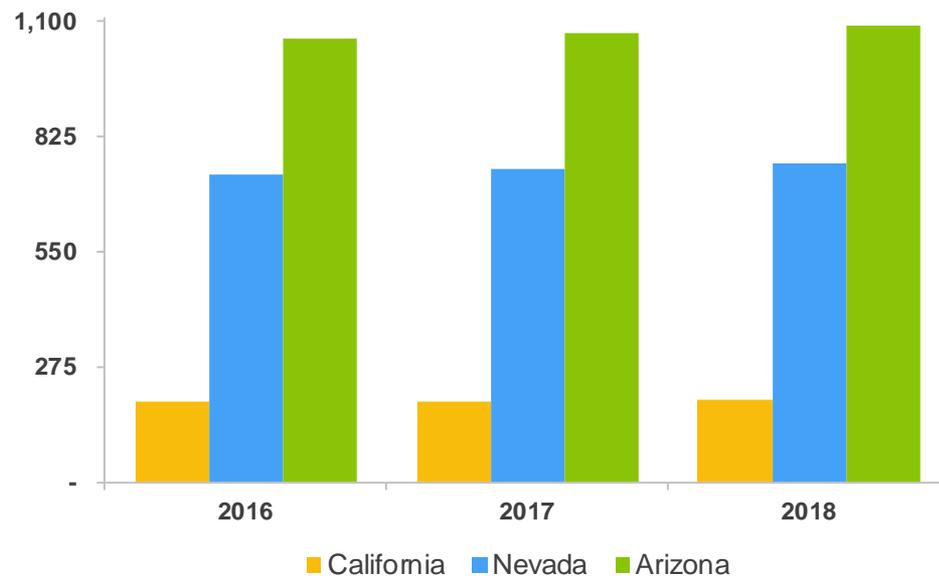
(In thousands)



**SOUTHWEST GAS**

**As of December 31,**

	2016	2017	2018
Arizona	1,058	1,073	1,090
Nevada	733	747	761
California	193	195	196
Total	1,984	2,015	2,047



# Summary Operating Results

## Natural Gas Operations

(In thousands)



**SOUTHWEST GAS**

### Results of Natural Gas Operations

	Year ended December 31,	
	2018	2017
Gas operating revenues	\$ 1,357,728	\$ 1,302,308
Net cost of gas sold	419,388	355,045
Operating margin	938,340	947,263
Operations and maintenance expense	404,813	391,321
Depreciation and amortization	191,816	201,922
Taxes other than income taxes	59,898	57,946
Operating income	281,813	296,074
Other income (deductions)	(17,240)	(6,388)
Net interest deductions	81,740	69,733
Income before income taxes	182,833	219,953
Income tax expense	43,991	63,135
Segment net income	\$ 138,842	\$ 156,818

# Purchased Gas Adjustment (PGA)



**SOUTHWEST GAS**

## Balances

Natural Gas Operations  
(In thousands)

	As of December 31,	
	<u>2018</u>	<u>2017</u>
Arizona	\$ (72,878)	\$ 5,069
Northern Nevada	4,928	8,189
Southern Nevada	(5,951)	(6,841)
California	(933)	1,323
Total Receivable/(Payable)	<u>\$ (74,834)</u>	<u>\$ 7,740</u>

# 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	45.55 %	7.42 %	9.50 %	✓	51.70 %
Southern Nevada	1,110,376	38.17	6.65	9.25	✓	49.66
Northern Nevada	134,230	4.61	6.98	9.25	✓	49.66
Southern California	159,277	5.48	6.83	10.10	✓	55.00
Northern California	67,620	2.32	8.18	10.10	✓	55.00
South Lake Tahoe	25,389	0.87	8.18	10.10	✓	55.00
Paiute Pipeline Company <sup>1</sup>	87,158	3.00	8.46	11.00	✓	51.75
Total	<u>\$ 2,908,952</u>	<u>100.00 %</u>				
Weighted average authorized ROE				<u>9.49 %</u>		

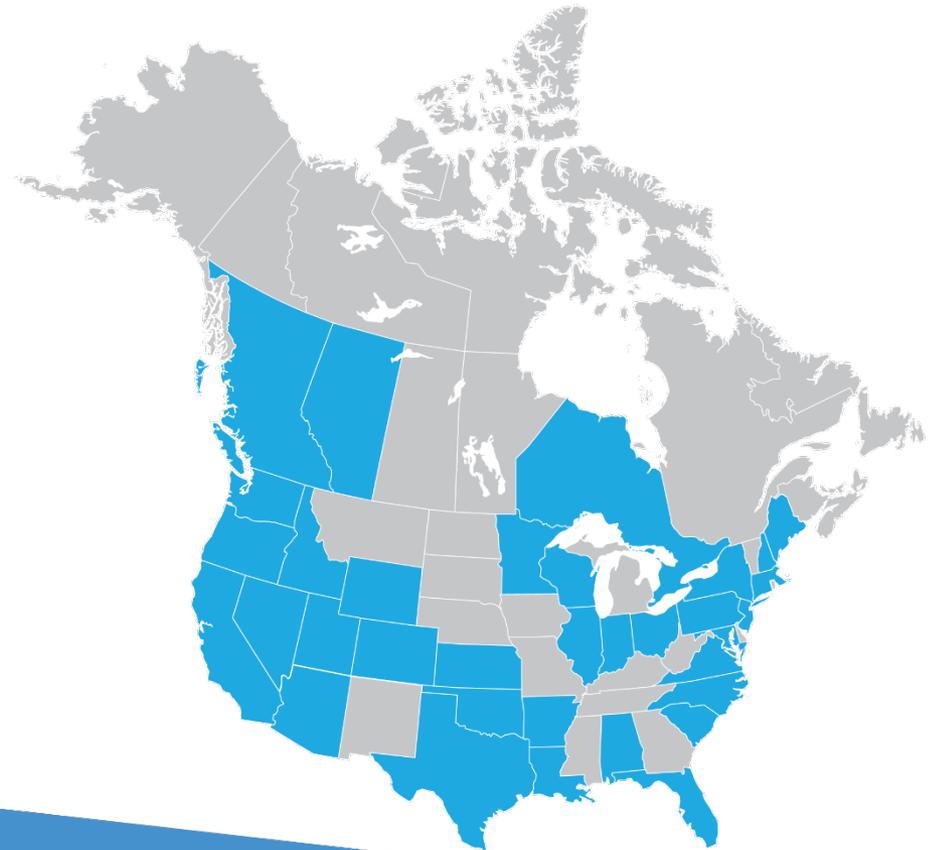
<sup>1</sup>Estimated amounts based on rate case settlement.

# Centuri Construction Group

## Utility Infrastructure Services



- Headquartered in Phoenix, Arizona
- Operates in 28 markets across U.S. and Canada
- One of the largest specialty utility contractors in North America



# Centuri Construction Group

Utility Infrastructure Services – Top Customers



An Exelon Company



# Summary Operating Results

Utility Infrastructure Services  
(In thousands)



	Year ended December 31,	
	2018	2017
Segment revenues	\$ 1,522,285	\$ 1,246,484
Segment expenses	1,387,689	1,148,963
Depreciation and amortization	57,396	49,029
Operating income	77,200	48,492
Other income (deductions)	(238)	345
Net interest deductions	14,190	7,986
Income tax expense	18,420	2,390
Noncontrolling interests income (loss)	(625)	101
Segment net income	\$ 44,977	\$ 38,360

# Service and Contract Types

## Utility Infrastructure Services



Year ended December 31,

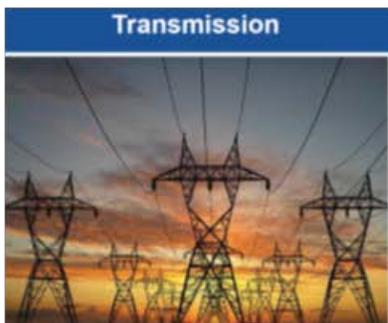
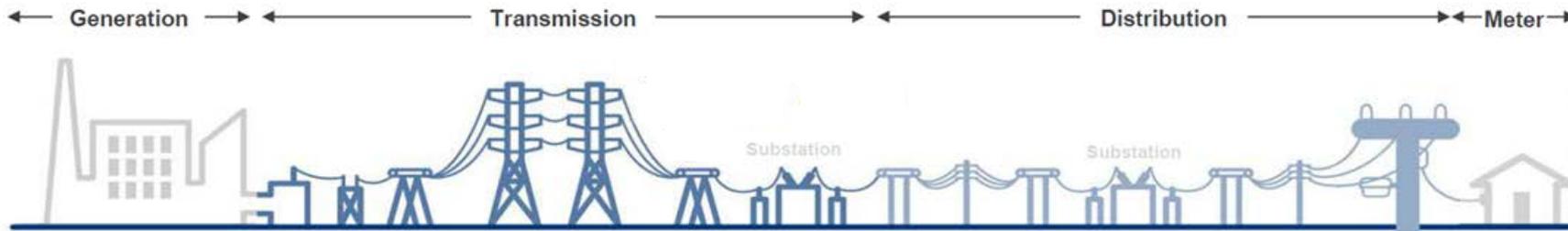
	(Thousands of Dollars)			(Percentage)		
	2018	2017	2016	2018	2017	2016
	<b>Service Types:</b>					
Gas infrastructure services	\$ 1,123,682	\$ 891,139	\$ 914,970	73.8%	71.5%	80.3%
Electric power infrastructure services	32,629	18,114	27,915	2.2%	1.4%	2.5%
Other	365,974	337,231	196,193	24.0%	27.1%	17.2%
Total Utility infrastructure services revenues	<u>\$ 1,522,285</u>	<u>\$ 1,246,484</u>	<u>\$ 1,139,078</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Year ended December 31,

	(Thousands of Dollars)			(Percentage)		
	2018	2017	2016	2018	2017	2016
	<b>Contract Types:</b>					
Master service agreements	\$ 1,102,412	\$ 885,513	\$ 852,472	72.4%	71.0%	74.8%
Bid contract	419,873	360,971	286,606	27.6%	29.0%	25.2%
Total Utility infrastructure services revenues	<u>\$ 1,522,285</u>	<u>\$ 1,246,484</u>	<u>\$ 1,139,078</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Unit priced contracts	\$ 1,258,419	\$ 968,856	\$ 886,919	82.7%	77.7%	77.9%
Fixed price contracts	117,298	127,497	95,494	7.7%	10.2%	8.4%
Time and material contracts	146,568	150,131	156,665	9.6%	12.1%	13.7%
Total Utility infrastructure services revenues	<u>\$ 1,522,285</u>	<u>\$ 1,246,484</u>	<u>\$ 1,139,078</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

# Linetec Acquisition: Services

## Utility Infrastructure Services



35% of total revenue



5% of total revenue



60% of total revenue

- Distribution lines, system upgrades, and total system rebuilds
- Transmission lines (but not cross-country transmission)
- Emergency storm/disaster service restoration



# Linetec Acquisition: Value Drivers

Utility Infrastructure Services



## Revenue/Margin Growth

- Strong revenue growth with margins exceeding infrastructure industry averages
- Strong growth fundamentals in U.S. electric T&D space
- Weather profile in service territory – increased likelihood for higher margin storm damage work



## Value Enhancement

- Opportunity to provide gas infrastructure services to Linetec customers
- Provide electric infrastructure services to Centuri customers

## Contract Types

- Master Services Agreements (“MSA”) comprise approximately 85% of their contracts
- 35% of the work performed at lower risk Time & Material (“T&M”) based hourly rates
- Contract profile provides higher and predictable revenue growth

## Financial

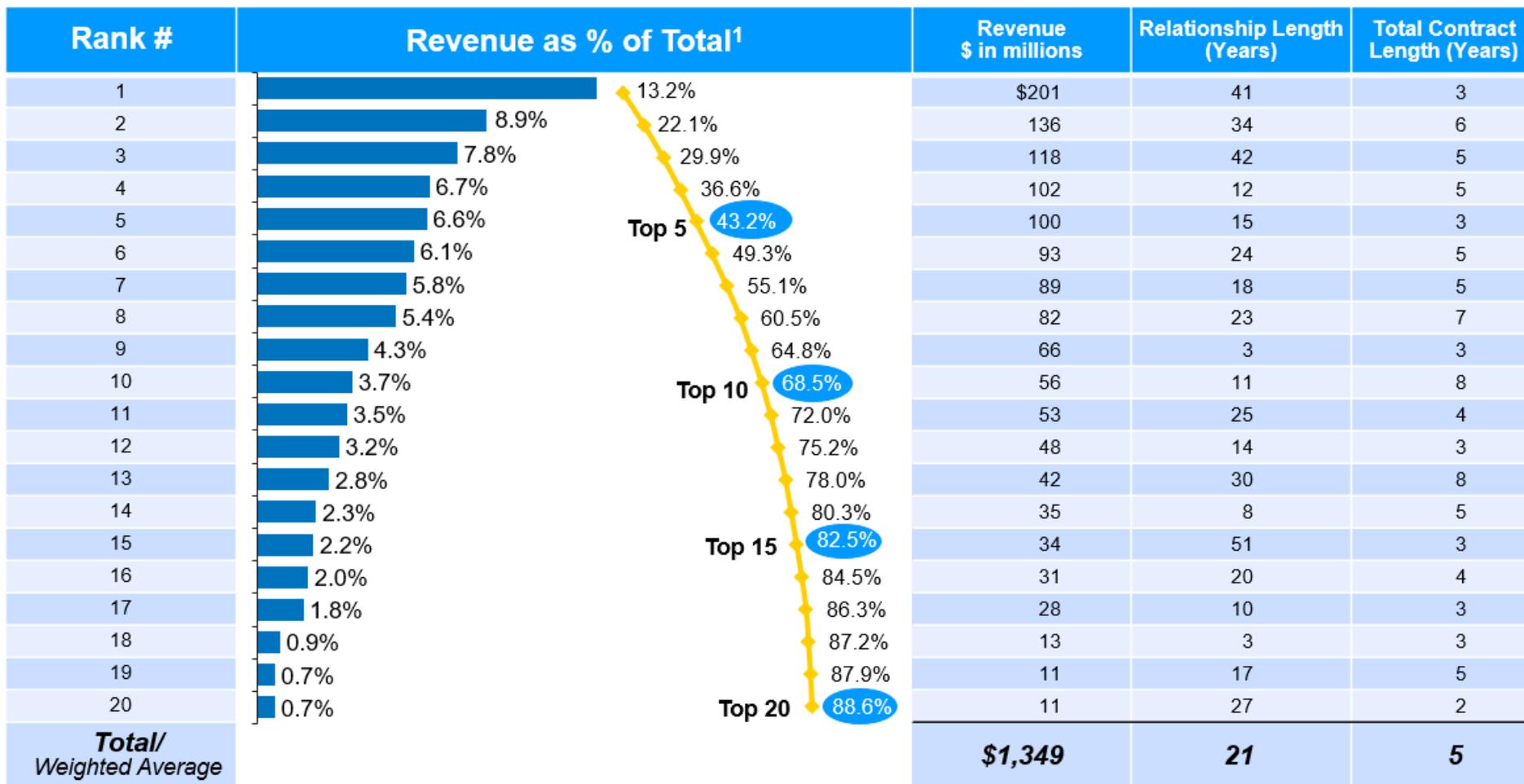
- Accretive to SWX EPS first full year after acquisition (2019)
- Significantly increases overall SWGH growth rate
- Provides significant cash flow to support SWGH dividend growth

## Management

- Proven leadership team brings experience and operational strength to Centuri team (30+ years experience on average)
- Good cultural match for Centuri and SWGH

# Top 20 Customers

## Utility Infrastructure Services



<sup>1</sup>Year ended December 31, 2018

# Economic Overview – Service Area

## Natural Gas Operations



**SOUTHWEST GAS**

### Unemployment Rate

### Employment Growth

	<u>December 2017</u>	<u>December 2018</u>	<u>December 2017</u>	<u>December 2018</u>
<b>Southern California</b> <sup>1</sup>	4.1%	4.2%	3.4%	1.9%
<b>Southern Nevada</b> <sup>2</sup>	4.9%	4.5%	3.1%	4.1%
<b>Northern Nevada</b> <sup>3</sup>	4.4%	4.2%	3.3%	2.0%
<b>Southern Arizona</b> <sup>4</sup>	4.2%	4.8%	0.5%	2.4%
<b>Central Arizona</b> <sup>4</sup>	3.9%	4.5%	1.8%	3.7%

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

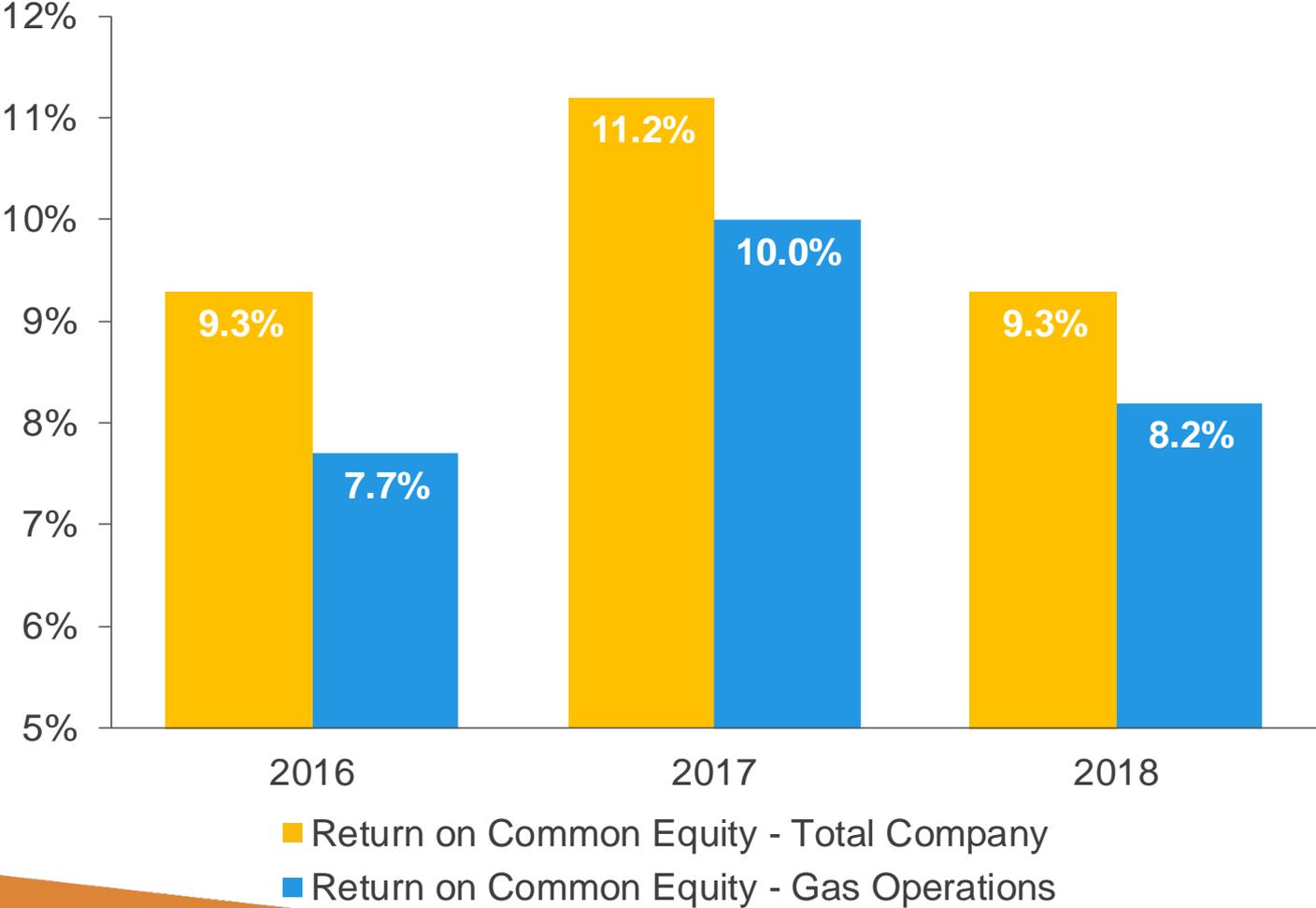
<sup>2</sup> Source: Nevada Department of Employment, Training and Rehabilitation (DETR), Economy In Brief, <http://nevadaworkforce.com>

<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

Year ended December 31, 2018

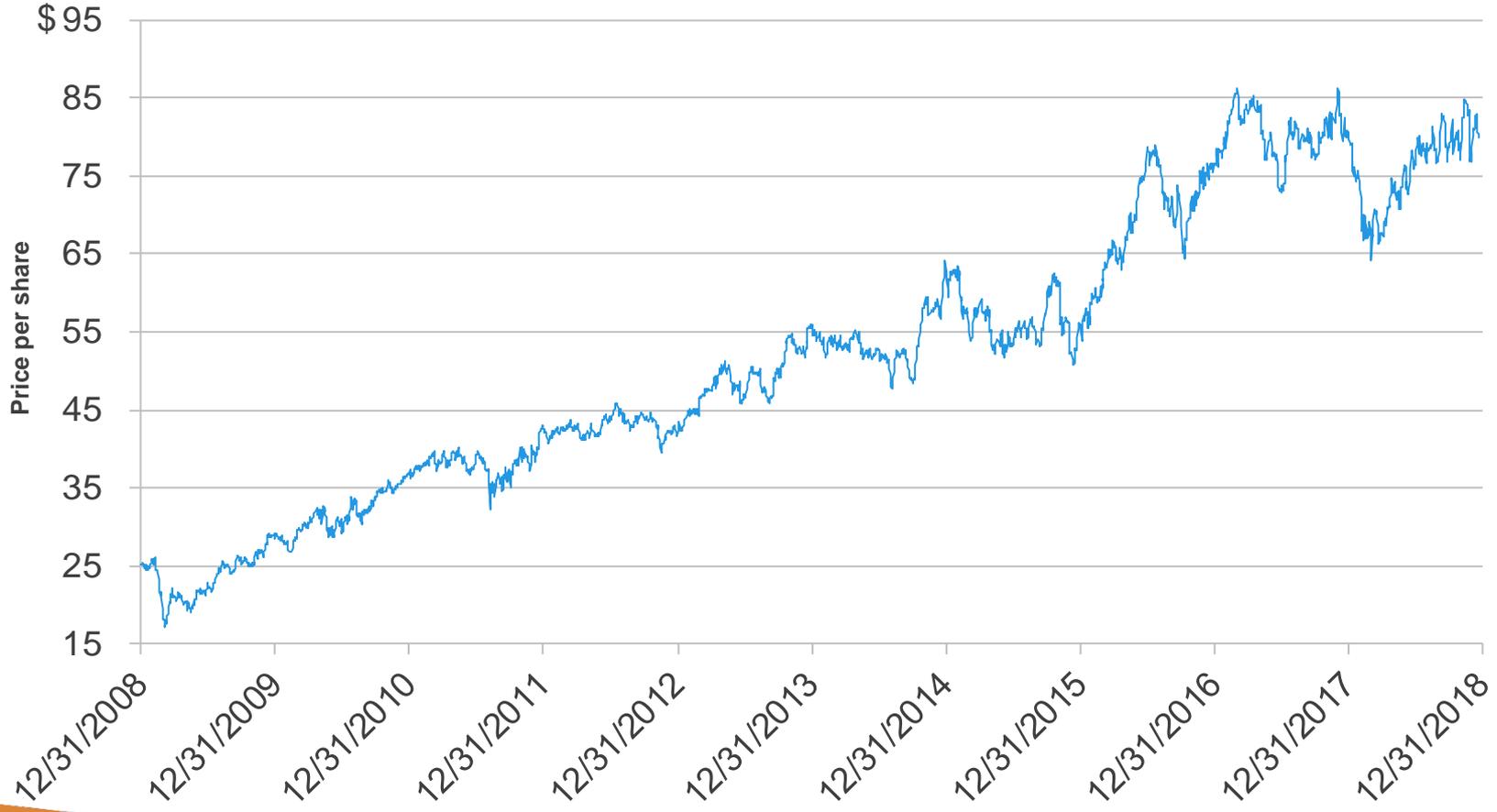


# Stock Performance



**Southwest Gas**  
HOLDINGS

**Southwest Gas Holdings, Inc.**  
**Common Stock Closing Price**  
December 31, 2008 – December 31, 2018



# Comparative Total Returns



**Southwest Gas**  
HOLDINGS

## Total Returns for Periods Ended December 31, 2018

	1-Year	3-Year	5-Year	10-Year
<b>Southwest Gas Holdings</b>	<b>(2.32%)</b>	<b>14.38%</b>	<b>9.31%</b>	<b>14.94%</b>
<b>S&amp;P 400 MidCap Gas Index</b>	<b>8.69%</b>	<b>16.26%</b>	<b>12.45%</b>	<b>15.39%</b>
<b>S&amp;P Composite Utilities Index</b>	<b>4.39%</b>	<b>11.29%</b>	<b>10.90%</b>	<b>10.98%</b>
<b>S&amp;P 500 Index</b>	<b>(4.37%)</b>	<b>9.24%</b>	<b>8.48%</b>	<b>13.10%</b>

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

# Consolidated Capital Structure

(In millions)



**Southwest Gas**  
HOLDINGS

<u>Capitalization at December 31,</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Equity <sup>1</sup>	\$ 1,506	\$ 1,608	\$ 1,684	\$ 1,812	\$ 2,333
Long-Term Debt <sup>2</sup>	1,651	1,571	1,600	1,824	2,141
<b>Total Permanent Capital</b>	<b>\$ 3,157</b>	<b>\$ 3,179</b>	<b>\$ 3,284</b>	<b>\$ 3,636</b>	<b>\$ 4,474</b>
 <u>Capitalization ratios</u>					
Equity <sup>1</sup>	47.7%	50.6%	51.3%	49.8%	52.2%
Long-Term Debt <sup>2</sup>	52.3%	49.4%	48.7%	50.2%	47.8%
<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

<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	Negative	Stable

## Southwest Gas Corporation

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

# 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. Management believes supplying information regarding operating margin provides investors and other interested parties with useful and relevant information to analyze Southwest’s financial performance in a rate regulated environment.

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

	Year ended December 31,	
	2018	2017
	(In thousands)	
<b><u>Natural Gas Operations</u></b>		
Gas Operating Revenue	\$ 1,357,728	\$ 1,302,308
Less: Net cost of gas sold	419,388	355,045
Operating Margin	<u>\$ 938,340</u>	<u>\$ 947,263</u>