



Global Water Resources, Inc.
2023 Fourth Quarter Conference Call
March 7, 2024

C O R P O R A T E P A R T I C I P A N T S

Joanne Ellsworth, *Executive Vice President, Corporate Affairs*

Ron Fleming, *President and Chief Executive Officer*

Mike Liebman, *Chief Financial Officer*

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator

Welcome to the Global Water Resources, Inc. 2023 Fourth Quarter and Year-End Conference Call.

(Operator Instructions)

I'd now like to remind everyone that this call is being recorded on March 7, 2024, at 1 P.M. Eastern Time.

I'd like to turn the floor over to Joanne Ellsworth, Executive Vice President, Corporate Affairs. Ma'am, please go ahead.

Joanne Ellsworth

Thank you. Welcome, everyone and thank you for joining us on today's call. Yesterday, we issued our 2023 fourth quarter and year-end financial results by press release, a copy of which is available on our website at www.gwresources.com.

Speaking today is Ron Fleming, President and Chief Executive Officer, Mike Liebman, Chief Financial Officer, and Chris Krygier, Chief Operating Officer. Ron will summarize the key operational events of the quarter. Mike will review the financial results for the fourth quarter and year-end. Chris will review strategic initiatives and the Arizona Corporation Commission activity for the quarter. Ron, Mike and Chris will be available for questions at the end of the call.

Before we begin, I would like to remind you that certain information presented today may include forward-looking statements. Such statements reflect the Company's current expectations, estimates, projections and assumptions regarding future events. These forward-looking statements involve a number of assumptions, risks, uncertainties, estimates and other factors that could cause actual results to differ

materially from those contained in the forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on any forward-looking statements which reflect management's views as of the date hereof and are not guarantees of future performance.

For additional information regarding factors that may affect future results, please read the sections Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations which is included within our latest Form 10-K filed with the SEC. Such filings are available at www.sec.gov. Certain non-GAAP measures may be included within today's call. For a reconciliation of these measures to the comparable GAAP financial measures, please see the tables included in yesterday's earnings release which is available on our website.

I'll now turn the call over to Ron.

Ron Fleming

Thank you, Joanne. Good morning, everyone and thank you for joining us today. We are very pleased to report the results for the fourth quarter and year-end 2023. As you can see by our earnings release, 2023 was an exceptional year for Global Water.

Before discussing our normal operational highlights, I wanted to briefly summarize a few of our accomplishments from last year. We managed a record-setting heat wave in Arizona during the summer. When combined with growth, we broke all records for water pump and delivered to customers. Importantly, this was done without any reliability or safety issues.

We recommissioned and commenced operations of our Southwest Plant water infrastructure and portions of our wastewater infrastructure to serve new development southwest of the City of Maricopa. This recommissioning amounts to a significant portion of the water and wastewater infrastructure in this area that had been mothballed since being constructed prior to the Great Recession. The remaining plant will be put into service when sufficient flows are established. The total value of this investment is approximately \$38.4 million.

We completed the purchase and full integration of our largest utility acquisition since before the Great Recession. By all accounts, this was done seamlessly for our customers, who are already benefiting from our ownership and additional investment.

We filed our Saguaro District rate case with the proposal to consolidate all previously acquired utilities in Pima County. Subsequent to year-end and after a collaborative process, we entered into a positive settlement agreement with the ACC Utilities Division Staff. We released our first-ever environmental, social and governance report.

Shifting now to our normal operational highlights. Those include that total active service connections increased 9.8% to 61,791 as of end of year, up from 56,270 the 12 months prior. Excluding the acquisition of Farmers Water Co. in February of '23, the annualized growth rate was 3.7%. Year-to-date, we've invested \$22.3 million into infrastructure improvements in existing utilities to provide safe and reliable service.

Finally, with safety and compliance being our top mandate, we are very proud of our ongoing safety and compliance records. For the quarter, we had zero significant compliance events and no preventable OSHA reportable events, continuing our streaks from 2022 and prior. In fact, this means we have now surpassed six years and seven months without a significant compliance event. We've now gone over three years and two months since our last preventable OSHA reportable event.

With that, I want to pause, highlight and thank the team here at Global Water for their continued exceptional performance throughout 2023 that allows me to provide such wonderful update.

Now, I'm going to discuss organic customer growth further and what's going on in our core utilities. Despite the local and national slowdown, development and housing activity does continue in metro-Phoenix and our service areas.

In 2022, metro-Phoenix did experience a 23% reduction in single-family home building permits over 2021 but this was still nearly 25,000 single-family building permits. In 2023, single-family permits stayed strong and we realized 22,582 permits. However, the 12,462 permits issued in the second half of 2023 was 4,677 permits higher than the second half of 2022. This is an increase of 60% as the market continues to recover.

In the City of Maricopa, the location of our largest utilities, it's a similar story. Maricopa issued 888 permits in 2023. This was compared to 1,149 permits for 2022. However, there were only 243 new permits issued during the second half of 2022 but there are 497 permits issued in the second half of 2023. This is an improvement of 105% as that local market accelerates and recovers as well.

With that said on housing, the booming economy and net immigration that Arizona continues to realize requires more and more places for people to live, work and play. That is why large-scale multifamily housing, commercial and recreational projects continue to accelerate at extremely high pace in metro-Phoenix and in our service areas, with a record number of multifamily units being constructed in the City of Maricopa.

Additionally, the industrial manufacturing boom also continues. Previously, 2022 was the single best year for Arizona all time from an industrial economic development investment perspective; and that was eclipsed in 2023.

Because of this, we continue to make excellent progress on the engineering, permitting and construction of new service areas for industrial projects, including the Inland Port Arizona, where Nikola Motor Corp. facility is located and where Procter & Gamble acquired land. Based on all of these trends, we believe that in the years to come, we will continue to see considerable large-scale commercial, multifamily housing and industrial growth in addition to the return of strong organic housing growth.

Putting all these elements together, we believe 2024 will be another credible year for Global Water as we continue to advance our mission of growing and aggregating water and wastewater utilities so that our customers can realize the benefits of consolidation, regionalization and environmental stewardship in the face of water scarcity, challenging regulations and aging infrastructure.

I will now turn the call over to Mike for financial highlights.

Mike Liebman

Thanks, Ron. Hello, everyone. Total revenue for the fourth quarter of 2023 was \$12.4 million which was up \$1.3 million or 11.4% compared to Q4 2022. The increase in revenue was primarily attributable to increased rates related to our 2022 rate decision, new connections associated with the acquisition of Farmers in February of '23 and year-over-year organic connection growth of 3.7%.

Total revenue for the full year 2023 was \$53 million which was up \$8.3 million or 18.6% over 2022. The increase in revenue is primarily attributable to the increased rates of the Farmers acquisition, organic connection growth and the recognition of \$2.8 million of revenue under infrastructure coordination and financing agreements, also known as ICFAs.

A more fulsome explanation of ICFA's can be found in our quarterly and annual filings. However, just for some background, ICFA's are agreements we entered into with developers and homebuilders whereby Global Water provides services to plan, coordinate and finance the water and wastewater infrastructure that would otherwise be required to be performed or subcontracted by the developer or a homebuilder.

Water and wastewater revenue which excludes ICFA revenue, for the year 2023 increased \$5.5 million or 12.3% compared to 2022. Operating expenses for Q4 2023 were \$10.7 million compared to \$9.9 million in Q4 2022. This is an increase of \$0.8 million or 8.5%.

Notable changes in operating expenses included \$201,000 increase in depreciation and amortization expense tied to our capital expenditure program, a portion of which is related to the activation of the Southwest Plant Ron mentioned. In addition, ICFA-related amortization also contributed to the increase which occurs when payments are received related to certain ICFA's.

We also had an increase in operating and maintenance cost by about \$483,000 which was primarily attributable to the Farmers acquisition, additional cost for purchase power as a direct result of increased consumption, increased personnel costs and higher property tax expense.

Operating expenses for the full year 2023 were \$40.7 million compared to \$36.9 million, an increase of \$3.8 million or 10.4%. Notable changes include a \$1.5 million increase in depreciation and amortization expense tied to our capital expenditure program, the activation of the Southwest Plant and amortization expense related to ICFA's; a \$1.8 million increase in operations and maintenance expense related to Farmers acquisition, higher costs due to growth for items like power and chemical costs as well as personnel costs increase tied to the cost of living adjustments and increased headcount to support growth; and a \$500,000 increase in G&A.

Now, to discuss other income and expense. Other expense for Q4 2023 was \$131,000 which was lower compared to the \$279,000 of expense in Q4 2022. For the full year 2023, other expense was \$1.43 million which was slightly higher than the \$1.38 million in 2022.

Turning to net income. Global Water had net income of \$1.1 million or \$0.05 per diluted share in Q4 2023, an increase of \$318,000 or 38.5% compared to Q4 of 2022. For the full year 2023, net income was \$8 million or \$0.33 per diluted share compared to \$5.5 million or \$0.24 per diluted share. This was an increase of \$2.5 million or 45%.

Now to talk about adjusted EBITDA which adjusts for nonrecurring items such as ICFA revenue as well as noncash items such as restricted stock expense. Adjusted EBITDA was \$5.8 million in Q4 2023, an increase of \$322,000 or 5.9% compared to Q4 2022. For the full year 2023, adjusted EBITDA was \$25.3 million compared to \$22.9 million in 2022. This is an increase of \$2.5 million or 10.8%.

Before turning the call over to Chris, I'd like to mention a couple of other developments. In January 2024, we received \$20 million related to the note purchase agreement we executed in October of 2023. This is an interest-only 10-year loan at a fixed rate of 6.91%. Our weighted average cost of debt is now approximately 4.9% and all of our outstanding debt is fixed rate debt with the exception of our revolver.

Lastly, as part of our efforts in the current Southwest Plant depreciation deferral docket, we recently discovered that in 2007, \$7.8 million of our Southwest Plant infrastructure was prematurely included as plant in service for ratemaking purposes. As a result, these costs were inadvertently included in rates as part of our 2010 rate order as well as our 2014 and 2022 rate orders.

We met with the Arizona Corporation Commission staff on March 1 to bring this to their attention. We plan

to continue meeting with ACC staff in the coming months as we intend to work toward resolving the matter in a way that we believe is fair to all of our stakeholders, including customers and shareholders. The final outcome and resolution of this matter cannot be predicted. The results, while not reasonably estimable at this time, could be material.

This concludes our update on the fourth quarter and year-end 2023 financial results. I'll now pass the call to Chris to review our rate case and strategic initiatives for the quarter.

Chris Krygier

Thank you, Mike. Hello, everyone. On the Arizona Corporation Commission front, we made progress on a number of different filings. First, our Saguaro District rate case continues moving down the field. On February 29, 2024, the Company entered into a settlement agreement with the Arizona Corporation Commission Utilities Division Staff.

The agreement includes, among other things, a recommended annual revenue increase of approximately \$351,000, acquisition premiums for six of the utilities, a capital structure with an equity layer of 55%, a return on equity of 9.6%, consolidation of the utilities in the case and an accounting deferral for a large capital project related to the former Rincon utility.

We appreciate the commission staff's efforts on the case as it continues through the process. Settlement testimony is due to be filed today with the hearing scheduled to begin on March 25, 2024. Then after that hearing, the administrative law judge will issue a recommended opinion in order for the commission to consider. Finally, as you saw in our press release, there can be no assurance of the final outcome of the case.

Also ACC related, in the quarter, we met with the Utility Division Staff and the commissioners to inform them that we plan to file a rate case for our recently acquired Farmers utility in the summer of 2024 and a rate case for our Santa Cruz and Palo Verde utilities, the largest in our fleet in 2025. We have begun outreach with our municipal partners and we'll provide more updates in future quarters.

On the acquisition and growth front, as you saw in our press release, we continue to look for acquisitions and hope to make an announcement in the next quarter.

This concludes the update on strategic initiatives and Arizona Corporation Commission activity. I'll now pass the call back to Ron.

Ron Fleming

Thank you, Chris. So, it's clear we are still experiencing rapid growth while also successfully handling challenging times on the macroeconomic front. As we execute our growth plan, we intend to remain at the forefront of the water management industry and advance our mission of achieving efficiency and consolidation.

We truly believe that expanding our Total Water Management platform and applying our expertise throughout our regional service areas and to new utilities will be beneficial to all the stakeholders involved. We appreciate your investment in support of us as we grow Global Water to address important utility, water resource and economic development matters along the Arizona Sun Corridor, allowing our communities to thrive.

That highlight concludes our prepared remarks. Thank you. We are now available to answer questions.

Operator

(Operator Instructions)

Our first question today comes from Gerry Sweeney from ROTH Capital. Please go ahead with your question.

Gerry Sweeney

Good morning, Ron, Mike and Chris. Thanks for taking my call.

Ron Fleming

Hey Gerry

Gerry Sweeney

Hey I was wondering the Inland Port opportunity, I know it's probably a little bit further out on the curve but curious if you could just give us maybe a little bit of an update on maybe some of the major milestones that you're looking at, timelines if that were available, please?

Ron Fleming

Yes. Absolutely, Gerry. I guess the still most recent public announcement that we're able to talk about was when Procter & Gamble purchased 300 acres or so of the Inland Port. There's so much industrial growth going on in the metro-Phoenix area right now that we get inquiries, if you want to call them that, on a fairly routine basis, not just in the Inland Port there but also in some of our other service areas. I do think it's just a matter of time until there's more announcements on that.

For Procter & Gamble themselves, I guess I can't pretend to understand how a company that large makes their decisions on when they're going to pull trigger on a new factory. I guess that's all related to supply and demand and what their own goals are, but we do continue to work with them, we do continue to plan and lay out the regional infrastructure solution that they will connect into, and so that progress continues. I just can't put a date on when we'll actually get to us building alongside them building.

Gerry Sweeney

Got it. I appreciate it. Then Maricopa, obviously pretty solid, I think, with—while your overall organic growth, 3.7% which I thought was pretty solid considering everything, it sounds like multifamily is coming—remains strong. Maybe single family is returning or rebounding.

Maricopa is getting quite big. Is there any larger developments going on around within Maricopa that you can discuss that sort of projected or moves it up the size chain? I know at one point, the big-box stores came in. I'm just curious if there's anything like that on the horizon as well.

Ron Fleming

Yes, absolutely. Yes, it's really remarkable what continues to happen there in Maricopa. Sure, housing slowed to, like you said, 3.7%. Again, considering the highest interest rates in 50 years, that just speaks to the strength of that location from a residential growth perspective. We are going to start looking at how to talk more about the other data that we get coming out of the community which is housing units. It hasn't

been a big deal for us in the past because there wasn't a lot of it but now there's a lot. Housing units is when you combine residential homes with apartments and condos and build-to-rent type complexes.

I'll just tell you that, that growth rate, the population growth rate is significantly higher than the 3.7%. That's because of the amount of housing units that are going on there. I think even today, the last number I saw in Maricopa is they're now saying there's 73,000 people that live there. We're tracking on over a dozen apartment, condo/multifamily projects that are going into Maricopa right now. Maybe next quarter, I'll pre-think this through and bring a number for you. Beyond that, yes, lots of big projects. If you want to Google Maricopa's news articles, you'll see these.

But in short, there's a couple of large commercial projects where recently, the land owners, they've been talking about it for a while but actually acquired the land and moved through the city zoning process. So, we're working with them. There's what's called multigenerational facilities, large medical facilities and some large big-box facilities like you mentioned. I think it's public now that both Lowe's and Home Depot are right now together at the same time building in the City of Maricopa which shows you where it's gotten to your point.

Beyond that, I think the biggest project and I don't think we've talked about it yet much, it's early but they are out publicly talking about it so we can see is the University of Arizona has over 2,000 acres in the City of Maricopa. It was an old, what they call Maricopa Agricultural Center or MAC, where they did a lot of study for agricultural purposes.

Well, today, with what's going on with the City of Maricopa, I think the university has realized the value of that land maybe beyond that use and they can do that on a smaller scale or elsewhere. So, they've recently announced and we're working with them on what they might do with that land and is pretty significant, again, over 2,000 acres with probably a new city center, a new university branch, student housing to go along with that, an innovation hub. If you look that up, University of Arizona in the City of Maricopa, a few impressive articles out there.

Gerry, lots going on there; it's keeping us busy and that's all in just one area we got going on.

Gerry Sweeney

That's actually super helpful. I think it gives everybody a—at least gives me a better visual activity that Maricopa continues to go up. That's it for me. Thanks a lot. Look forward to seeing you guys in a couple of weeks.

Ron Fleming

Sounds good. Thanks, Gerry.

Mike Liebman

Thanks, Gerry.

Operator

(Operator Instructions)

Ladies and gentlemen, I'm showing no additional questions. I'd like to conclude today's question-and-answer session and turn the floor back over to Ron Fleming for any closing remarks.

Ron Fleming

Thank you, Operator. I just want to, again, thank everybody for participating on the call and your ongoing interest in Global Water. I look forward to speaking with you again.

Operator

Ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.