



Global Water Resources, Inc.
2021 Fourth Quarter Conference Call
March 10, 2022

CORPORATE PARTICIPANTS

Joanne Ellsworth, *Vice President Corporate and Regulatory Affairs*

Ron Fleming, *President and Chief Executive Officer*

Mike Liebman, *Senior Vice President and Chief financial Officer*

Chris Krygier, *Chief Strategy Officer*

PRESENTATION

Operator

Welcome to the Global Water Resources, Inc., 2021 Fourth Quarter Conference Call.

I would like to remind everyone that this call is being recorded on March 10, 2022 at 1 PM Eastern Time.

I would now like to turn the conference over to Joanne Ellsworth, Executive Vice President, Corporate Affairs. Please go ahead.

Joanne Ellsworth

Welcome everyone, and thank you for joining us on today's call.

Today, we issued our 2021 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 Strategy Officer. Ron will summarize the key operational events of the quarter and year-end. Mike will review the financial results for the fourth quarter and Chris will review strategic initiatives and business development 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 in Management's Discussion and Analysis of Financial Condition and Results of Operations 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 today's earnings release which is available on our website.

I will 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 quarter and year-end of 2021. Twenty-twenty-one was another wonderful year for our company and there are many highlights worth mentioning. But first, I want to thank all of our employees, partners and shareholders for their efforts and support that together produced these results. Before handing the call over to Mike to review financial highlights, I will review a few operational highlights.

In accordance with our top priority we continue to perform at an extremely high level on employee safety and regulatory compliance. Throughout 2021 and even through today we experienced no recordable events, injuries or expenses related to employee safety. As of today, our staff has only experienced two minor OSHA recordable incidents in 1,557 days. We have incurred only \$2,500 in expenses over five years on OSHA recordable related incidents, resulting in an extremely low loss ratio and experience modifier or EMOD of 0.62. As a reminder, an EMOD of 1 is considered to be industry average. Said another way, we are performing 38% better than the industry average, which results in lower actual cost and workers comp insurance costs.

Also have incurred no significant compliance violations in the quarter. It is now been 2,080 days since our last significant compliance violation or almost six years. These impressive track records clearly demonstrate our performance on our top mandate, customer and employee safety.

We expanded our footprint with the recent acquisition and successful integration of Las Quintas Serenas Water Company in November of 2021. The size and close proximity of Las Quintas Serenas to other utilities made it an ideal addition to our portfolio. Subsequent to year-end, we completed two smaller additional acquisitions in Pinal and Pima counties, adding another 9.1 square miles of service area to our regional footprint. Including the CC&N from these acquisitions and other service area expansions granted by the ACC at the request of numerous landowners, this means we have added 15.5 square miles of service area to our growing regional footprints.

I now want to highlight customer growth. On the organic growth front, total active service connections increased 10.2% as compared to the end of 2020, bringing total active connections to 53,882. Development and housing activity remain very strong in Metro Phoenix and our service areas. As a reminder, single-family dwelling permits for Metro Phoenix totalled approximately 31,000 or 8% compared to 28,704 in 2020 and this number is forecasted to increase to 35,000 and 36,000 in 2022 and 2023, respectively, as local real estate consensus projections indicate.

Specific to our largest service area, the City of Maricopa issued 1,801 housing permits in 2021, a 19% increase over the same period in prior year. This increase is an addition to the 53% housing permit increase in the City of Maricopa in 2020 over 2019. It's worth pausing to note what this data means. This data confirms we are getting more and more of the market share of new housing in the Metro Phoenix area based on affordability and availability of land and our utilities. If you apply this expanding market share to the forecasted overall housing growth in Metro Phoenix that I previously mentioned, you can get a sense of what may occur in our utilities in the years to come.

Beyond housing growth in our core existing utilities, as noted in our earnings release, we are also making excellent progress on the engineering, permitting and construction of new service areas, including for the Nikola Motor Corp projects, which we began servicing last year and the surrounding future Inland Port Arizona amongst other areas within our large service territories.

Based on the dozens of potential large-scale projects coming our way there is really a transition occurring from mostly residential rooftops to significant large-scale commercial and industrial growth. It is also important to note that we have accelerated capital investments as required to prudently manage this type of growth, including the new areas requiring service. We invested \$6.5 million on infrastructure projects during the quarter, bringing our year-to-date total to \$18.3 million.

Those of you that have been following our company for a while know this is what we've been preparing for and speaking about as a company, really since the beginning. This was the strategy to buy or build utilities in the path of growth along growth corridors. This continues to accelerate, and in short, we are well-positioned to benefit from rapid growth throughout our large service areas in Pinal County, Maricopa County and now Pima County.

Chris Krygier will discuss our in-process rate application, acquisition activity and provide an update on ESG later in the call. Putting all these elements together, Global Water is well positioned from an operational, safety, compliance and financial perspective, with notable growth in the years to come.

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

Mike Liebman

Thanks, Ron. Hello, everyone.

Total revenue for Q4 2021 was \$10.3 million, which was up \$600,000 compared to Q4 2020. This increase was primarily driven by organic growth and the acquisition of Las Quintas Serenas in Q4 of 2021. Operating expenses for Q4 of 2021 were \$9 million compared to \$8.8 million in Q4 2020. This is a slight increase of \$172,000 or 1.9%.

Notable changes in operating expenses include increased operating and maintenance costs by \$260,000, which was primarily due to increased personnel and related cost; increased depreciation and amortization expense by \$91,000 primarily due to the increase in our fixed assets; and decreased G&A expense by \$179,000, primarily due to the decrease in deferred compensation, partially offset by increases in professional fees and medical expenses.

Now to discuss other income and expense. Other expense for Q4 2021 was \$728,000 compared to \$1.1 million in Q4 2020. The improvement of \$419,000 was primarily due to gross premiums received from the City of Buckeye. Turning to net income, Global Water had net income of \$346,000 or \$0.02 per share in Q4 2021, compared to a net loss of \$258,000 or \$0.01 per diluted share in Q4 of 2020.

Now to talk about Adjusted EBITDA which adjusts for non-recurring items and non-cash items. Adjusted EBITDA was \$4.7 million in Q4 2021, an increase of \$1.1 million or 30.9% compared to Q4 2020. This increase can be attributed to increased organic connection growth, combined with an increase in Buckeye royalties and lower deferred compensation expense tied to the change in stock price.

Before turning the call over to Chris, I'd like to touch on our liquidity position. When combining our unused \$10 million line of credit with our existing cash on hand of \$12.6 million, we have over \$22 million of liquidity to support ongoing operations and our growth strategy. This concludes our financial results and updates.

I'll now pass the call to Chris to review our rate case and strategic initiatives for the quarter.

Chris Krygier

Thanks, Mike. Hello, everyone.

As Ron mentioned earlier, I'll provide an update on our acquisition activity, ongoing rate case and ESG. First, our rate case process at the Arizona Corporation Commission is still pending. The next step in the process is for the administrative law judge to draft what is called a recommended opinion and order. The Commissioners will then review the judge's recommendation for consideration in issuing a final order. We estimate a final decision to be issued in Q2 2022. As we previously noted regarding the rate case, it is important to note that there can be no assurance, however, on the outcome of the rate case, the requested rate increase or the timing of any increase.

Second, turning to acquisition activity. As you heard earlier the highlight of 2021 was our closing of the Las Quintas Serenas Water Company acquisition. Representing over 1,100 water connections Las Quintas Serenas is in close proximity to other utilities we own and future service areas. Las Quintas Serenas is our largest acquisition since our 2018 Red Rock transaction and provides a solid anchor to continue building economies of scale in the area. We are excited to welcome the employees, customers and community into the Global Water family. The acquisition integration continues as expected with our team deploying many of our operations, engineering and back office best practices that have made us so successful in our other communities.

Additionally, as you saw in our press release issued on January 24 of this year, we closed on the acquisitions of Twin Hawks and Rincon Water Companies. It's exciting to reflect upon our acquisition campaign. With the closing of Las Quintas Serenas, Twin Hawks and Rincon we successfully acquired and integrated seven utilities over the last two years. This reflects our continued success sourcing, closing and integrating acquisitions that allow us to continue growing our company, while simultaneously benefiting customers and the community through our expertise. We continue evaluating additional acquisition opportunities.

Finally, I'll provide an update on our environmental, social and governance activity, commonly referred to as ESG. Over the past year, we retained two separate consultants to assist our team in incorporating more ESG elements into our business. Our company has a great story to tell on various aspects of ESG. For example, our environmental leadership on water resources has won numerous awards in our company's history.

Second, we actively participate in our community through volunteer organizations and donations to charitable group. Finally, as you heard Ron discuss earlier, our focus on compliance and safety is our top mandate. Our track record speaks for itself. We look forward to providing further updates on our ESG efforts in the future.

This concludes the update on strategic initiatives and business development for the quarter. I'll now pass the call back to Ron.

Ron Fleming

Thank you, Chris.

It is clear, we are well positioned with a strong balance sheet and disciplined strategy that continues to accelerate. In fact, from an operational and financial perspective, we have never been stronger and we

have more than ample liquidity and access to capital to be a great utility partner for the communities where we have the privilege to serve and to pursue expansion through organic growth, acquisition and new projects, both big and small.

As we handle this high growth we intend to remain at the forefront of the water management industry and advance our mission of achieving efficiency and consolidation, while advancing our commitment to ESG. 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 stakeholders involved. We appreciate your investment and support of us as we grow Global Water to address important utility, water resource and economic development issues in Arizona and potentially beyond.

These highlights conclude our prepared remarks. Thank you. We are now available to answer any questions.

Operator

Thank you.

There are currently no questions in the queue, I would like to turn the conference back over to Ron Fleming for any closing remarks.

Ron Fleming

Thank you, Operator. I just want to thank everybody for participating on this call today and for your interest and ongoing support of Global Water. Thanks and we look forward to speaking with you again.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.