



Global Water Resources, Inc.

Second Quarter of 2023 Conference Call

August 10, 2023

CORPORATE PARTICIPANTS

Christopher Krygier, *Chief Operating Officer*

Joanne Ellsworth, *Executive Vice President of Corporate Affairs*

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

Ron L. Fleming, *Chairman, President and Chief Executive Officer*

PRESENTATION

Operator

Greetings, ladies and gentlemen. Welcome to the Global Water Resources Inc. 2023 Second Quarter Conference Call.

(Operator Instructions). I would like to remind everyone that this call is being recorded on August 10, 2023 at 1:00 p.m. Eastern Time.

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

Joanne Ellsworth

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

Yesterday we issued our 2023 second quarter 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 Krieger, Chief Operating Officer.

Ron will summarize the key operational events of the quarter, Mike will review the financial results for the second quarter and Chris will review strategic initiatives in 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 included within our latest Forms 10-K and 10-Q 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 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 second quarter of 2023.

Before discussing our normal highlights, I wanted to briefly mention a few records that occurred locally in and around Phoenix. Phoenix recently experienced a record number of consecutive days of over 110 degrees, shattering prior records for daytime highs or evening lows for days over 110 degrees, and the Global Water team maintained reliable service for its customers throughout. Because of this prolonged high temperature period, it is not just weather records that were broken as Global Water set records for highest average volume pumped for a calendar month repeatedly breaking highest single day pumped volume records throughout.

We'll discuss more specifics about these numbers next quarter, but today I want to recognize our field teams for what they do every day at a high level to ensure our customers have the essential service they need to manage such heat. More broadly, it is worth noting our total water management approach to resource conservation and utilization that allows us to be ready for unprecedented peak demands, including regional planning and permitting, maximizing the use of recycled water, automated meter reading, customer notifications, and smart water rate structures.

Other highlights for the quarter include, Global Water surpassed the 60,000 connection count for the first time ever with total active service connections increasing 8% to 60,291 at June 30, 2023, up from 55,814 12 months prior. Included in these numbers is the acquisition of Farmers Water Company that closed in February of 2023. The acquisition added a total of 3,325 active water service connections in approximately 21.5 square miles of certificate of convenience and necessity service area in the town of Sahuarita, and the surrounding unincorporated area of Pima County.

This acquisition has increased Global Water's total active water service connections in Pima County to nearly 5,000. Year-to-date, we have invested \$13.7 million into infrastructure improvements into existing utilities to provide safe and reliable service. A significant portion of a water and wastewater infrastructure in our Pinal County Southwest service area was put into service on or after July 1, 2023, with the remaining plan to be put into service once sufficient flows are established. The total value of this investment is approximately \$38.4 million.

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 six months without a significant compliance event and have now gone over 1,130 days since our last preventable OSHA reportable event. I want to pause, highlight, and thank the team here at Global Water whose exceptional performance allows me to provide such wonderful updates for our company.

Now, I want to discuss organic customer growth and what is going on in our core utilities a little bit further. 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 the same period in 2021, but this was still nearly 25,000 single family building permits.

In Maricopa, our largest utilities, we also saw a slowdown, but the city still issued 1,157 permits in 2022. Now through the first six months of 2023, we have seen 392 permits issued in Maricopa, which is more than the 245 permits we saw the entire last six months of last year. This represents a 60% increase. With that said on housing, the booming economy and net in migration that Arizona continues to realize, requires more and more places for people to live, work, and play. That is why large scale, multi-family 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 multi-family units being constructed in the city of Maricopa.

Additionally, the industrial manufacturing boom also continues with 2022 being the single best year for Arizona all time from an industrial economic development perspective, and that has continued into 2023. Because of this, we continue to make excellent progress on the engineering, permitting and construction of new service areas, including for 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, multi-family housing and industrial growth in addition to the return of strong organic housing growth. Putting all these elements together, 2023 will be another incredible 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 second quarter of 2023, was \$13 million, which was up \$1.3 million or 11% compared to Q2 2022. The increase in revenue was primarily attributable to the increase in rates related to our 2022 approved rate decision, new connections associated with the acquisition of Farmers in February, 2023, and year-over-year organic growth in connections of approximately 2%.

Operating expenses for Q2 2023, were \$10 million compared to \$9.2 million in Q2 2022. This is an increase of \$745,000 or 8.1%. Notable changes in operating expenses included approximately \$278,000 increase in depreciation and amortization expense tied to our capital expenditure program. Increased operating and maintenance costs by \$239,000, which was largely attributed to the Farmers acquisition, and increased G&A expense by \$228,000, primarily due to increased personnel costs and deferred compensation expense and board compensation expense partially offset by lower professional fees and regulatory expenses.

Now, to discuss other income/expense. Other expense for Q2 of 2023, was \$540,000, which was slightly higher compared to the \$505,000 of expense in Q2 of 2022.

Turning the net income, Global Water had net income of \$1.7 million or \$0.7 per diluted share in Q2 of 2023. While this is a decrease of \$368,000 compared to Q2 of 2022, the primary reason for this was the non-recurring tax benefit received in Q2 of 2022 tied to our 2022 rate order. Looking at pre-tax income, you can see that Q2 2023 was \$513,000 or 26% better than Q2 of 2022.

Now to talk about Adjusted EBITDA, which adjusts for non-recurring items such as ICFA revenue as well as non-cash items such as restricted stock expense. Adjusted EBITDA was \$6.7 million in Q2 of 2023, an increase of \$638,000 or 10.5% compared to Q2.

Lastly, I'd like to mention that during the quarter we were able to extend our \$15 million line of credit through July of 2025. This concludes our update on the second quarter 2023 financial results, I'll pass the call to Chris to review our rate case and strategic initiatives for the quarter.

Chris Krieger

Thank you, Mike. Hello everyone.

On the acquisition and growth front, we don't have any specific acquisitions to announce at this time, however, we continue exploring a number of different opportunities that may be good strategic fits for our company.

On the Arizona Corporation Commission front, we made two important filings in the quarter, a small rate case, and an accounting deferral related to the Southwest plan. First on the rate case filing, on June 27, 2023, we filed a rate case for seven of our small utilities in our Saguaro district within Pima County. Filing includes the utilities we acquired in recent years including; Las Quintas Serenas, Francesca, Maribel, Rincon, Tortolita, and Lyn-Lee . This filing does not include Farmers Water, which we acquired earlier this year. That will be captured in a future rate case filing.

This case requests a revenue increase of approximately \$420,000 phased in over two steps. It also requests regional consolidation of the utilities, including their rates and legal entities. The process is going as expected at the ACC with the next step being the utilities division staff beginning their audit of the case. We estimate that the case will conclude next year. There can be no assurance that the ACC will approve the requested rate increase or any increase, the consolidation of the rates described above or the timing of any increase, and the ACC could take further actions as a result of the rate case. Further, it is possible that the ACC may determine to decrease future rates.

Second, as you heard earlier from Ron, after many years of waiting, we finally turned in-service a large portion of the assets related to our Southwest plant infrastructure, which is located in Pinal County, close to the city of Maricopa. Related to this development on July 3, 2023, we filed a request for an accounting deferral at the ACC. The request, if granted, would authorize the Company to defer as a regulatory asset on its balance sheet, the depreciation expense related to the Southwest plant assets. If granted at the time of a future rate case, we would then have the opportunity to request recovery in-rates of the regulatory asset.

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

Ron Fleming

Thank you, Chris.

As we are still experiencing rapid growth, while also handling challenging times on the macroeconomic front, Global Water continues to focus on year-over-year improvements across the Company that will benefit long-term value creation. 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 for all stakeholders involved. We appreciate your investment in 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

(Operator Instructions) Okay. Seeing there are no questions, I would like to turn the call back to Mr. Fleming for closing remarks.

Ron Fleming

Thank you, Operator. Thank you, everybody for participating on the call today and your ongoing interest in Global Water Resources. Look forward to speaking with you again.

Operator

The conference has now concluded. You may disconnect your line at this time. Thank you for participating and have a great rest of your day.