



Global Water Resources, Inc.

2024 Year-End Conference Call

March 6, 2025

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

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Ron Fleming, *Chairman, President and Chief Executive 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

Greetings, ladies and gentlemen. Welcome to the Global Water Resources, Inc. 2024 Year-End Conference Call.

At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has difficulty hearing the conference, please press star, zero for Operator's assistance at any time.

I would like to remind everyone that this call is being recorded on March 6, 2025, 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

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

Yesterday, we issued our 2024 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 year. Mike will review the financial results for the year-end, and Chris will review strategic initiatives and Arizona Corporation Commission activity. 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 Conditions 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 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 of year-end 2024.

Before I get to my normal operational highlights, I want to highlight a very meaningful subsequent event that occurred just yesterday, the filing of a rate case for our largest utilities, Santa Cruz Water Company and Palo Verde Utilities Company, based on a 2024 test year. More information will be shared on the rate application later on this call and moving forward.

I will now provide operational highlights. Total active service connections increased 4.4% to \$64,520 as of December 30, 2024, from the 12 months prior. In 2024, we invested \$32.3 million into infrastructure improvements in existing utilities to provide safe and reliable service. Finally, with public health and safety being our top mandate, we are very proud of our compliance record. For 2024, we had zero significant compliance events, continuing our streaks from 2023 and prior. In fact, this means it has been nearly eight years without a significant compliance event.

Now, I want to discuss organic customer growth and what is going on in our core utilities further. The single-family dwelling unit market ended 2023 with approximately 22,582 building permits issued in the Phoenix Greater Metropolitan Statistical Area. In 2024, this market realized 27,156 building permits, representing a 20.3% increase from 2023. In 2023, the City of Maricopa issued 884 single-family dwelling building permits. In 2024, this Maricopa market realized 986 building permits, representing a 11.5% increase from 2023.

As you can see, the 2024 permit data was strong in both Metro Phoenix and the City of Maricopa. Some contend there remains a housing shortage in Metro Phoenix, and thus, over time, Metro Phoenix will retain an annual run rate of approximately 30,000 housing units per year to keep up with net in-migration and this job growth. This demand must be met by a combination of single-family dwelling units and multifamily.

On this note, as previously reported, there is a significant shift occurring in the City of Maricopa to large-scale, high-density, multifamily dwelling complexes, along with more commercial and retail businesses. We believe this shift will be notable and, at some level, supplant the reduction in single-family home growth. In fact, in 2024, multifamily housing unit data was also strong in the City of Maricopa, with 1,200 units permitted compared to just 636 units permitted for 2023. This represents an increase of 885 units permitted, or 88.7%.

Looking ahead, there is a record number of additional multifamily projects in some stage of development. The fact is, 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 multifamily housing, commercial, and recreational projects continue to accelerate at an extremely high pace in Metro Phoenix and in our service areas.

Additionally, the industrial manufacturing boom also continues. Previously, looking all the way back to 2022, that was the single best year for Arizona all the time from an industrial economic development investment perspective, and that was eclipsed in 2023, with \$40.7 billion invested in the state. In 2024, \$50 billion was invested into the state.

There has been significant further announcements made in 2024 and 2025, not in those numbers yet, including the most recent \$100 billion announcement on the additional plan expansions at TSMC, which is in addition to the \$68 billion they previously announced. Frankly, what continues to occur here in Arizona is unprecedented. In fact, the all-in TSMC investment of \$168 billion would be the single largest direct foreign investment in the history of our country, and it's just one of the many announcements not yet in the historical numbers. That all together will forever change the face of Metro Phoenix.

Because of these things, we remain bullish on the future potential of our Inland Port Arizona service area, where Procter & Gamble acquired land. Of note, we did sign the actual special industrial contract with P&G in December of 2024, and we are awaiting their notice to proceed. We continue discussing potential projects for several large firms that would locate adjacent to P&G. While it's hard to forecast large-scale industrial growth, we do believe it is a matter of when, not if, and it will be a meaningful utility addition to our Company.

Additionally, the City of Maricopa continues progress on a recently announced large industrial complex consisting of over 1,200 acres of projects. While this project is still several years away from generating revenue, it represents another opportunity for notable growth for our Company. Based on all of these trends, we believe that in the years to come, we will continue to see considerable large-scale commercial, multifamily, and industrial growth, in addition to the strong organic housing growth that continues year-after-year in our service areas.

As I mentioned in our last earnings call, yes, high inflation and other cost drivers have caught up with us and are impacting our earnings growth. However, it's important to recognize that 2024 was a test year for our largest utilities, whose last test year was five years ago in 2019. We need new rates to address all the cost increases over that time period and the significant investments we have made. As you can now see from our many related announcements, between multiple dockets, we now have over \$7.5 million in rate increases proposed and under consideration at the ACC. Chris will discuss this further, as well as the considerable rate-based growth captured in our rate case filing, as we have invested significantly into these growing communities.

While 2024 was another solid year for Global Water, putting all of these things together, meaning the four ways we grow our utility company; one, organic connections, two, new greenfield utilities, three, acquisitions, and four, rate cases, you can see how Global Water is going to be able to grow considerably in the years to come. In fact, to close my opening portion of today's earnings call, I want to provide a five year look back from 2024. That is our current rate case test year for our largest utilities, and that look back goes to 2019, which was the last rate case test year.

From 2019 to 2024, we have grown active connections by 40.8%, we have grown revenue by 48.4%, and we have grown EPS by 119%. This was the period of COVID, supply chain issues, and historic inflation. When you consider that current rates do not include the rate adjustment for all of the expense growth and

investments over those years, you can start to see how earnings can continue to outperform over the next five years as well.

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

Michael Liebman

Thanks, Ron. Hello, everyone.

Total revenue for 2024 was \$52.7 million, which was down \$0.3 million, or 0.6% compared to 2023. The decrease in revenue was primarily attributable to revenue from infrastructure coordination and financing agreements, also known as ICFAs, in 2023 that did not recur in 2024, and was largely offset by an increase in regulated revenue as a result of a 4.4% increase in active service connections. A more fulsome explanation of ICFAs can be found in our quarterly and annual filings.

However, just for some background, ICFAs are agreements we entered into with developers and home builders 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 home builder. Revenue associated with ICFAs is variable and dependent on the timing of activities by individual developers and home builders.

Regulated revenue, which excludes ICFA revenue for 2024, was \$52.7 million, which was up \$2.5 million, or 4.9% compared to 2023. The increase was primarily due to the increase in organic connection growth.

Operating expenses for 2024 were \$43.3 million compared to \$40.7 million in 2023. This is an increase of approximately \$2.6 million, or 6.3%. Notable changes in operating expenses included a \$1.3 million increase in depreciation and amortization, which was substantially attributable to a 10% increase in depreciable fixed assets as a result of our increased capital investments and the commissioning of related projects.

Next, we saw increased operating and maintenance costs by \$1.1 million, which was primarily attributable to increases in medical expenses and salary and wages, as well as additional costs for purchase power due to increased consumption and increases in other expenses, including phone, internet, and IT services. Lastly, we had a small increase of \$245,000 in G&A expense.

Now to discuss other income and expense. Other expense for 2024 was \$1.5 million, which was slightly higher than other expense of \$1.4 million in 2023. Net income for 2024 was \$5.8 million, or \$0.24 per diluted share, as compared to \$8 million, or \$0.33 per diluted share in 2023. Adjusted net income for 2024, which excludes impact of ICFA-related activity, was up just over \$100,000, or 2%, to \$6.3 million, or \$0.26 per diluted share, as compared to \$6.2 million, or \$0.26 per diluted share in '23.

Lastly, 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 \$26.7 million in 2024, compared to \$25.3 million in 2023. This is an increase of \$1.3 million, or 5.2%.

This concludes our update on the year-end 2024 financial results. I'll now pass the call to Chris to review our regulatory activity and strategic initiatives for the quarter.

Christopher Krygier

Thank you, Mike, and hello, everyone.

Since the last time we spoke, we had a number of constructive developments on the acquisition and regulatory front. A big thank you to our regulatory affairs team for all of their hard work. First, on January 22, 2025, the Arizona Corporation Commission unanimously approved our proposed acquisition of the City of Tucson assets. This acquisition represents another step in building economies of scale in the region at an attractive purchase price. We continue working on the acquisition finalization and are looking to close in the first half of 2025. Upon closing, this will increase our customers in this region from 5,000 connections to 7,000 connections. As many of you will recall, we had zero customers in this region when we started this campaign in 2020.

Second, as you may have seen in our press release, we reached a unanimous settlement for our Global Water Farmers' rate case. The settlement, if adopted, authorizes an approximate \$1.1 million revenue increase, over 85% of our request, to be phased in in 2025 and 2026. The next step in the process is for the administrative law judge to issue what's called a recommended opinion in order for the commission to consider. This is the second rate case we have settled under the commission's new settlement policy. The settlement demonstrates our successful track record of buying troubled utilities, improving them for customers, and ultimately seeking appropriate rate relief.

Finally, as you heard Ron mention earlier, yesterday afternoon, we filed the 2025 rate case for our Global Water Santa Cruz and Global Water Palo Verde utilities. The proposed rate increase requests approximately \$6.5 million of new revenue, with the first phase to be implemented in May 2026 and the second phase in January 2027.

The driver of the rate increase is due to three factors. First, inflation, as you heard Ron mention earlier, because our last test year that we're currently operating under is a 2019 cost structure. Second, continued capital investment to keep up with organic growth in the City of Maricopa, which you'll recall from previous discussions is the fifth fastest growing city in the United States. Third, rate base recognition of our Southwest plant investment.

The rate case also proposes a remedy to deal with the premature revenue collection issue that we noted in 2024. The rate case is based on a December 31, 2024, test year-end, with post-test year plant investments through December 31, 2025. The application requests an overall rate base for these utilities of approximately \$165 million, which is an increase of approximately 47% over our prior rate case, decision number 78644 for these same utilities. The application requests an equity component of approximately 55% and a return on equity of 10.2%.

The rate case also includes an innovative proposal to implement what we are calling a cost of service adjustment, or CSA, which, if approved, would create a formula rates like type approach used at FERC, the Federal Energy Regulatory Commission. If approved, this would enable us to change rates annually in between general rate cases, helping reduce regulatory lag for customers and the Company.

Lastly, just a process overview for those new to the Arizona regulatory regime. The first step in the rate case process is for the Arizona Corporation Commission Utilities Division staff to review the application for what is called sufficiency, which takes approximately 30 days. After that, Utilities Division staff and any interveners will typically issue their recommendations in a report 180 days later, which is approximately late Q3 of this year. Our goal in this rate case is to settle the rate case like we did in the Global Water Saguardo and Global Water Farmers rate cases.

Finally, as always, please see the 10-K for additional information and disclosures related to our Arizona Corporation Commission activity.

This concludes the update on acquisitions and regulatory activity for the quarter. I'll now pass the call back to Ron.

Ron Fleming

Thank you, Chris.

To close today, I wanted to express how proud I am of our team. Yes, while there is an interesting mix of tailwinds and headwinds in the economy right now, and our stock price has pulled back over the last few years, I believe the last five years of performance are evidence of our ability to materially improve on all meaningful utility metrics despite such conditions. This is because of our people, our plan, our foundation, and our unique local geographical dynamics.

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 into new utilities will be beneficial to 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 matters along the Arizona Sun Corridor, allowing our communities to thrive.

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

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Gerry Sweeney with ROTH Capital. Please go ahead.

Gerry Sweeney

Good morning or good afternoon, depending on where you are. Thanks for taking my call, guys.

Ron Fleming

Hi Gerry.

Gerry Sweeney

I want to touch base a little bit more on the CSA or the formula rates. Obviously, I think this is a pretty big development in terms of reducing regulatory lag. I was wondering if you could give a little bit more details. Would there be certain caps on the amount you could spend or any requirements, debt equity parameters? Just a little bit more details because I think it's an important opportunity to know?

Christopher Krygier

Thanks, Gerry. This is Chris. Yes, happy to give some more color on there. Maybe as a first background, at the end of 2024, the commission passed a policy statement basically making this a new tool in the toolbox that utilities can consider. It was based on the FERC model just due to the track record at FERC and the

history of success that's worked for customers and the utilities to continue investing. The way we have proposed it is we've taken some of those elements but made it more applicable to water utilities and our situation.

Under the proposal, each year we would essentially update our income statement for all the changes in expenses and update our balance sheet for all of the new investments that we've made and essentially put that through the formula. It would then go through an expedited review under the proposal, and you'd basically be updating rates annually. We think that there is an increase to transparency from the customers because that's going to give the commission additional opportunities to review and audit our financials each year. But it also allows us to be more contemporaneous with investments and changes to the customer's bill.

There's also elements for allowing certain components of what we decide in the rate case to basically be finalized in the formula. We don't have to update those so the capital structure from the rate case would come through to the formula and depreciation rates and some of those more typical elements, so you don't have to update those. But overall, we think that there is a real benefit here to passing things through.

The other last element I'll leave you with is we've proposed it as a five year program. Essentially, we'd finish this rate case, have five years running through the formula, and then there would be a requirement for another full rate case. We think that's another element that benefits both customers and us.

Gerry Sweeney

That's super helpful. A big (phon) step forward for you guys. Question maybe for Ron. I understand industrial business is somewhat hard to predict. But with the Procter & Gamble, if you get a notice to proceed, what does that generally mean for investment or even moving that project forward and visibility on potential revenues?

Ron Fleming

Yes, I'll have to answer that, Gerry. I'll talk a little bit generically than specifically, but this is how our process works for Procter & Gamble or really anybody that locates there or other industrial customers in the future. That notice to proceed is where they finally release to us their full plans on what they are going to construct as part of their Phase 1, in addition to what they're ultimately planning longer term so we can create the right utility solution and phasing plan ourselves. The notice to proceed just means we will then move into detailed design to design and permit the infrastructure that will be required to meet those obligations. Later in the process, they'll then issue a notice to construct where then we actually go and build the utility. Even when they issue the notice to proceed, it's a two to three year process depending upon actually what they say they need and what we have to go design and permit and construct. But that's the process. The notice to proceed is really just the first step after the contract execution.

Gerry Sweeney

Got it. Okay. I appreciate it. That's it for me. Great year and it's great to see great cases and the regulatory environment continue to improve.

Ron Fleming

Great. Thank you, Gerry.

Operator

Again, if you have a question, please press star then one on a touchtone phone. Once again, if you have a question, please press star then one.

At this time, this concludes our question-and-answer session. I'd now like to turn the call back over to Ron Fleming. Sir, please go ahead.

Ron Fleming

Thank you, Operator. We'd just like to thank everybody for participating on the call today. For those who continue to be interested in Global Water Resources, 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 great rest of your day.