



Global Water Resources, Inc.
2023 First Quarter Conference Call
May 3, 2023

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 of Corporate Affairs*

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

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

Christopher Krygier, *Chief Operating Officer*

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

Gerard Sweeney, *ROTH Capital Partners*

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

Operator

Greetings, ladies and gentlemen, and thank you for standing by. Welcome to the Global Water Resources, Inc. 2023 First Quarter Conference Call.

At this time, all participants are in a listen-only mode.

(Operator Instructions)

I would like to remind everyone that this call is being recorded on May 3, 2023 at 1:00 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.

Yesterday, we issued our 2023 first 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 Krygier, Chief Operating Officer. Ron will summarize the key operational events of the quarter, Mike will review the financial results for the first quarter, and Chris will review strategic initiatives in Arizona Corporation Commission activity for the quarter. Ron, Mike and Chris will be available for questions at the end of the call.

But 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 Form 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 L. Fleming

Thank you, Joanne. Good morning, everyone, and thank you for joining us today. We are very pleased to report the results for the first quarter of 2023.

In short, 2023 is off to a great start and 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.

Total active service connections increased 8.7% to 59,809 at March 31, 2023, up from 55,012 from the 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 3,335 active water service connections and 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.

We invested \$6.5 million into infrastructure improvements in existing utilities to provide safe, reliable service and focused on increasing revenues, reducing expenses and building rate base.

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 6 years and 3 months without a significant compliance event and have now gone over 1,040 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. Despite the local and national slowdown development and housing activity does continue in Metro Phoenix and in 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 year-to-date through April, we have seen 259 permits in Maricopa, which is more than the 245 permits we saw the entire last 6 months of last year. So we're seeing an uptick from last year's numbers.

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 multi-family housing, commercial and recreational projects continued to accelerate at an 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 investment perspective. This seems to be continuing into 2023, and because of this, we continue to make excellent progress on the engineering, permitting and construction of new service areas, including the Inland Port, Arizona, our Nikola Motor Corp. facility is being expanded, and where Procter & Gamble recently 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, Global Water remains well positioned.

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

Mike Liebman

Thanks, Ron. Hello, everyone.

Total revenue for the first quarter of 2023 was \$13.1 million, which is up \$3.1 million or 30.9% compared to Q1 of 2022. This increase is primarily driven by the recognition of revenue under infrastructure, coordination and financing agreements, also known as ICFA's. 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 homebuilder. We expanded the capacity for our wastewater plant in the city of Maricopa during the quarter, which allowed us to recognize deferred revenue as we met all of our contractual obligations under certain ICFA agreements.

Water and wastewater revenue, which excludes ICFA revenue, for Q1 of 2023 increased \$0.8 million or 8.3% compared to Q1 2022. This increase was driven by the increased rates approved in our last rate case, organic connection growth and the acquisition of Farmers Water Company.

Operating expenses for Q1 of 2023 were \$9.4 million compared to \$8.7 million in Q1 2022. This is an increase of \$0.7 million or 7.9%. Notable changes in operating expenses included \$312,000 increase in depreciation and amortization expense tied to our capital expenditure program and the acquisition of Farmers. Operating and maintenance costs increased by \$246,000, which was primarily associated with increased personnel costs, combined with increased expenses as the Company continues to grow and manage inflation. G&A expense also increased by approximately \$128,000.

Now to discuss other expense. Other expense for Q1 of 2023 was \$446,000 compared to \$131,000 in Q1 2022. The \$315,000 increase was primarily due to the lower income associated with the Buckeye growth premium, partially offset by lower interest expense due to higher capitalized interest costs.

Turning to net income, Global Water had net income of \$2.5 million in Q1 2023. This is a \$1.6 million or 177% increase compared to Q1 of 2022 and equated to \$0.10 per diluted share.

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 \$4.9 million in Q1 of 2023, a decrease of \$292,000 or 5.7% compared to Q1 of 2022 and can be directly tied to the reduced income from the Buckeye growth premium payments, which were \$648,000 less in Q1 of 2023 compared to Q1 of 2022.

Lastly, as in the past, I'd like to briefly touch on inflation. While we have been able to manage expenses quite well given the inflation situation, we do expect to see some increases in future periods, primarily related to personnel costs. Additionally, as you would expect, we have experienced an increase in capital cost as a direct result of inflation.

This concludes our update on the first quarter 2023 financial results.

I'll now pass the call to Chris to review our strategic initiatives in Arizona Corporation Commission activity for the quarter.

Christopher Krygier

Thanks, Mike. Hello, everyone.

Just a few brief updates. 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 are in the early stages of planning several regulatory filings designed to support our ability to continue ensuring safe reliable service to our customers. We will provide more detail in future calls.

With that, I'll now pass the call back to Ron.

Ron L. 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 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 issues in Arizona and potentially beyond.

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

Operator

(Operator Instructions)

Today's first question comes from Gerry Sweeney with ROTH Capital. Please go ahead.

Gerard Sweeney

Hey, good afternoon, Ron, Mike, Chris. Thanks for taking my call. (Multiple speakers) A couple of quick questions. Maybe starting with Farmers, 3,300 connections, I think it's been in the portfolio about two months. Maybe you could talk about some of the integration. It is a little bit larger of an acquisition than some of the smaller tuck-ins that you've made. Maybe just one, integration; then two, maybe some of the build-out or investment opportunities you see over the course of maybe 12 to 24 months to continue to expand that or lay the foundation for more expansion in that area?

Christopher Krygier

Yes, Gerry, this is Chris. I'd be happy to tackle that. First, I'll focus on the integration piece. You'll recall from the last few years, we've actually acquired a number of utilities in Pima County and our approach on that was very thoughtful where we started with a lot of smaller utilities and got the process with the team, lessons learned and improved at each go round, and we're really seeing the benefits of that pay off here in Farmers.

Really, a lot of the credit goes to the operations team, customer service, billing that are the front line of everything. We've been able to integrate the employees, attend large community events, make a couple of presentations to counsel and really do what we do. That's really exciting. I'd say it's going well. We're happy with the progress. Always more to do, but happy with where it's going.

Then transitioning to the second part of your question regarding investment opportunities and expansion there. We have already started the work on starting to expand out our initial diligence on the CapEx program needed and start to think about the next steps in getting that implemented. It's something we're actively talking about right now and kicking off the really detailed planning discussions to basically implement what we're really good at and bring it to the community down there.

I would say no major specifics on the investment thesis from dollars and cents, but it's something we're actively talking about right now and thinking about how we'll best bring it to the community.

Gerard Sweeney

Got it. Thanks. Switching gears to specifically on the development theme. Inland Port of Arizona, I think we've talked a little bit about it in the past. Just curious of the development timeline that's going to take place there. I think Nikola and Procter & Gamble, I think are committed to the—well, I think Nikola is there, and I think Procter & Gamble is building. But just curious as to when does that get to the size that maybe starts impacting and we start seeing it a little bit in revenue, etc.?

Ron L. Fleming

Yes. Hey, Gerry, this is Ron. I'll go ahead and take that one. Before talking specifically about those two projects that you mentioned, I just want to step back and talk a little bit more broadly. I think people understand this. They see what's going on in Arizona. They see all the headlines. But since the last time we talked, even a new few data points came out that I think just supports this growth thesis that we've been talking about better than anything we can say. That's new numbers came out on the amount of capital being invested in Arizona from purely an industrial perspective. There's an organization here called the Arizona

Commerce Authority, which is really part of the Governor's office that helps attract these large-scale projects, but they released those numbers.

According to them, there was \$49.7 billion of capital invested in Arizona from 2020 to 2022. That's a 500-plus percent increase over the prior three years. The slope of the curve is not only going up. It's like a hockey stick. There's really no evidence that that's slowing down despite some of the macroeconomic issues. Lots of industrial, large-scale projects. Boiling it down to iPaaS would get into that 2,000-acre-plus mega industrial port, they're calling it, and then the first two projects going into that, be Nikola already in place. We're already serving them today. They are doing a small expansion right now, and then P&G.

P&G, obviously, I'm going to talk about publicly available information that they themselves have announced, and so they bought 430 acres and their Phase 1 project is a \$500 million investment. Right now, their current plan is to have their Phase 1 opened by mid-2025. That's the timeline that answers your question.

But again, I think the other part of it all is that's their Phase 1 and not ultimate build-out, which we believe will ultimately be significant based on the size of the property they acquired. We're talking to a host of other industrial customers now that that site has really taken off that want to co-locate near companies like P&G and Nikola and be part of the bigger industrial and semiconductor manufacturing boom that's going on here.

It's keeping us super active. It's exciting. Yes, a couple of years out from it being meaningful in our financials, but I think in the five to 10 years to come, it's going to be meaningful. I'll leave it at that.

Gerard Sweeney

Got it. I'm not sure if you can answer this question, but let's just say Nikola was up and running. Phase 1 of Procter & Gamble is up and running. I believe you have like a 30-acre facility or outline of a 30-acre water facility at iPaaS. But if those two facilities were up and running, do you know how much of your capacity they would utilize, obviously trying to back into just trying to see what kind of numbers or qualitative impact it could have?

Ron L. Fleming

Yes. It's difficult to give you information on that because it's a bit early, and we only want to talk about what they publicly talk about. Again, there's this phasing element, and it depends on like what products they actually manufacture there and a few other things. It's too early. There's not information that we can provide you, Gerry. I apologize for that.

But from a capacity perspective, let's just remember, we were brought in to really do what we do, which is build a brand-new integrated state-of-the-art utility from the ground up for this industrial thing. When we permit this type of new utility from the ground up, the capacity is, really for the region, is on a lot larger scale than what we're talking about, not just for these projects, but for really the entire Inland Port.

From a water resource perspective, from what's called a 208-permit perspective, from the infrastructure itself and that property we bought that you referenced. It's actually a 42-acre site that's big enough to really build water and wastewater facilities that could be north of 12 million gallons a day, which is growth well beyond what we're talking about here.

All the foundational long-term permitting and planning is put in place to turn these new utilities into something substantial over time, and these first projects are really just a scratch from what it's going to be.

Gerard Sweeney

Got it. That's it from me. I appreciate it in that. Thanks for the detail.

Ron L. Fleming

Thanks, Gerry.

Operator

Thank you.

(Operator Instructions)

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

Ron L. Fleming

Thank you, Operator. I'd like to thank everybody for participating on the call today and for your ongoing interest in Global Water. Thanks, and look forward to talking to you again next quarter.

Operator

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