



Global Water Resources, Inc.

2024 Second Quarter Conference Call

August 8, 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, *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

Gerry Sweeney, *ROTH Capital*

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

Operator

Welcome to the Global Water Resources, Inc. 2024 Second Quarter 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 any difficulties hearing the conference, please press star, zero for Operator assistance at any time.

I would like to remind everyone that this call is being recorded on August 8, 2024 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 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 Krygier, 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 and Arizona Corporation Commission activity for the quarter. Ron, Mike and Chris will be available to answer 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 regarding risk factor and Management's discussion and analysis of financial conditions 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 also 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 2024. I will start with some operational highlights. Total active service connections increased 4.9% to 63,256 as of June 30, 2024, from the 12 months prior. The 2024 annualized growth rate is 4.7%. While organic growth rate remains strong in the face of higher interest rates, it's also important to highlight that our year-over-year regulated revenue growth rate continues to trend even higher, which is up 5.3%. Mike will provide the details on regulated revenue growth drivers.

Year-to-date, we've invested \$12.2 million into our infrastructure, improving our 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 the quarter, we had zero significant compliance events, continuing our streak from 2023 and prior, and in fact, this means it has been nearly seven years without a significant compliance event.

Now I want to discuss organic customer growth and what is going on in our core utilities. The single-family dwelling unit market ended 2023 with approximately 22,582 building permits issued in the Phoenix Greater Metro Area. For the first half of this year, this market realized 14,433 building permits, representing a 43% increase from Q2 of 2023.

In 2023, the City of Maricopa issued 888 single-family dwelling building permits. For the first half of the year, this market realized 559 building permits, representing a 43% increase from the first half of 2023. As you can see, the year-to-date Q2 2024 permit data was strong in both Metro Phoenix and the City of Maricopa. However, with interest rates inching back up because of the continued inflation fight, it is hard to anticipate the potential significance this will have on the housing market in the near term. However, there is a strong consensus that there remains a housing shortage in Metro Phoenix, and thus, over time, Metro Phoenix will retain an annual run rate approaching 30,000 housing units per year to keep pace with net immigration and the 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, the year-to-date 2024 multifamily housing unit data was also strong in the City of Maricopa, with 1,176 units permitted compared to 315 units permitted in the first half of 2023. This represented an increase of 861 units permitted or 273%.

Looking ahead, this is a record number of additional multifamily projects in some stage of development. The fact is 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 an extremely high pace in Metro Phoenix and in our service areas.

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 with \$40.7 billion invested in the state just last year. There has been significant further announcements made in 2024, including additional planned expansions at TSMC and Intel as the chip industry continues to explode here. Frankly, what continues to occur here in Arizona is unprecedented. Because of these things, we remain bullish on the future potential of our Inland Port Arizona service area, where Nikola Motor Corp facility and Procter & Gamble recently acquired land.

Additionally, the City of Maricopa recently announced and gave a public presentation on a very large industrial complex they are preparing to bring to market right in the center of the City of Maricopa. Initial plans include over 1,200 acres of an industrial corridor with a smart rail park as it is adjacent to a double railroad. Recently, the city ran a request for interest process on the land, and they had more interest than land available.

Respondents included a half dozen large reputable existing businesses that are looking for large property in Arizona to relocate to. If you're interested in learning more, I recommend you visit the City of Maricopa's YouTube page and watch the video recording of Rick Horst presentation to the City Council on July 16. More information to come on this exciting project in the future.

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 return of even stronger organic housing growth.

As I mentioned in our earnings release, yes, high inflation and other cost drivers have caught up with us and impacted our earnings growth a bit so far this year. However, it's important to recognize that 2024 is 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.

While 2024 will be another solid year for Global Water, putting all of these things together, and that means the four ways we grow, organic, new service areas, acquisitions and the subsequent rate cases on all of that, you can see how Global Water is going to be able to grow earnings considerably in the years to come as we continue to advance our mission of growing and aggregating water and wastewater utilities so that the customers can realize the benefits of consolidation, regionalization and environmental stewardship in the face of this rapid growth, 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 2024 was \$13.5 million, which is up \$500,000 or 3.9% compared to Q2 of 2023. The increase in revenue was primarily attributable to the 4.9% organic growth in our service areas, offset by lower consumption from construction and irrigation customers.

Operating expenses for Q2 2024 were \$10.7 million compared to \$10.0 million in Q2 of 2023. This is an increase of approximately \$700,000 or 7.2%. Notable changes in operating expenses include \$291,000 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 in July 2023. Additionally, we amortized approximately \$81,000 of intangible assets in Q2 2024 that didn't occur in Q2 2023.

Increased operating and maintenance costs by \$304,000, which is primarily attributable to increased repairs and maintenance costs, medical expenses, salaries and wages as well as higher utility and chemical expenses, which increase as we grow.

Increased general and administrative costs by \$128,000, which was primarily attributable to increased salary and wages and hiring and moving expenses. These were partially offset by lower deferred compensation expense.

Now to discuss other income and expense. Other expense for Q2 2024 was \$469,000, which was lower compared to the \$540,000 of expense in Q2 2023. This reduction was driven by an increase in interest income, offset by higher interest expense tied to the \$20 million note we executed at the beginning of the year. Net income for Q2 2024 was \$1.7 million or \$0.07 per diluted share, which is consistent with Q2 2023.

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 \$6.8 million in Q2 2024 and was \$6.7 million in Q2 2023.

Lastly, as I mentioned on our previous earnings call, as part of our current Southwest plant depreciation deferral docket, we discovered that in 2007, \$7.8 million of our Southwest plant infrastructure was prematurely included as plant and 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. Then we subsequently filed an application with the Arizona Corporation Commission on April 25, requesting a customer bill credit that would reduce our monthly revenues by approximately \$47,000.

The ACC issued decision 79424 on July 18, 2024, approving the bill credit with an effective date of August 1, 2024, which will reduce revenue earned subsequent to the order by approximately \$570,000 a year. The bill credit will be in place until the conclusion of the next Global Water, Palo Verde rate case, which decision 79424 requires Global Water, Palo Verde to file no later than December 31, 2025.

While the exact outcome and resolution cannot be predicted and could be material, we believe the approval of this bill credit is a positive first step in resolving this issue amicably in a way that is fair to all of our stakeholders, including customers and shareholders.

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

Christopher Krygier

Thank you, Mike. Hello, everyone.

It has been a very busy quarter at the Arizona Corporation Commission since the last time we spoke. First, we received the final commission decision for the Global Water, Saguaro District rate case. The commission voted unanimously to approve the settlement agreement with minor modifications. We started charging these new rates effective July 1. We appreciate the hard work by the utility division staff and the commission on this case, especially since it was the first settlement agreement approved by the commission in a number of years.

Second, as we mentioned last quarter, we were actively underway preparing a rate case for the Global Water Farmers utility. On June 27, 2024, we filed that rate case with the commission, requesting a revenue increase of approximately \$1.3 million. On July 25, 2024, the ACC utilities division staff determined that our rate case met administrative sufficiency and the case is now following the typical process. The staff estimates filing their testimony in December 2024. As is always the case with rate case filings, we cannot guarantee what action the commission may or may not take.

Third, as previously discussed, and you heard Ron mention earlier, we are in a test year for Global Water, Santa Cruz, and Global Water, Palo Verde, our two largest utilities. We continue our proactive customer outreach efforts and stakeholder outreach efforts to educate the community on the investments we are making to ensure we continue providing safe, reliable service and stay ahead of growth. We anticipate filing that case in the first half of 2025.

Finally, on May 10, 2024, we filed an application at the ACC, requesting approval of the Tucson acquisition, and that case is now processing as well.

This concludes my update on strategic initiatives and regulatory activity for the quarter. I will now pass the call back to Ron.

Ron Fleming

Thank you, Chris.

It remains clear we continue to achieve meaningful growth despite the headwinds. 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 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.

That highlight concludes 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 touch tone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster. Again, if you have a question, please press star, then one.

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

Gerry Sweeney

Hey. Good morning, guys. Thanks for taking my call. I only had one real question, and wanted to see if you could discuss acquisition, acquisition pipeline and anything that's happening in that space. Thanks.

Christopher Krygier

Hey Gerry, this is Chris. Thanks for the question. Yes, right now, there are still opportunities out there. As you know, Arizona is highly fragmented. I think the commission number is still over 300 utilities is the number that they reference in the state. Right now, we are pretty focused on getting the Tucson acquisition approved at the commission. We filed that earlier in the quarter. Then I think as we go through getting that closer to the finish line, integrating it, we will start to think about what the next steps in the process look for us in continuing that journey.

Gerry Sweeney

Got you. Did you give an indication of when you think the Tucson acquisition would be approved and closed? If you didn't, do you have one? Thanks.

Christopher Krygier

Yes. Good question. We are generally targeting either end of the year or early in the first quarter, sometime around then.

Gerry Sweeney

That's it for me. Thanks, guys, and nice quarter.

Ron Fleming

Thanks, Gerry.

Operator

Again, if you have a question, please press star, then one. Seeing no further questions, I would like to now turn the call back over to Mr. Fleming. Sir, please go ahead.

Ron Fleming

Thank you, Operator. Just want to thank everybody for participating on the call and for your 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 great rest of your day.