



Global Water Resources, Inc.

Second Quarter 2022 Financial Results Conference Call

August 11, 2022

CORPORATE PARTICIPANTS

Joanne Ellsworth, *Executive Vice President, Corporate Affairs*

Ron Fleming, *Chairman, President & Chief Executive Officer*

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

Christopher Krygier, *Chief Strategy Officer.*

CONFERENCE CALL PARTICIPANTS

Gerard Sweeney, *ROTH Capital Partners, LLC.*

PRESENTATION

Operator

Greetings, ladies and gentlemen. Welcome to the Global Water Resources, Inc. 2022 Second Quarter Conference Call.

I would like to remind everyone that this call is being recorded on August 11, 2022, at 1:00 p.m. Eastern Time.

Now, I would 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 2022 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 Strategy Officer. Mr. Fleming will summarize the key operational events of the quarter, Mr. Liebman will review the financial results for the second quarter, and Mr. Krygier will review strategic initiatives and business development for the quarter. Mr. Fleming, Mr. Liebman, and Mr. Krygier 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 section; Risk Factors 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 available on our website.

I will now turn the call over to Mr. Fleming.

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 second quarter of 2022 as there are many highlights worth mentioning. (Audio interference) we announced that we signed a definitive agreement to acquire Farmers Water Company. We also announced the completion of our company-wide rate case, which includes new rates for 96% of our customers and numerous notable policy decisions. Chris will discuss Farmers acquisition and the rate case further.

Subsequent to the quarter, our company completed a public offering of common stock totaling gross proceeds of \$15.5 million and an increase to our unused revolving line of credit from \$10 million to \$15 million, ensuring we have the capital necessary to fund acquisitions, infrastructure investments, and for general corporate purposes.

Now, I would like to highlight customer growth. Total active connections grew 8.8% as compared to the end of Q2 2021, bringing total connections to 55,814. Development and housing activity remained very strong in Metro Phoenix and our service areas. Thus far, Metro Phoenix annual monthly run rate is about flat in single-family home permits in 2022 over 2021.

However, large-scale commercial and industrial growth continue to accelerate at a pace never before seen in Metro Phoenix. This continues to push out to our areas either in our planned service territories or in communities immediately adjacent. Because of this, we continue to make excellent progress on the engineering, permitting, and construction of new service areas including the Inland Port Arizona, which includes the Nikola Motor Corp. manufacturing facility, amongst other areas within our large service territories. We believe that in the years to come, we will continue to see large-scale commercial and industrial growth in addition to our strong organic housing growth.

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 2022 was \$11.7 million, which was up \$763,000 or 7% compared to Q2 of 2021. This increase is primarily driven by an 8.8% increase in active service connections. Total revenue for the first half of 2022 increased \$1.5 million or 7.6% to \$21.7 million, which again was primarily driven by the increase in active service connections.

Operating expenses for Q2 of 2022 were \$9.2 million compared to \$8.6 million in Q2 of 2021. This is an increase of \$0.6 million or 7.4%. Notable changes in operating expenses included increased operating and maintenance cost by \$462,000, which was primarily associated with increased expenses as the

company continues to grow. Increased G&A expense by \$0.2 million, primarily due to increased personnel costs, increased professional fees, as well as increased regulatory expense associated with a one-time noncash write-off as a result of our recent rate case. These increases were partially offset by reduced deferred compensation expense associated with the reduction in stock price.

Now, to discuss other income and expense. Other expense for Q2 of 2022 was \$505,000 compared to \$284,000 of income in Q2 of 2021. The \$789,000 increased expense was attributable to the \$1.5 million one-time sale of a wireless communication tower in Q2 of 2021. Excluding the one-time sale, we had a \$695,000 improvement in other expense, driven by higher income from the Buckeye growth premiums and lower interest expense in Q2 of 2022.

Turning to net income. Global Water had net income of \$2.1 million or \$0.09 per diluted share in Q2 of 2022. Net income for the first half of 2022 totaled \$3 million or \$0.13 per share, an increase of \$1.2 million or 69.7% compared to the same period a year ago.

Now, to talk about Adjusted EBITDA, which adjusts for nonrecurring items such as the cell tower sale as well as noncash items such as restricted stock expense. Adjusted EBITDA was \$6.1 million in Q2 of 2022, an increase of \$761,000 or 14.3% compared to Q2 of 2021. During the first half of 2022, Adjusted EBITDA was \$11.2 million, an increase of \$2.4 million or 26.7% compared to the first half of 2021.

Primary drivers for the significant improvement in both Q2 and first half of 2022 were higher revenues and higher Buckeye earn-out, offset by higher expenses tied to growth and higher professional fees.

Before turning the call over to Chris, I'd like to touch on our liquidity position. When combining our unused \$15 million line of credit with our June 30 cash on hand of \$5 million, in addition to the \$15 million in equity we raised earlier this month, we have approximately \$35 million of liquidity to support ongoing operations and our growth strategy.

This concludes our update on the second quarter 2022 financial results. I'll now pass the call to Chris to review our rate case and strategic initiatives for the quarter.

Christopher Krygier

Thanks, Mike. Hello, everyone.

As Ron mentioned earlier, I'll provide an update on our recently concluded rate case in our Farmers Water Company acquisition.

First, the Arizona Corporation Commission unanimously approved a final order in our rate case. Decision number 78644 authorizes new rates of approximately 96% of our active customers effective August 1, 2022. The authorized rate increase is approximately \$2.2 million and will be phased in over three stages, with the first stage starting August 1, the second stage will start on January 1, 2023, and the final stage will commence on January 1, 2024. The majority of the revenue phase-in will be implemented in the first two stages.

In addition to the increased revenue, the rate case decision approved several policy changes that align with our broader company strategy. First, the commission approved regional rate consolidation of our utilities. This consolidation creates further economies of scale, adding additional support to continue deploying capital investment in our utilities while balancing customer bill impacts. Second, the commission approved recovery of a portion of the goodwill related to our prior Turner Ranches and Red Rock acquisitions. As we mentioned in our press release in 10-Q, from an accounting perspective, this reclassifies a portion of goodwill to a rate-making asset that customers reimburse in rates over time. This gives us additional confidence to pursue further utility acquisitions.

In conclusion, we appreciate the commission's thoughtful approach to our rate case and are excited that this important company initiative is now complete.

Second, turning to our acquisition of Farmers Water Company. Now the rate case has been finalized, we are focused on finishing the necessary regulatory paperwork to file our application at the Arizona Corporation Commission. We anticipate making that filing in the next few weeks, which then starts an approximate 6-month to 9-month time clock for commission approval. We estimate closing the Farmers acquisition in the first quarter of 2023.

This concludes the update on the rate case and Farmers Water Company acquisition. 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 we have the privilege to serve, and to pursue expansion through organic growth, acquisitions, 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. 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 here in Arizona and potentially beyond.

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

Operator

Thank you. Our first question is from Gerry Sweeney with ROTH Capital.

Gerard Sweeney

Good morning. Thank you for taking my call.

I had a question with the Farmers acquisition. I think you highlighted in some of the release that—or previously that you're going to work with the Town of Sahuarita. I was just curious if this agreement is similar to maybe some of the agreements you have with Maricopa and some other areas that you're working with?

Christopher Krygier

Great question. Thanks, Gerry. This is Chris.

The short answer is yes. It is very similar to our agreement with the other cities we work with, and very much served as a framework. What is in the MoU as we refer to it, the Memorandum of Understanding, you'll see the common things or how can we work together to support the town's growth efforts, coordinating on regional infrastructure planning, and then how we'll work cooperatively for the broader

community in terms of being a provider in that area. The short answer is yes. We're really excited to be partnering with the town in a similar way because we think the model has proven successfully in Maricopa and Camden there as well.

Gerard Sweeney

Got you.

You mentioned growth efforts by the town, but if my memory serves correct, there's probably some strategic positioning that Farmers adds, I think, especially with the City of Tucson. Can you maybe describe what's going on a little bit that may have encouraged the acquisition or what's the strategic positioning of the town is in reference to the greater Tucson area?

Christopher Krygier

Yes. I'll hit on a couple of things. First, just looking at Farmers and zeroing in on that, and then I'll expand to the broader community.

Farmers serves approximately 3,300 customers today, but the service area is much larger than that. It's over 20 square miles and the bulk of that is comprised of the corn (phon) farming today, but the landowner has a plan over time to transition that to homes. From a long run perspective, one of the elements that excites us is that 20 square miles will convert to residential homes over time.

Then when you transition that to what the town is looking to achieve, the town has what's called a Southeast area conceptual plan, where essentially the town wants to grow into in the future by connecting other property, and that's an additional over 40 square miles. Part of their thought process when we came to the town and started talking to them about a partnership was how can Global help us, as the town achieve our goals to grow in that area, have regional infrastructure, and be able to replicate some of the things we did in Maricopa down there. That was some of the pieces that excited them in terms of their growth plans and how we've been able to support that in other towns.

Gerard Sweeney

Got it.

Then switching gears, a little bit, water scarcity, water sourcing has been a big issue in the news lately. Can you just talk about your available supply, where you are with that, and just for some background takes? Thanks.

Ron L. Fleming

Yes. Sure, Gerry. This is Ron. I'll go ahead and take that one.

Yes, certainly, it's in the news a lot today, the drought in the Southwest and primarily what's going on, on the Colorado River. Why that's real and ultimately, there's a much longer conversation we can have about all the impacts as it relates to drought in the Colorado River. The punchline for us and our company is really two things. One, it doesn't have an impact on our business today nor in the foreseeable future. The reason is that we have built a pretty strong, I use the generic term water portfolios, for the areas that we serve, and we have—we talk about infrastructure capacity a lot, but we have plenty of water resource capacity to allow our communities to continue to grow for the years and even decade to come.

The second point that I'd like to make on the topic is, this is precisely the reason Global Water was founded. We were founded on the fact of the certainty of future water scarcity, and if you're going to build, own, design regional utilities, then you need to do it right from the ground up, and that's why we do all the

things that we do from a building of those water portfolios, the maximum use of recycled water, our advanced technology platform with automated meter reading and alerts to our innovative rate design, which has six tiers and a rebate.

When you put it all together, the fact of the matter is not only do we have good water portfolio is available for our communities. We can stretch that water further than, frankly, other utilities that aren't doing it the same way that we are. It's definitely coming bigger and faster at the Southwest as a region than I think anybody planned, but we were well prepared for it, and we'll deal with the long-term impacts over time.

Gerard Sweeney

Got it. I appreciate it. That's it for me. Congrats on a nice quarter.

Ron L. Fleming

Thanks, Gerry.

Operator

This concludes the question-and-answer session. I'd like to turn the conference back over to Mr. Fleming for any closing remarks.

Ron L. Fleming

Thank you, Operator. I'd like to thank you all for participating in this call and for your ongoing interest in 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.