



**Global Water Resources, Inc.**  
**Year End 2022 Conference Call**  
**March 9, 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 Strategy 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. Welcome to the Global Water Resources, Inc. 2022 Year End Conference Call.

We would like to remind everyone that this call is being recorded on March 9, 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 2022 fourth quarter and year end financial results by press release, a copy of which is available on our website at [www.gwresources.com](http://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 key operational events for the year, Mike will review the financial results for 2022, and Chris will review strategic initiatives and business development for the year. 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](http://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. Thank you for joining us today. We're very pleased to report the results for the fourth quarter and Year End 2022. There are many highlights worth mentioning.

In short, 2022 was another incredible year for Global Water as we continued 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.

For the year, total active service connections increased 4.4% to 56,270 at December 31, 2022, up from 53,882 at December 31, 2021. When combining service connection growth with the completion of our Company rate case earlier in the year, which included new rates for 96% of our customers, revenues increased 6.7% to \$44.7 million for the full year.

We also continued design and engineering work for the Inland Port Arizona mega-site where Global Water will be working with Procter & Gamble to provide water, wastewater, and recycled water services to P&G's new manufacturing facility, which is adjacent to the Nikola Motor Corp. facility.

We invested \$8.7 million in Capex investment in the quarter in existing utilities to provide safe, reliable service and focused on increasing revenues and reducing expenses and building rate base. We also began providing bulk water service to Seven Ranches Domestic Water District in Maricopa, Arizona at the request of the city and the local district board.

From an acquisition perspective, earlier in the year we continued to expand our footprint with two smaller tuck-in water utility acquisitions in Pima County, an area that continues to build momentum. Within from Pima County, subsequent to quarter close, in February 2023 the Company completed the acquisition of Farmers Water Company. The acquisition added a total of 3,300 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. These acquisitions have increased Global Water's total active water service connections in Pima County to nearly 5,000.

Finally, with safety and compliance being our top mandate, we are very proud of our ongoing safety and compliance record. For the year, we had zero significant compliance events and no preventable OSHA

reportable events. In fact, this means we have now surpassed six years without a significant compliance event and have now gone over 980 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 our service areas. In 2022, Metro Phoenix did experience a 23% reduction in single-family home building permits over the same period of 2021, but this was still nearly 25,000 single-family building permits. In Maricopa, our largest utilities, where we're also seeing a slowdown, the city still issued 1,157 permits in 2022.

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 continue to accelerate at extremely high pace in Metro Phoenix and this continues to push out to our areas, either in our existing service territories or in communities immediately adjacent.

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. 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, our Nikola Motor Corp. facilities have been expanded 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, 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 year was \$44.7 million, which was up \$2.8 million or 6.7% compared to 2021. This increase is primarily driven by the 4.4% increase in active service connections, the acquisition of Las Quintas Serenas in Q4 of 2021, combined with the new rates that were implemented in August of 2022.

These increases were offset by the 693,000 (phon) in revenue recognized in Q3 of 2021 related to our infrastructure, coordination, and financing agreements, also known as ICFA's, as we didn't recognize any ICFA revenue in 2022. A more fulsome explanation of ICFA's can be found in our annual filings.

Regulated revenue, which excludes ICFA revenue for 2022, increased \$3.5 million or 8.6% compared to 2021. Again, this increase was driven by the increase in active service connections, combined with new rates and the acquisition of Las Quintas Serenas.

Operating expenses for 2022 were \$36.8 million compared to \$34.9 million in 2021. This is an increase of \$1.9 million or 5.3%. Notable changes in operating expenses included increased operating and maintenance costs by \$590,000, which was primarily associated with the acquisition of Las Quintas Serenas combined with increased expenses as the Company continues to grow and manage inflation.

G&A expense increased by \$880,000, primarily driven by \$600,000 higher professional fees primarily tied to acquisition and rate case matters, the write off of \$314,000 in the rate case expenses as a result of the approved rate case, and higher IT contract services and rent expense. These were offset by lower deferred comp and board expense due to the reduction in stock price.

Lastly, we had \$400,000 increase in depreciation and amortization tied to our capital expenditure program in the acquisition of Las Quintas Serenas.

Now to discuss other expense. Other expense for 2022 was \$1.4 million compared to \$2.2 million in 2021. This \$836,000 decrease was primarily due to the \$1.1 million increase in the Buckeye growth premium and higher capitalized interest. These were offset by the \$1.4 million sale of cell tower leases in 2021.

Turning to net income, Global Water had net income of \$5.6 million in 2022. This was a 52.6% increase compared to 2021 and equated to \$0.24 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 \$22.1 million in 2022, an increase of \$3.4 million or 18.3% compared to 2021.

I'd like to briefly touch on inflation. While we have been able to manage expenses in 2022 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 costs as a direct result of inflation.

Lastly, before turning the call over to Chris, I'd like to remind folks that the second season of our new rates began in January of 2023. With this, over 95% of our rate increases will be embedded in our 2023 financial statements. This represents \$2.1 million of the approved \$2.2 million in new rates based on a 2019 test year.

This concludes our update on the year-end 2022 financial results.

I'll now pass the call to Chris.

**Christopher Krygier**

Thanks, Mike. Hello everyone.

As you may have seen in our press release and heard Ron mention earlier, we close the Farmers acquisition on February 1, 2023. This acquisition is a culmination of a significant amount of work to bring the deal to fruition and something we are very proud of. We are now focused on integrating the Company into our professional utility platform and the process is continuing as expected.

This acquisition brings significant benefits to our Company. First, it adds over 3,300 active water connections to our family of companies. This represents over 5% to our active connection count at the end of 2022. Second, it adds over 21 square miles of service territory that will eventually convert from pecan farming into primarily residential homes. This 21 square miles represents an additional 5% to the number of square miles of service area. At full build out, the service area could reach approximately 20,000 customers.

Third, Farmers' customers will benefit from our Total Water Management approach, including our expertise in technology automation and other internal operations. Finally, when combined with our Las

Quintas Serenas acquisition in 2021, the utility that is adjacent to Farmers, we now have additional scale to make further capital investments and recover costs from customers in the future. We are pleased this deal came together and believe it will provide long-term customer and shareholder benefits.

Briefly turning to acquisitions more broadly. We continue to focus our efforts on finding opportunities that complement our existing portfolio, and are in various stages of discussions with potential prospects.

This concludes the update on growth activity and strategic initiatives in the quarter.

I'll now pass the call back to Ron.

**Ron L. Fleming**

Thank you, Chris.

It is clear despite the challenges of the last few years, we remain well-positioned from an operational and financial perspective and can continue to be great utility partners for the communities where we have the privilege to serve. We will pursue expansion through organic growth, acquisition, and new projects both big and small. 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 the utilities will benefit all stakeholders involved. We appreciate your investment in and support of us as we continue to 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 questions.

**Operator**

Thank you.

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

**Gerard Sweeney**

Good morning/afternoon from me. Ron, Mike, Chris, thanks for taking my call.

**Ron L. Fleming**

Good morning, Gerry.

**Gerard Sweeney**

A question on Maricopa. Historically, I've tracked those single-family permits because I thought that was a great metric to watch in terms of watching growth in the area, but obviously, that market is slowing but affordability is a big draw to Arizona. You have the Procter & Gamble plant going in, you have semiconductor plant coming in, and it also sounds like you have multi-family opportunities starting to rise.

How do we look at that in terms of growth and how does that impact the income statement? Multi-family are different from single-family. Should we look at not only single-family permits but also watch total population growth in the area, because there's going to be different ways of tracking it. Maybe some

suggestions, ideas of where you see growth going and how it's going to develop and change in the short to medium term.

**Mike Liebman**

Hey, Gerry. This is Mike, I'm happy to take that one.

You are right. Obviously, the home building has slowed a little bit although, over the medium and long term, we expect that to pick back up again. On the multi-family, we're starting to see some activity there. Latest and greatest intelligence that we have, we only currently have two multi-family projects, but they're slated in 2023 seven projects, and there's an additional seven to nine projects that are slated 18 to 36 months out.

There's quite a bit of activity there that could ultimately result in the 2023 projects we leased closer to 1,500 units and more fulsome is closer to 4,000 units with the stuff 18 to 36 months out. What I will tell you is that, that's not a one for one on a single-family home, and so you can't necessarily draw each unit as a new home. There will be substantial revenue associated with these multi-family units coming in.

Then as a reminder on the single-family home side, while we do believe in the medium and the long term, there is a lot of growth from the industrial and businesses that are coming to Arizona, the affordability factor that you mentioned, the city of Maricopa is trading at north of a 20% discount to the Greater Phoenix, and so we feel like we're placed in a great position to take advantage of folks who are looking to purchase homes.

**Gerard Sweeney**

Got it.

Then speaking of that medium and long term, I know Procter & Gamble, I look at this as sort of the foundational stage for that project. Could you give a little bit of maybe a view to how that develops over the next one, three, five years and how we should think about it? Obviously, I don't think it's a short-term impact on earnings, but I do think it is, like I said, a foundational opportunity that adds runway to the growth story down there.

**Ron L. Fleming**

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

I think that's a great way to say it's really just the foundational elements of what is to come is really just getting going. Obviously, we started up service to Nikola on kind of a smaller scale last year. Now we've announced at least the land acquisition that Procter & Gamble made immediately adjacent to Nikola as part of this Inland Port mega-site.

First, I'll speak just to that and then I'll step back and talk a little bit more broadly. Procter & Gamble, they're obviously a well-planned organization and so they're ahead of the game from what we typically see from a build time perspective, but what they're currently telling us or at least it has announced publicly as well is that they're shooting for a mid-2025 to late 2025 opening date for their project. That's just over two years out. For the work that we do, that still means that that starts almost immediately, but from a financial results perspective that's further down the road.

Once you put Procter & Gamble and Nikola together, which I think the two transactions, at least what was announced is a total of 700 acres, what we're currently working with them on really is potentially not the

build out of those 700 acres because ultimately you can put lots of plant and facilities in the size of properties that they bought. It's up to them to announce and talk about what they may do on the properties later, but for now, we're working with them on their current phases to meet that timeline.

Stepping back from the properties they acquired, there's a total of about 17, 18 parcels inside of this Inland Port Arizona. P&G actually took down two of them, Nikola took one of the bigger ones, but it's over like 2,300 acres and so there's still over a dozen parcels still to go. Because of the activity of those two, the activity around the entire site has picked up. I'll just say that we answer the early, what they call project information forms, which people are looking to potentially select one of those parcels and locate in the Inland Port, we're dealing with those on a weekly basis.

Now we can't speak to who's going to select the property and what they're going to build and when, but the belief is that now that there's that foundation, as you referred to it, yes, it's just the beginning and that Inland Port will actually fill up pretty well in the years and decades to come. The evidence of this is the same developer that's doing Inland Port actually did this first in the City of Casa Grande just 20 minutes away from where we're at in Coolidge.

He started that project with Lucid, where we should be familiar with their electric vehicle manufacturing facility, and then the new southwest regional technical or main facility for a tractor supply company. Since that, beginning those two, the whole park there has filled out. He's out of land there and that's his full attention you see on Coolidge, and we just think that's evidence of how he does it and what is to come.

**Gerard Sweeney**

Got it. Super helpful. I appreciate it. That's it from me.

**Operator**

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

**Ron L. Fleming**

Yes. Thank you, Operator.

I'd like to thank everybody for participating on the call today and for your ongoing interest in Global Water Resources. I appreciate it and we look forward to speaking with you again soon.

**Operator**

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