



Global Water Resources, Inc.
2023 Third Quarter Conference Call
November 9, 2023

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, *President and Chief Executive Officer*

Mike Liebman, *Chief Financial 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

Welcome to the Global Water Resources, Inc. 2023 Third Quarter Conference Call.

(Operator Instructions)

I would now like to remind everyone that this call is being recorded on November 9, 2023 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 2023 third 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 third quarter, and Chris will review strategic initiatives and the Arizona Corporation Commission activity for the quarter. 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 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 see the sections Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations, included within our latest Forms 10-K and 10-Q, filed with the SEC. The 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 for the third quarter of 2023.

First, I wanted to recognize a significant milestone that recently occurred, as in October, Global Water Resources celebrated our 20-year anniversary. As part of the celebration, we are honored to be holding these earnings call from the Nasdaq market site here in Times Square, where later today we will ring the closing bell. It's been an incredible journey over at least 20 years, including from the time we first listed on Nasdaq and rang the opening bell in 2016.

As I believe is evidenced by the information provided here today, and in our earnings release, 2023 is shaping up to be our best year yet. It is clear by the momentum we continue to experience that we are only getting started on our mission to aggregate water, waste water, and recycled water utilities in a manner that allows our community to realize the benefits of consolidation, regionalization, and environmental stewardship in the face of water scarcity.

As I mentioned on our last earnings call, before discussing our normal highlights, I want to briefly discuss the outcome of several records that occurred locally in and around Phoenix throughout the summer.

Phoenix experienced a record number of consecutive days over 110 degrees and shattered prior records for total daytime highs over 110 degrees. Because of this prolonged high temperature period, it is not just weather records that were broken, as Global Water set records for the highest average volume pump for numerous calendar months and repeatedly broke high single-day pump volume records throughout.

For Q3, this ultimately resulted in Global Water shattering our own all-time record for gallons pumped as water consumption increased 31.2% year-over-year, totaling 1.3 billion gallons. This also allowed us to recycle 0.3 billion gallons in the quarter.

I'm pleased to report that Global Water was able to maintain safe and reliable service for all of our customers throughout. I want to recognize and thank our entire team for their hard work and commitment during the unprecedented heat wave and the demand that resulted on our systems.

More broadly, it is worth noting that our total water management approach to resource conservation and utilization allows us to be ready for unprecedented peak demands, including regional planning and permitting, maximizing the use of recycled water, automated meter reading, automated customer

notifications, and smart water rate structures.

Turning to operational highlights, those include total active service connections increased 8.7% to 61,036 as of September 30, 2023, from the same time last year. Our annualized active service connection growth rate, excluding the acquisition of Farmers Water Company, was 3.2%.

In the quarter, we invested \$4.9 million in infrastructure projects to support existing utility and continued growth. As a significant portion of the water and wastewater infrastructure in our Pinal County service area, just Southwest of the city of Maricopa, was put into service in July 2023 to support the development of a large residential master plan community in that area.

Home sales in this new utility area have started off strong. Ultimately, the remaining Southwest plants will be put into service once sufficient flows are established. The total value of this investment as of the third quarter is approximately \$42.5 million.

We also issued our first annual environmental, social and governance, and sustainability report, which highlights the Company's leadership in total water management.

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 six years and six months without a significant compliance event and have now gone over three years and one month 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 not only provide such wonderful updates for our Company, but also has positioned us so well after 20 years of incredible growth.

Now, I want to discuss further what is going on currently with 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 of 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. Despite the slowdown that started towards the middle of 2022 and continued into early 2023, we have seen 286 permits in Maricopa for the third quarter of 2023, as compared to 177 permits for the third quarter of 2022. This represents a 62% increase. This data, as well as similar trend across Metro Phoenix, suggests the local housing market has stabilized in the face of higher interest rates and is actually seeing a recovery based on continued net in-migration and job creation.

The fact is, the booming economy and the 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 all around Metro Phoenix, but significantly in our service areas as well, with the record number of multifamily units being constructed in the city of Maricopa this year and a record number in the pipeline for the years to come.

In fact, it was just reported that Maricopa is expected to welcome its 100,000th resident by 2029, according to data from the U.S. Census American Community Survey compiled by World Population Review. This is an increase of over 30,000 residents from today.

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 and that has continued into 2023. Because of this, we continue to make excellent progress on engineering, permitting, and construction of new service areas, including the inland port Arizona, where Nikola Motor Corp. facility is located and where Proctor & Gamble acquired land. We've also begun fielding initial inquiries for projects located in our West Valley region.

Based on all these trends, we believe that in the years to come, we will continue to see considerable large-scale commercial, multifamily housing, and industrial growth, in addition to the return of strong organic housing growth.

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

Mike Liebman

Thanks, Ron. Hello, everyone.

Total revenue for the third quarter of 2023 was \$14.5 million, which was up \$2.6 million or 22.2% compared to Q3 2022. The increase in revenue was primarily attributable to higher-than-average temperatures coupled with significantly lower precipitation, causing an escalation of consumption as compared to the same period in 2022.

The increase was also due to the recognition of \$518,000 of revenue under Infrastructure Coordination and Financing Agreements, also known as ICFAs. 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.

Other contributing factors to the increase in total revenue included increased rates related to our most recent rate decision, new connections associated with the acquisition of Farmers in February of 2023, and year-over-year organic connection growth.

Regulated revenue, which excludes ICFA revenue for Q3 of 2023, increased \$2.1 million or 17.8% compared to Q3 2022. This increase was driven by an increase in consumption, the acquisition of Farmers Water Company, increased rates approved in our last rate case and organic connection growth.

Operating expenses for Q3 of 2023 were \$10.7 million, compared to \$9.1 million in Q3 2022. This is an increase of \$1.6 million or 17.2%. Notable changes in operating expenses included approximately \$756,000 increase in depreciation and amortization expense tied to our capital expenditure program, a portion of which is related to the activation of the Southwest Plan. In addition, ICFA-related amortization of intangible assets also contributed to the increase, which occurs when payments are received related to certain ICFAs.

Increased operating and maintenance expense cost by \$812,000, which was primarily attributable to the Farmers' acquisition, additional cost for purchase power as a direct result of increased consumption, increased personnel costs, and higher property tax expense.

Now, to discuss other income expense. Other expense for Q3 of 2023 was \$315,000, which was slightly

lower, compared to the \$468,000 of expense in Q3 2022.

Turning to net income, Global Water had net income of \$2.6 million or \$0.11 per diluted share in Q3 2023, an increase of \$948,000 or 56% compared to Q3 2022.

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 \$7.6 million in Q3 2023, an increase of \$1.5 million or 24.5% compared to Q3 2022.

Lastly, I'd like to talk about our recent debt financing and our liquidity position. We recently executed a \$20 million note purchase agreement on October 26. This is an interest-only 10-year loan at a fixed rate of 6.91%. Our weighted average cost of debt is now approximately 4.93% and all of our outstanding debt is fixed-rate debt with the exception of our revolver.

We have a delayed funding feature in the note purchase agreement, so we will not receive the \$20 million until January of 2024 and thus will not be incurring any incremental interest expense in 2023.

From a liquidity perspective, this \$20 million plus the \$15 million line of credit and our existing cash of \$5 million gives us approximately \$40 million of liquidity to support our mission and the future investments needed over the next couple years.

This concludes our update on the third quarter 2023 financial results. I'll now pass the call to Chris to review our rate case and strategic initiatives for the quarter.

Chris Krygier

Thank you, Mike. Hello, everyone.

On the acquisition and growth front, we don't have any specifics to announce at this time. However, we continue exploring a number of different opportunities that may be good strategic fits for our Company.

Now, onto activity at the Arizona Corporation Commission. As you will recall, we filed the Saguaro Region rate case in June 2023. This rate case comprises—this rate case comprises approximately 1,600 customers in and around Pima County. It excludes the Farmers' water utility we acquired earlier this year. The rate case requests a revenue increase of approximately \$420,000 phased in over two steps. It also requests regional consolidation of the utilities, including their rates and legal entities.

In the quarter, we received the procedural order in the case, which outlines that commission staff testimony will be filed in January next year and a hearing on the case is scheduled for March 2024. The case is proceeding as expected, with commission staff issuing discovery requests for the case.

Finally, I will note there can be no assurance that the ACC will approve the requested rate increase or any increase or the consolidation of water rates described above and the ACC could take other actions as a result of the rate case. Further, it is possible that the ACC may determine to decrease future rates. There can also be no assurance as to the timing of when the rate increase, if any, would go into effect.

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

Ron Fleming

Thank you, Chris.

I want to conclude today with a few thank yous. None of this amazing 20-year journey would have been possible or would be able to continue without the hard work and dedication of our entire Global Water family. We thank you for your commitment and believing in the mission and each other.

Our success would also have not been possible without the ongoing support and contributions of our many stakeholders, from our customers and shareholders to our municipal partners, developers, regulators, contractors, consultants and many others, including our partnership here with Nasdaq. We value these important relationships and appreciate your trust in us. We look forward to working together over the next 20 years and beyond as we continue to pursue our shared success. We are truly just getting started.

That highlight concludes our prepared remarks. Thank you. We are now available to answer any questions.

Operator

(Operator Instructions)

Our first question will come from Gerry Sweeney with ROTH Capital. You may now go ahead.

Gerard Sweeney

Good morning, guys. Thanks for taking my call—or good afternoon, since we're on the East Coast.

Ron Fleming

Hey, Gerry.

Mike Liebman

Hey, Gerry.

Gerard Sweeney

Ron went over a lot of my—I had some questions on the potential growth, but Ron really went in-depth on that front. Maybe taking a step back. In the headlines, there's always some concerns about water availability to Colorado Compact. I know that you're not necessarily part of that, but maybe you can discuss your water availability sources and how they're well-positioned to support growth.

Ron Fleming

Yes. Thanks, Gerry. Happy to do that. I know those headlines continue to be in the news and it's worth always talking about, because fundamentally, that issue is the reason we created this Company. It's the reason we created the concept of total water management and the reason we do what we do with recycled water, technology, rates, incentives, and everything. The idea was, these emerging communities around Metro Phoenix are going to continue to grow for decades and decades, and it's our job as the utility to push out that impending issue of water supply as far as possible.

What we have done over the 20 years that's allowed that to be true in the communities we serve is implemented all of those solutions, and more specifically, we secured large water portfolios and the permits that go along with it. In Arizona, if you want to build homes and businesses and subdivide land,

you have to get what's called 100-year assured water supply. I'll speak just specifically to our largest service area in the city of Maricopa to use it as an example, but we've gone out and built a 24,000 roughly acre-feet per year designation of assured water supply and we're currently pumping around 8,000 acre-feet per year, a little bit less than that.

Even though Maricopa continues to grow, it's one of the fastest growing cities in the country, we continue to perfect all those water conservation solutions that I just mentioned and we're continuously driving down the per capita demand. Frankly, we can fit more homes in that 24,000 acre-feet number today than we could have even five years ago or 10 years ago. Lots of runway there. We're always continually active on it. Point being, we are not reliant on the Colorado River. Yes, that's a long-term challenge for the state and the Southwest, but we've positioned our communities and our utilities, that's just not an issue in the immediate term and we have lots of opportunity for growth to continue at the current scale or even faster. I hope that answers the question.

Gerard Sweeney

It does. Just a quick fact check. Did you say 24,800 or just 24,000?

Ron Fleming

I rounded it to 24,000. I'm looking at Mike.

Mike Liebman

A little less, it's like 23,000 and change, but close to...

Ron Fleming

Yes.

Mike Liebman

...24,000. Yes.

Gerard Sweeney

I'll go with Ron.

Ron Fleming

I rounded up, Gerry, but I think it's in the higher end, so I'm allowed to do that.

Mike Liebman

Yes. Yes.

Gerard Sweeney

One other question. Buckeye, it's in the other income. It slowed down, but I believe there was some infrastructure investments made in the region, but that seems to be picking up. Can you maybe touch upon exactly how much the Buckeye payment was this quarter and what you're seeing on that front, just want to go...

Mike Liebman

Yes. Hey, Gerry. This is Mike. Happy to answer that question. Similar to the city of Maricopa and the permit side where Q3 picked up, we actually saw a similar pickup in Buckeye. Last year we had about 606,000 tied to Buckeye in Q3, and this year, we had 732,000 come in. It's about 126,000 increase or 21% over prior-year quarter. It feels like there's a nice stabilization there and continued runway, and looking forward to how it's going to shape up for the year, but it's looking really good.

Gerard Sweeney

I know. Do you think its position is on a steady state runway? I know as much as you can tell about Buckeye. Yes.

Mike Liebman

Yes. Yes. It definitely feels like it's stabilized and it's increased. We do feel like it's pretty good from a runway perspective, exactly what the future holds, who knows? Interest rates may impact that positively or negatively, but we feel pretty good about it.

Gerard Sweeney

Got it. Okay. That's it for me. I appreciate it, guys. Congrats on a great quarter.

Mike Liebman

Thank you.

Gerard Sweeney

And Ron for ringing the bell.

Ron Fleming

Yes. Appreciate it. Thank you.

Operator

(Operator Instructions)

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

Ron Fleming

Thank you, Operator. I'd like to thank everyone for participating on the call today and 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 great rest of your day.