



Global Water Resources, Inc.
First Quarter 2022 Conference Call
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CORPORATE PARTICIPANTS

Joanne Ellsworth, *Vice President Corporate and Regulatory Affairs*

Ron Fleming, *President and Chief Executive Officer*

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

Chris Krygier, *Chief Strategy Officer*

PRESENTATION

Operator

Welcome to the Global Water Resources Inc. 2022 First Quarter Conference Call.

I would like to remind everyone that this call is being recorded on May 5, 2022 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 first quarter 2022 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 first 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 see the section Risk Factors in 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 Mr. Fleming.

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 first quarter of 2022.

Twenty twenty-two is off to a positive start for our Company, and there are many highlights worth mentioning. First, I want to thank all of our employees, partners, and shareholders for their efforts and support that together produce these results.

Before handing the call over to Mike to review financial highlights, I will review a few operational highlights.

In accordance with our top priority, we continue to perform at an extremely high level on employee safety and regulatory compliance. For the three months ended March 31, 2022, and even through today, we've experienced no recordable events, injuries, or expenses related to employee safety. As of today, our staff has only experienced two minor OSHA recordable incidents in 1,732 days. We've incurred only \$2,500 in expenses in over five years on OSHA recordable related incidents, resulting in an extremely low loss ratio and experience modifier or e-mod of 0.63.

As a reminder, an e-mod of one is considered to be industry average. So, said another way, we are performing 37% better than the industry average, which results in lower actual cost and workman's comp insurance cost. We have only incurred one significant compliance event in 2,229 days, which is almost six years. These impressive track records clearly demonstrate our performance on our top mandate customer and employee safety.

We expanded our footprint in Q1 2022 by acquiring the assets of Rincon Water Company with a service area in Pinal County, Arizona, and Twin Hawks Utility with a service area in Pima County, Arizona. The acquisitions added a total of 91 connections and approximately 9.1 square miles of service area to our regional and growing footprints.

On April 18, 2022, we announced that we signed a definitive agreement to acquire Farmers Water Company, a water utility with service area located in Pima County, Arizona, subject to customary closing conditions and Arizona Corporation Commission approval. The acquisition, when completed, would add approximately 3,300 active water service connections and approximately 21.5 square miles of service area.

I now want to highlight customer growth with total active connections growing by 9.7%, of which 7.1% was organic growth and 2.6% was primarily related to our acquisition of Las Quintas Serenas. When compared to the end of Q1 2021, this brings our total active connections to 55,012. Development and housing activity remained very strong in Metro Phoenix and our service areas. As a reminder, single family dwelling permits for Metro Phoenix totaled approximately 9,329 in Q1 of 2022, a 7.3% increase compared to 8,692 in Q1 of 2021.

This number is expected to remain strong throughout 2022 and forecasted to be approximately 36,000 in 2023, as most recent local real estate consensus projections indicate. We are also making excellent progress on the engineering, permitting and construction of new service areas, which includes the Nikola Motor Corp manufacturing facility and the surrounding Future Inland Port, Arizona, amongst other areas in our large service territories. We believe that we will continue to see large scale commercial and industrial growth in addition to our strong organic housing growth.

It is also important to note that we've accelerated capital investments as required to prudently manage this type of growth, including the new areas requiring service. We invested \$6.2 million in infrastructure projects during the quarter to continue to fulfill our ongoing commitment to strategic capital expansions.

Those of you that have been following our Company for a while know this is what we have been preparing for and speaking about as a Company really since the beginning. This was the strategy to buy and build utilities in the path of growth along growth corridors. This continues to accelerate and in short, we are well positioned to benefit from rapid growth throughout our large service areas in Pinal County, Maricopa County, and now Pima County. Chris Krygier will discuss our in-process rate application in acquisition activity in more detail later in the call.

Putting all these elements together, Global Water is well positioned from an operational safety compliance and financial perspective with notable growth in the years to come.

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

Mike Liebman

Thanks, Ron. Hello, everyone.

Total revenue for Q1 2022 was \$10 million, up by 8.3% compared to the same period in 2021. This increase was primarily driven by organic growth combined with new connections associated with the acquisition of Las Quintas Serenas in Q4 of 2021, which together reflect a 9.7% increase in active service connections year-over-year.

Operating expenses for Q1 2022 were \$8.7 million compared to \$8.2 million in Q1 2021. The increase was primarily attributable to increased general and administrative expenses related to acquisition costs and increased depreciation and amortization costs tied to our capital improvements plan.

Now to discuss other income and expense. Total other expense for Q1 2022 was \$131,000 compared to \$1.3 million of expense in Q1 2021. The improvement of \$1.2 million was primarily attributed to the \$1.1 million Buckeye growth premium received.

Turning to net income. Global Water had net income of \$889,000 or \$0.04 per diluted share in Q1 2022, compared to net loss of \$217,000 in Q1 2021 or \$0.01 per diluted share. The \$1.1 million increase was primarily attributed to the increased operating income driven by connection growth as well as the decreased in total other expense due to the Buckeye growth premium.

Now to talk about Adjusted EBITDA, which adjusts for non-recurring items and non-cash items such as restricted stock expense. Adjusted EBITDA was \$5.2 million in Q1 of 2022, an increase of \$1.6 million or 45.2% compared to Q1 of 2021. The increase was primarily driven by an increase in revenue from new connections and higher Buckeye growth premiums, slightly offset by increased professional fees associated with acquisitions.

Before turning the call over to Chris, I'd like to touch on our liquidity position. When combining our unused \$10 million line of credit with our existing cash on hand of \$11.1 million, we have over \$21 million of liquidity to support ongoing operations and our growth strategy.

This concludes our financial results and updates.

I'll now pass the call to Chris to review our rate case and strategic initiatives for the quarter.

Chris Krygier

Thanks, Mike. Hello, everyone. As Ron mentioned earlier, I'll provide an update on our ongoing rate case and acquisition activity.

First, our rate case process at the Arizona Corporation Commission is still pending. The next step in the process is for the administrative law judge to issue a recommended opinion and order. The Commissioners will then review the judge's recommendation for consideration in issuing a final order. We estimate a final decision to be issued in Q2 2022 with any potential rate change to be implemented thereafter. As we previously stated regarding the rate case, it is important to know that there can be no assurance, however, on the outcome of the rate case, the requested rate increase, or the timing of any increase.

Second, turning to acquisition activity. As you saw in the press releases and heard Ron mention earlier, in the quarter, we successfully closed the asset acquisitions of Twin Hawks and Rincon. The operations and engineering teams are now hard at work implementing and integrating these utilities into the Global Water family. Additionally, as you saw in our press release issued on April 18 of this year, we signed a definitive agreement to acquire Farmers Water Company, a subsidiary of Farmers Investment Company located in Pima County, Arizona.

Farmers is our second acquisition in the Sahuarita community, just south of Tucson. The transaction complements our previous acquisitions of Las Quintas Serenas in 2021 and our 2018 Red Rock deal, which included two service areas just to the Northeast of Sahuarita. The combination of Las Quintas and Farmers would represent over 4,000 active connections in the Sahuarita area.

In terms of next steps for Farmers, we are focused on two efforts. First, due to the size of the utility, the acquisition requires ACC approval and thus, we are preparing the application and supporting documentation.

Second, we began the transition integration process focusing on such activities as billing system installation, customer service planning, and seamlessly onboarding employees.

Finally, we estimate closing the Farmers acquisition in the first quarter of 2023.

This concludes the update on strategic initiatives and business developments for the quarter. 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 discipline strategy that continues to accelerate. 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 in advancing our commitment to ESG. 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 any questions.

Operator

Thank you. We will now begin the question-and-answer session.

As there are no questions from the phone lines, this does conclude the question-and-answer session. I would now like to turn the call over to Ron Fleming for any closing remarks.

Ron Fleming

Great, thank you, Operator. I would like to thank all of you for participating in our call today and for your ongoing interest in Global Water. Thanks and we look forward to speaking with you again.

Operator

This concludes the conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.