



Global Water Resources, Inc.

Third Quarter 2021 Earnings Conference Call

November 9, 2021

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. 2021 Third 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. I would like to remind everyone that this call is being recorded on November 9, 2021 at 1 p.m. Eastern Time.

I would now like to turn the conference over to Joanne Ellsworth, Vice President Corporate and Regulatory Affairs. Please go ahead.

Joanne Ellsworth

Welcome, everyone, and thank you for joining us on today's call.

Yesterday, we issued our 2021 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 Strategy Officer. Mr. Fleming will summarize the key operational events of the quarter. Mr. Liebman will review the financial results for the 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 sections Risk Factors and 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 again, on our website.

I will now turn the call over to Mr. Ron 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 third quarter of 2021.

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

First, in accordance with our top priority, we continue to perform at an extremely high level on employee safety and regulatory compliance non-recordable incidents. Within the quarter, we 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 1,436 days. We have incurred only \$2,500 in over five years on OSHA recordable related incidents, resulting in an extremely low loss ratio and Experience Modifier, or EMOD, of 0.62. As a reminder, an EMOD of 1 is considered to be industry average. Said another way, we are performing 38% better than the industry average which results in lower actual costs and workmen's compensation insurance costs.

Also having incurred no significant compliance violations in the quarter, it has now been 1,959 days since our last significant compliance violation, or over five years. These impressive track records clearly demonstrate our performance on our top mandate, customer and employee health and safety.

I now want to highlight customer growth. On the organic growth front, total active service connections increased 8.6% as compared to the end of Q3 2020, bringing total connections to 51,709. 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 28,704, up 18% over 2019. According to local real-estate consensus, single-family permits increased by another 28% in Q3 2021 year-over-year. Local real estate consensus projections indicate that growth will continue throughout 2021 and 2022. Specific to our largest service area, the City of Maricopa, has already issued 1,519 housing permits year-to-date, a 62% increase over the same period the year prior.

Beyond housing growth in our core existing utilities, as noted in our earnings release, we also are making excellent progress on the engineering, permitting and construction of new service areas, including for Nikola Motor Corp. project which we began servicing in the quarter and the surrounding future inland Port Arizona, amongst other areas within our large service areas.

It is important to note that we have accelerated capital investments as required to prudently manage this type of growth, including the new areas requiring service. We invested \$5.4 million on infrastructure projects during the quarter, bringing our year-to-date total to \$11.8 million. Those of you who 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 or build utilities in the path of growth along growth corridors. This is clearly accelerating and in short we stand to benefit from rapid growth throughout our large service areas in Pinal County and Maricopa County.

Chris Krygier will discuss acquisitions and our in process rate application 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 the third quarter of 2021 was \$11.4 million, which was up \$647,000 or 6% compared to Q3 of 2020. This increase is primarily driven by the recognition 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.

Shifting back to our water and wastewater services revenue. It's important to note that while we experienced an 8.6% organic connection growth in the quarter, this didn't result in increased revenue during the quarter primarily due to precipitation. In the city of Maricopa where over 90% of our revenue comes from, we experienced 7 inches of rain in Q3 of 2021 versus 0.3 inches in Q3 of 2020.

Operating expenses for Q3 2021 were \$9.1 million compared to \$7.9 million in Q3 of 2020. This is an increase of \$1.2 million or 15.8%. Notable changes in operating expenses include increased G&A expense by \$1.1 million, primarily due to the increases in deferred compensation, professional fees and medical expenses. We also had increased operating and maintenance costs by about \$93,000 which was primarily driven by those costs that increase as revenue increases. Lastly we had increased depreciation and amortization expense by about \$44,000 primarily due to the increases in our fixed assets.

Now to discuss other income expense. Other expense for Q3 2021 was \$472,000 compared to \$1.3 million of expense in Q3 of 2020. This improvement of \$791,000 was primarily due to a settlement payment received from the City of Buckeye that had not been remitted to the Company from an audit as well as an increased connection growth in the Buckeye service area.

Turning to net income, Global Water had net income of \$1.5 million or \$0.07 per diluted share in Q3 2021.

Now to talk about Adjusted EBITDA which adjusts for non-recurring items such as the ICFA revenue as well as non-cash items such as restricted stock expense. Adjusted EBITDA was \$5.1 million in Q3 2021 which was down \$474,000 or 8.5% compared to Q3 2020. This can be attributed to the reduced revenue due to precipitation and higher G&A expense in the quarter, offset by an increased Buckeye earn-out.

Now, 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 \$21 million, we have over \$31 million of liquidity to support ongoing operations and our growth strategy.

Lastly, as you know, Congress has approved the \$1.2 trillion infrastructure bill that now just awaits the President's signature to finalize. Based on our understanding of the bill, all contributions and advances that we receive from developers and home builders will no longer be taxable income. With all the development activity in our growing service areas this has positive cash flow implications to us that we wanted to highlight for you. This concludes our update on the third quarter 2021 financial results.

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 continues as expected. Since our last conference call, we completed the administrative hearings and written legal briefs portion of the rate case. The final positions of the parties reflect the following: our current position requesting an approximately \$3 million revenue increase, commissioned staff recommending an approximately \$2 million revenue increase and the residential utility consumer office recommending an approximately \$1 million revenue increase.

The next step in the process is for the administrative law judge to draft what is called a recommended opinion and order. The commissioners will then review the judge's recommendation for consideration in issuing a final order. We estimate the commissioners to review the recommended opinion and order in Q1 2022 with new rates, if any, to be implemented on or around April 1, 2022.

Finally, as we previously stated, it is important to note that there can be no assurance, however, on the outcome of the rate case, the requested rate increase or the timing of any increase.

Turning to acquisition activity, as you saw in the press releases issued on September 22 and November 3, we acquired Las Quintas Serenas Water Company, an approximately 1,100 connection water utility south of Tucson. It is in close geographic proximity to the other utilities we own in the area and future service areas. This is our largest acquisition since 2018 Red Rock deal and provides a solid anchor to continue consolidating additional utilities in the area. We are excited to welcome the employees, the customers and the community into the Global Water family.

This concludes the update on strategic initiatives and business development 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 disciplined strategy that continues to accelerate. In fact, from an operational and financial perspective, we have never been stronger. We have more than ample liquidity and access to capital to be great utility partners for the communities where 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 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 highlight concludes our prepared remarks. Thank you. We are now available to answer any questions.

Operator

As there are no questions at this time. This concludes the question-and-answer session. I would like to turn the conference back over the Mr. Fleming for any closing remarks.

Ron Fleming

Thank you, Operator.

I'd like to thank all those participating in the call today for your interest in Global Water Resources. Thank you and we look forward to speaking with you again.

Operator

This concludes today's conference call.