



Global Water Resources, Inc.
2024 First Quarter Conference Call
May 9, 2024

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, Corporate Affairs*

Ron Fleming, *President and Chief Executive Officer*

Mike Liebman, *Chief Financial Officer*

Chris Krygier, *Chief Operating 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, LLC*

P R E S E N T A T I O N

Operator

Greeting ladies and gentlemen, thank you for standing by. Welcome to the Global Resources Inc. 2024 First Quarter Conference Call.

At this time, all participants will be in listen mode only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press star, zero for Operator assistance at any time.

I would like to remind everyone that this call is being recorded on May 9, 2024 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 2024 first 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 first quarter and Chris will review strategic initiatives in 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 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's, 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 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 first quarter of 2024.

I will start with some operational highlights. Total active service connections increased 4.4% to 62,451 as of the end of the quarter from 12 months prior. The 2024 annualized growth rate is 4.3%. While our organic growth rates remain strong in the face of higher interest rates, it's also important to highlight that our year-over-year regulated revenue growth continues to trend even higher and is up 6.9%.

Mike will provide the details on regulated revenue growth drivers. Year-to-date, we have invested \$5.8 million into infrastructure improvements in existing utilities to provide safe and reliable service.

Finally, with public health and safety being our top mandate, we are very proud of our compliance record. For the quarter, we had zero significant compliance events continuing our streak from 2023 and prior. In fact, this means we have now surpassed six years and nine months without a significant compliance event.

I also wanted to mention the transaction with the City of Tucson that was announced subsequent to quarter close. Per the press release from earlier this week, we are proud to announce the partnership that was reached with the City of Tucson resulting in our acquisition of approximately 2,200 customers and seven separate water systems around the city of Tucson within Pima County. We look forward to welcoming these customers to our growing family of utility companies once we receive commission approval. Chris will provide more details on the transaction.

Now, I want to discuss organic customer growth and what is going on in our core utilities further. The single-family dwelling unit market into 2023 with approximately 22,582 building permits issued in the Phoenix Greater Metropolitan Area. For Q1 2024, this market realized 7,535 building permits, representing a 74% increase from Q1 2023. In 2023, the City of Maricopa issued 888 single-family dwelling building permits. For Q1 2024, this market realized 326 building permits and this represents a 131% increase from Q1 2023.

As you can see, the Q1 2024 permit data was strong in both Metro Phoenix and the City of Maricopa. However, with interest rates inching back up, because of the continued inflation fight, it is hard to anticipate the potential significance this will have on the housing market in the near-term. However, there are strong consensus that there remains a housing shortage in Metro Phoenix and thus, over time, Metro Phoenix will retain an annual run rate approaching 30,000 housing units per year to keep pace with net immigration and job growth. This demand must be met by a combination of single-family dwelling units and multifamily.

On this note, as previously reported, there's a significant shift occurring in the City of Maricopa to large scale high-density multifamily dwelling complexes, along with more commercial and retail businesses. We believe this shift will be notable and at some level supplant the reduction in single-family home growth.

In fact, the Q1 2024 multifamily housing unit data was strong in the City of Maricopa with 400 units permitted compared to 214 units permitted in Q1 2023. This represents an increase of 186 units permitted or 87%. Looking ahead, there is a record number of additional multifamily projects in some stage of development.

The fact is the booming economy and net immigration that Arizona continues to realize requires more and more places for people to live, work and play. This is why large scale multifamily housing; commercial and recreational projects continue to accelerate at an extremely high pace at Metro Phoenix and in our service areas.

Additionally, the industrial manufacturing boom also continues. Previously, 2022 was the single best year for Arizona all time from an industrial economic development investment perspective and that was eclipsed in 2023, with \$40.7 billion invested in the state just last year. I'll say that again; \$40.7 billion invested in the state just last year. This has been significant and there's been further announcements May in 2024 including additional planned expansions at TSMC and Intel as the chip industry continues to explode here.

Frankly, what continues to occur in Arizona is unprecedented. Because of these things we remain bullish on the future potential of Inland Port Arizona service area, where Nikola Motor Corp facility is located and where Procter & Gamble acquired land.

Additionally, the City of Maricopa recently announced and gave public presentation on a very large industrial complex they are preparing to bring to market right in the center of the City of Maricopa. Initial plans include 640 acres of an industrial corridor with the Smart Rail Park as it is adjacent to a double railroad. In the future, there's an additional 840 acres that may be added to the industrial corridor. More information to come on this exciting project in the future.

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

Putting all these elements together, we believe 2024 will be another incredible year for Global Water, as we continue 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.

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

Mike Liebman

Thanks, Ron. Hello, everyone.

Total revenue for the first quarter of 2024 was \$11.6 million, which was down \$1.5 million or 11.6%, compared to Q1 2023. The decrease in revenue was primarily attributable to ICFA revenue recognized in Q1 2023 that didn't occur in Q1 of 2024.

Water and wastewater revenue, which excludes ICFA revenue, for Q1 2024 increased \$750,000 or 6.9% compared to Q1 2023. This was driven by the organic connection growth Ron mentioned of 4.4%, as well as increased consumption. Operating expenses for Q1 2024 were \$10.3 million, compared to \$9.4 million in Q1 2023. This is an increase of approximately \$1 million or 10.6%.

Notable changes in operating expenses included \$279,000 increase in depreciation and amortization expense tied to our capital expenditure program, a portion of which is related to the activation of the Southwest plant; increased operating and maintenance expense cost by \$495,000, which was primarily attributable to increased medical expense and filling of open positions. Additionally, we had higher utilities expense and higher property taxes, which increased as we grow. We also had increased general and administrative costs by \$218,000, which was primarily attributable to increased medical expense, filling of open positions and higher regulatory expenses.

Now, to discuss other income and expense. Other expense for Q1 2024 was \$326,000, which was lower compared to the \$446,000 of expense in Q1 2023. This reduction was driven by higher income from the Buckeye growth premium, offset by higher interest expense tied to the \$20 million note we executed at the beginning of the year. Net income for Q1 2024 was \$691,000, or \$0.03 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 \$5.4 million in Q1 2024, an increase of \$235,000, or 4.5% compared to Q1 2023.

Lastly, as I mentioned on our previous earnings call, as part of our current Southwest plant depreciation deferral docket, we discovered that in 2007, \$7.8 million of our Southwest plant infrastructure was prematurely included as plant in service for rate making purposes. As a result, these costs were inadvertently included in rates as part of our 2010 rate order, as well as our 2014 and 2022 rate orders.

We met with the Arizona Corporation Commission staff on March 1 to bring this to their attention and then we subsequently filed an application with the Arizona Corporation Commission on April 25, requesting a customer bill credit that would reduce our monthly revenues by approximately \$47,000.

While the exact outcome and resolution cannot be predicted and could be material, we believe if this bill credit is approved, it is a positive first step in resolving this issue amicably in a way that is fair to all of our stakeholders, including customers and shareholders.

This concludes our update on the first quarter 2024 financial results. I'll now pass the call to Chris to review our regulatory activity and strategic initiatives for the quarter.

Chris Krygier

Thank you, Mike, and good afternoon, everyone.

On the Arizona Corporation commission front, we continued progress on a number of different filings. First, our Saguaro District rate case is nearing its conclusion. After filing a settlement agreement in late February of this year, we held our hearing before the administrative law judge on April 15. The hearing went as expected, and the judge issued their recommended opinion in order earlier this week, a pretty

fast turnaround as the hearing was held approximately three weeks ago. The rate case is scheduled to be heard before the commission next month. If the commission approves the judge's recommendation as filed, Phase 1 of new rates will be implemented on July 1 this year and Phase 2 of the new rates would be implemented on January 1 of next year.

Lastly, as you saw on our 10-Q and 10-K, there can be no assurance of the final outcome of the case.

Next in the quarter, we continued our work on the forthcoming Farmers Water rate case, preparing the underlying schedules and testimony, and also meeting with local stakeholders to discuss the need for the case and our continued investment into the system. We estimate filing the Farmers rate case this summer.

Lastly, ACC related we are undertaking related efforts for our 2025 rate case filing for our Santa Cruz and Palo Verde companies, our largest utilities.

Moving to the acquisition front, as you heard from Ron and saw in Tuesday's press release, we announced a new acquisition with the City of Tucson, whereby we will acquire seven public water systems from the city, which serve approximately 2,200 customers. As you saw in the map included in the press release, these customers are located in close proximity to our current operations in Pima County. For example, the largest customer base, a community called Rancho Del Solindo, is less than three miles from our Lendly utility and less than eight miles as the crow flies from our Red Rock utility.

Additionally, certain utilities in the Three Points area are so close to each other that we will evaluate interconnecting these utilities in the future. This acquisition, if completed, creates additional economies of scale for us at an attractive price. We are very excited as we believe this acquisition speaks to our community stakeholder relationships. To our knowledge, in Arizona, this is the first acquisition of municipal assets by an investor-owned utility in a very long time. We are proud to partner with the city on this transition.

The acquisition is subject to regulatory approval by the Arizona Corporation Commission and we plan to file that application later this month. You can find additional details on the acquisition in our 10-Q.

This concludes my update. I'll now pass the call back to Ron.

Ron Fleming

Thank you, Chris. It remains clear, we are well positioned to achieve meaningful growth despite certain headwinds. As we execute our growth plan, we intend to remain at the forefront of the water management industry, and advance our mission of achieving efficiency and consolidation. We do truly believe that expanding our total water management platform and applying our expertise throughout our regional service areas into 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 matters along the Arizona Sun Corridor, allowing our communities to thrive.

That highlight concludes our prepared remarks. Thank you. We're now available to answer your questions.

Operator

We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time we will pause momentarily to assemble our roster.

Our first question comes from Gary Sweeney with Roth Capital. Please go ahead.

Gerard Sweeney

Good morning, guys. Thanks for taking my call.

Ron Fleming

Good morning, Gerry.

Gerard Sweeney

I just had a question. Volume—so actually, let me rephrase this. Organic growth (inaudible) growth 4.4%. Volumes were, I think, 6.8% or 6.9%. I actually thought the weather was a little bit wetter down there in Phoenix during Q1, so is there anything going on in terms of more development, more water offtakes? Just curious as to if I'm missing something. Obviously great result, but just want to dig in on that front to a degree.

Mike Liebman

Yes. Hey Gerry, this is Mike.

It was a very wet Q1. Last year was wet, but not as wet. But Q4 '22 was pretty wet too, so maybe some of that trickled in and so the increase this year was partly attributable to that. But really what we see is happening is on the multifamily side, we're starting to see some incremental revenue come in there as occupancy rates there pick up and the developments continue to be built. There was one month of farmers that wasn't included in last quarter so that's attributing to it as well. But we are seeing a nice little pickup in additional revenue as a result of that multifamily.

Gerard Sweeney

Great, super helpful. Then rate cases, curious, this (inaudible) you gave us an outline of potentially when rates could hit, and as much as you can say at this point, you're going to file, I believe, Farmers later this year and then the Santa Cruz, Palo Verde next year. What would be the timing on how long it would take to go through the process on those rate cases?

Chris Krygier

Yes, Gerry. This is Chris. We estimate about a year to process them through the commission once filed. Now obviously, we'll do everything we can to accelerate that, but we generally think of it as about a year turnaround at the commission. If we file Farmers sometime this summer, new rates sometime summer 2025 approximately, and then we are filing the Santa Cruz, Palo Verde cases in 2025 and so that would mean new (phon) rates 2026 approximately.

Gerard Sweeney

Got it. Then, Chris, while I have you, Tucson acquisition, nice little tuck in there, the seven of them. Do you know timing on—potential timing, I should say, with the ACC, when that could get approved? This a little bit more for modeling purposes on my end.

Chris Krygier

Yes. Good question, Gerry. We've been estimating six to 12 months for commission approval, and so that means could be as early as this year, but probably next year. But ultimately, at the discretion of the commission, so six to 12 months is what we're using as an assumption here.

Gerard Sweeney

Got it. Then the last question, Buckeye Premium continues to chug along; it looked like it was another great quarter. Just any comments on or insight into development up in that region and where things are going potentially?

Mike Liebman

Hey, Gerry. This is Mike. I would just say it continues to be strong. We had about \$777,000 come in this quarter, which is probably the strongest quarter we've seen, and if that trend continues, you're talking about north of \$3 million for the year. It's been strong. It's continued to get stronger and from our vantage point, that's sustainable, so we're looking forward to seeing how that shakes out the rest of the year.

Gerard Sweeney

Got it. All right. Well, super-helpful. Congrats on a great quarter, guys. I appreciate it.

Ron Fleming

Thanks.

Mike Liebman

Thank you.

Operator

Again, if you have a question, please press star, then one.

All right. 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 Fleming

Thank you, Operator. Just want to thank everybody again for participating on the call and your continued interest in Global Water Resources. Thanks. Look forward to speaking with you again, soon.

Operator

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