



**Global Water Resources, Inc.**

**Third Quarter 2019 Conference Call**

**November 7, 2019**

## CORPORATE PARTICIPANTS

**Heather Krupa**, *Vice President and Controller*

**Ron Fleming**, *President and Chief Executive Officer*

**Mike Liebman**, *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Gerry Sweeney**, *ROTH Capital Partners*

## PRESENTATION

### **Operator:**

Welcome to the Global Water Resources, Inc. 2019 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. 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 November 7, 2019 at 1:00pm Eastern Time.

I would now like to turn the conference over to Heather Krupa, Vice President and Controller. Please, go ahead.

### **Heather Krupa:**

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

Yesterday, we issued our 2019 third quarter 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; and Mike Liebman, Chief Financial Officer. Mr. Fleming will summarize the key events of the quarter, following which Mr. Liebman will review the financial results for the quarter. Mr. Fleming and Mr. Liebman 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 reflects Management's views as of the date hereof, and are not guarantees of future performance. For additional information regarding

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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-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.

Unless otherwise stated, all amounts discussed are in U.S. Dollars.

I will now turn the call over to Mr. Ron Fleming.

**Ron Fleming:**

Thank you, Heather. Good morning, everyone, and thank you for joining us today.

We are very pleased to report the results for the third quarter of 2019. Highlights include, first and foremost, in the quarter, we extended our employee safety and regulatory compliance non-recordable incident streaks as our staff has now achieved over 813 consecutive days without a recordable safety accident. Also, it has been 1,309 days since our last compliance violation for over three-and-a-half years. These remarkable achievements show the dedication and care of our employees as we deliver exceptional performance, both financially and operationally.

Regulated revenue increased 10.5%, net income increased \$0.4 million to \$1 million or \$0.05 per share, Adjusted EBITDA increased 15.8% to \$4.8 million, and active service connections increased by 3,769 or 9.1% to 45,315. The increase in active service connections was primarily due to organic growth in the Company's current service areas coupled with the acquisition of Red Rock.

We also announced agreements with the City of Coolidge and Saint Holdings to bring integrated utility solution to Southern Coolidge and Inland Port Arizona, a large industrial complex where the Nikola Company has bought land to build their first million square foot manufacturing facility.

Finally, subsequent to quarter close, the Board approved a 1% increase to our dividend, which is paid monthly, and this increase will be effective for the December dividend payout.

Further, I wanted to highlight permit growth. For 2018, single-family dwelling permits in Maricopa and Pinal counties were up to 22,437 units or 13% over 2017. The forecast remains strong with 2019 projected to see approximately 24,000 single-family residential permits, followed by 25,000 projected in 2020. Importantly, the data for the City of Maricopa submarket continues to be very strong. As a reminder, in 2018, permit growth was up 18% over 2017 with 1,022 permits issued. This was the first time since the housing market collapse in 2008 that we realized over 1,000 permits in a year. To-date, in 2019, it appears Maricopa is on track to meet this mark again.

This multiyear trend supports our long-stated position that a sustained growth continues in the Metro Phoenix area, we will get a larger and larger market share of the homes based on the amount of lot and infrastructure capacity that exists.

Before turning the call over to Mike to review third quarter and year-to-date financial performance in greater detail, I want to again layout our primary objectives.

Global Water will continue to meet our primary mandates to provide safe, reliable and sustainable service to our customers and partners, while taking a disciplined approach to growth and long-term value creation through the following means.

We will work to grow earnings by driving topline revenue growth and creating operational efficiencies and managing controllable expenses.

We will make prudent capital improvements as necessary, and we'll work to expand our utility platform via new greenfield opportunities.

We will also pursue accretive acquisitions with consolidation benefits. Accretive tuck-in, such as this will complement the strong position, and growth of our core regional assets, and we are committed to continue to pursue similar opportunities both big and small. Additionally, as proven by recent acquisitions this consolidation can help improve our industry as a whole and provide many benefits to the customers and communities we have the privilege to serve.

I will now turn the call over to Mike.

**Mike Liebman:**

Thank you, Ron. Hello, everyone.

Total revenue for the quarter was \$9.9 million, which was up \$943,000 or 10.5% compared to Q3 of 2018. This increase is primarily driven by the organic connection growth, the acquisition connection growth from Red Rock and approved rate increases.

Year-to-date through Q3 of 2019, total revenue was \$26.8 million compared to \$27.3 million through Q3 of 2018. This reflects a decrease of \$476,000 or 1.7%. This decrease is primarily driven by the ICFA revenue recognized in Q2 of 2018 that was not reoccurring. Excluding the ICFA revenue, year-to-date revenue through Q3 of 2019 was up \$1.9 million or 7.7%, and this increase again is primarily driven by the organic connection growth, acquisition connection growth from both Turner Ranches and Red Rock, as well as approved rate increases.

Operating expenses in Q3 of 2019 were \$7.4 million, compared to \$6.9 million in Q3 of 2018. This is an increase of \$437,000 or 6.3%. Notable changes in operating expenses include increased operating and maintenance costs by \$155,000. This increase was primarily driven by the additional cost associated with the Red Rock acquisition of \$73,000 as well as increase in property tax and contract services of \$42,000, which increased as revenue increases. Increase in G&A expense by \$132,000, which can be attributed to the increase in personnel expense, and lastly increased depreciation and amortization expense by \$150,000, primarily due to amortization of an intangible asset as well as the acquisition of Red Rock. The year-to-date through Q3 of 2019 operating expenses were \$20.8 million compared to \$19.7 million in 2018. This is an increase of \$1 million or 5.3%.

Now to discuss other expense. Other expense for Q3 2019 was \$1.1 million, which was slightly down \$75,000 compared to 2018. Year-to-date through Q3 2019, other expense was \$2.45 million compared to \$3.19 million through Q3 of 2018. The decrease was primarily due to the \$1 million of other income received in Q1 of 2019 from the Loop 303 contract offset by a decrease in the Valencia earn out of \$321,000.

Turning to net income, Global Water had net income in Q3 2019 of \$1 million or \$0.05 per share. This is an increase of \$414,000 or 65.4%.

Lastly, Adjusted EBITDA, which adjusts for nonrecurring events, such as ICFA revenue, Loop 303 proceeds and also adjusts for option expense and our equity investment in FATHOM was \$4.8 million in Q3 of 2019, which is up \$652,000 or 15.8% compared to Q3 of 2018. Adjusted EBITDA was up primarily due to the increase of organic growth as well as the acquisition growth from Red Rock and approved rate increases.

This concludes our update on Q3 2019 results. I'll now pass the call back to Ron.

**Ron Fleming:**

Thank you, Mike.

It is clear that excluding onetime revenue recognition events and revenue reductions caused by the federal tax reform and corporate rate reductions, and the slowdown of our Valencia earn-out, both of which are beyond our control. Global Water's topline and connection growth rates continue to be very strong. 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 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.

That concludes our prepared remarks. Thank you. Mike and I are now available to answer your questions.

**Operator:**

Thank you. We will now begin the question-and-answer session. To join the question queue you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

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

**Gerry Sweeney:**

Hi, good morning, Heather, Ron, and Mike. Thanks for taking my call.

**Ron Fleming:**

Hi, Gerry.

**Heather Krupa:**

Good morning, Gerry.

**Gerry Sweeney:**

A couple of questions, I want to start with Coolidge and Saint Holdings, could you maybe provide a little bit of detail as to maybe how big that opportunity could be and/or kind of when potential revenue recognition would start to sort of kick in. I suspect that it's still probably a couple of years off, but maybe a little bit additional detail if available it will be great?

**Ron Fleming:**

Yes, absolutely, Gerry, yes, it's a good question. So that's fair. It is a long way off, I mean, as this goes, now that we have a license agreement with the city and a development agreement with I believe the land developer for approximately 2,000 acres in that area. We have to go through the Corporation Commission Certificate of Convenience and Necessity process, which takes 8 months to 12 months then we obviously would need to construct the infrastructure and all that would happen kind of in parallel with some of the on-site development things that need to occur. So, you're typically two years out from this point before you're providing service and bringing that revenue in.

The good news is, like sometimes when you're starting like a new area it starts relatively small; just based on the scope and scale of this initial facility with the Nikola Company on a million square foot manufacturing facility, there should be a nice fair steps that function type revenue that comes in immediately when that's all activated. Beyond that, when you get that type of project it's really seeding an

area, and because of that we're already getting quite a bit of inquiries from properties, both inside of that inland port which has a lot more parcel vacant cell and it's doing well, I think, in looking to attract complementary businesses to the Nikola Company. Some of those are starting taking shape throughout that two-year period really. And then properties even around it, things that kind of get constructed near these job centers.

So, you put it all together, quite different than go and starting a new home community, residential community, in the middle of the desert. This thing has the potential, we believe in the three to five year period of being quite significant, that's the way I would think about it.

**Gerry Sweeney:**

Great, that's helpful, and maybe switching gears a little bit, this might be for Mike. G&A costs, I think were running at about \$3.1 million in the quarter, Q2 they were about \$2.7 million, I know there are some components of the deferred compensation that impacts some of that G&A especially when there's a large step-up in the stock price which there was. Is there a way you could provide maybe a run rate on G&A ex some of that deferred comp, so we back and square it off a little bit just on pure operating side?

**Mike Liebman:**

Yes, Gerry I think that's a great question, it was up a little bit at the \$3.1 million this year and as you mentioned because of a stock price increase. But I would say the \$2.7 million is a good number on a run rate basis than the average, barring any unforeseen continued increase in the stock price. I think that's a good assumption.

**Gerry Sweeney:**

Okay. And then finally, Valencia, it was at a much faster run rate a couple of years ago, it slowed down. I've been trying to track permits a little bit, and if my memory serves correct it looks like some of the permit activity is picking up or remains strong. What needs to occur for maybe that to pick up? Is it new lots that need new infrastructure that you connect then, and some previous lots that need to be sold or any idea how we look at Valencia? It's a nice little moneymaker and nice little added bonus so I just want to pay attention to it.

**Mike Liebman:**

Yes, Gerry, this is Mike again, and I would say, yes, actually, a lot of the lots that we had had when we were earning that earn out at the stronger price, a lot of those lots have since been sold. So now the developers are in the process of developing the horizontal element of that infrastructure, or that's what we believe me is the next step that needs to happen. Last we had talked to them, it was 12 months to 18 months out before that was going to happen, and so nothing in our view has changed from that. It's not, is it coming? It's just when. And it feels like that may be a little ways out but it's still something that we're hopeful will come soon.

**Gerry Sweeney:**

Great, perfect. That's it for me and I appreciate you taking the time.

**Mike Liebman:**

Okay.

**Operator:**

Once again if you have a question, please star, then one now. This concludes the question-and-answer session. I would now like to turn the conference back over to Mr. Ron Fleming for any closing remarks.

**Ron Fleming:**

Thank you, Operator. I would like to thank everyone for participating on our call today, and for your continued interest in Global Water. Thanks, and we look forward to speaking with you again. Bye.

**Operator:**

This concludes today's conference call. You may disconnect your line, thank you for participating and have a pleasant day.