CORPORATE PARTICIPANTS

Heather Krupa, Controller
Ron Fleming, Chief Executive Officer, President & Director
Michael Liebman, Senior Vice President, Chief Financial Officer & Corporate Secretary

CONFERENCE CALL PARTICIPANTS

Gerard Sweeney, Roth Capital Partners

PRESENTATION

Operator:

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Global Water Resources Inc., 2018 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 9, 2018 at 1:00 PM Eastern Time.

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

Heather Krupa:

Good morning, everyone, and thank you for joining us on today's call. Yesterday, we issued our 2018 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 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 ended September 30, 2018. Mr. Fleming and Mr. Liebman will be available for questions at the end of the call.

Before we begin, I'd 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 statement, which reflects 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 Risk Factors and Management’s Discussion and Analysis of financial conditions and results of operation included within our latest Form 10-K 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. Unless otherwise stated, all amounts discussed are in U.S. dollars.

I’ll 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 our third quarter and year-to-date 2018 results. Highlights include first and foremost, in the quarter, we extended our employees safety and regulatory compliance non-recordable incident streak, having now achieved over 450 consecutive days without a recordable safety accident and nearly 950 days since our last compliance violation. These remarkable achievements show the dedication and care of our employees, as we deliver exceptional performance, both financially and operationally.

Our total active connections increased 7.8% with organic connections up 5.4% on an annualized basis. Regulated revenue increased 6.3% to $9 million, primarily due to the organic growth and acquisition of Turner Ranches Water and Sanitation Company. The increase was partially offset by reductions due to tax reform of $189,000, or 2.2%. Excluding the approved rate reductions due to tax reform, regulated revenue increased 8.5%.

Net income was $6.6 million or $0.03 per share. We raised net proceeds of $14.6 million from an equity raise. The Company anticipates using the net proceeds from the offerings to fund acquisitions, and for working capital, and other general corporate purposes. We declared three monthly cash dividends, and today are announcing to increase our dividend of 1%. The first dividend at the new monthly rate will be paid on December 28, 2018, to holders of record on December 14, 2018.

Importantly, we received an extension from the Internal Revenue Service to defer the gain realized from the disposition of Valencia Water Company facility until the end of 2019, which gives us another year to defer the tax gains by investing in our growth initiatives. We intend to take full advantage of deferring the taxable gain by making capital investments in existing utilities and pursuing additional strategic acquisitions that provide consolidation benefit.

We began operating Turner, a non-potable irrigation water utility in Mesa, Arizona, which the Company acquired in the second quarter. Subsequent to the end of the quarter, the Company completed the acquisition of Red Rock Utilities, an operator of water and wastewater utility with service areas in Pima and Pinal counties of Arizona. The acquisition adds more than 1,650 connections, and approximately nine square miles of service area and today generates more than $1 million in annual revenue, which will continue to grow with the phase-in of new rates.

Lastly, we made numerous personnel changes throughout the year, both internal and at the Board level to continue to manage our high growth utility, while achieving our primary operational and financial objectives. In the quarter, we appointed Tim Sabo as our Regulatory Counsel, and promoted Heather Krupa to Controller. As announced a few days ago, Trevor Hill is retiring from the board effective December 31, 2018. As our Co-Founder, Trevor’s contributions to Global Water are immeasurable, and we owe him an enormous debt of gratitude. On behalf of the board and the entire Company, I want to thank him for being our leader, mentor, and friend.
In response to this retirement as part of a transition plan over the course of the rest of 2018, the board appointed me as Chairman, and in addition, David Tedesco, a member of the board since 2012 and current Chair of our Compensation Committee, was also appointed Lead Independent Director. I look forward to working with Dave and our very strong board in this new role.

Moving on, I want to highlight organic growth further. Year-to-date, in 2018, we achieved an annualized growth rate of 5.4%, confirming that new housing growth continues to accelerate in our service area. Including both Turner Ranches, that closed in Q2, and Red Rock, which closed subsequent to the quarter, total connection growth stands at north of 12% on an annualized basis.

Metro-Phoenix single-family permit data remains very strong. For Maricopa County and Pinal County combined, the Homebuilders Association of Central Arizona reported that single family housing permits grew 12% to nearly 20,000 units in 2017. Permits are forecasted by the Greater Phoenix Blue Chip to increase in nearly 24,000 permits in 2018 and to 27,000 permits in 2019. In the City of Maricopa, where Global Water has its largest water and wastewater permitted utility service areas, the Home Builders Association of Central Arizona reports that permits are up 29% year-to-date over 2017.

Before turning the call over to Mike to review the third quarter financial performance in greater detail, I want to again lay out our primary objectives. Global Water will continue to be our primary mandate to provide safe, reliable and sustainable service to our customers and partners, while taking a disciplined approach to growth and value creation through following means.

We will work to grow recurring EBITDA by driving top line revenue growth and creating operational efficiencies through managing controllable expenses. We will make targeted capital improvements as necessary, and we will routinely analyze our dividend policy. Finally, we will pursue accretive acquisitions with consolidation benefit. Accretive tuck-ins such as this will complement the strong position and growth of our core regional assets. We are committed to continue to pursue similar opportunities, both big and small.

I will now turn the call over to Mike.

**Michael Liebman:**

Thank you, Ron. Hello everyone. Total revenues for the quarter were $9 million, which was up $527,000, or 6.2% compared to Q3 of 2017. This increase is primarily driven by 5.3% organic connection growth, 2.5% connection growth due to the acquisition of Turner Ranches, and increased rates. These benefits were offset by a reduction of revenue as a result of tax reform. Specifically, we reduced revenue by $189,000 in Q3, 2018, to reflect the impact of tax reform.

However, if you remove the reduction of revenue for the impact of tax reform, Q3 revenues increased by $716,000 or 8.5%. Year-to-date, total revenues through Q3 of 2018, were $27.3 million, which was up $3.9 million or 16.5% compared to the same period in 2017. This was primarily driven by the ICFA revenue recognized in Q2 of 2018. Regulated revenues year-to-date were up $1.5 million or 6.3% due to strong organic connection growth, Turner acquisition and increased rates, offset by the impact of tax reform. If you remove the impact of tax reform, year-to-date revenues increased $1.7 million or 7.1% compared to the same period in 2017.

Operating expenses in Q3 of 2018 were $7 million compared to $5.7 million in Q3 of 2017. This is an increase of $1.3 million or 22.8%. Notable changes in operating expenses include increase in operating and maintenance costs of $254,000. This increase was primarily driven by the additional costs associated with the Turner Ranches acquisition of $108,000, as well as increase in utilities spends of $49,000,
increased general and administrative costs of $930,000. This increase was primarily driven by an increase in deferred and board compensation of $739,000, which is driven by the change in the stock price where we had an increase of $1.12 in Q3 of 2018 compared to a decline in stock price of $0.55 in Q3 of 2017.

Additionally, a larger portion of stock-based compensation is vesting in 2018 compared to 2017. It's worth noting that the majority of this vesting will be completed by Q1 of 2019. Additionally, we had higher professional and medical fees of $49,000 and $30,000, respectively. Lastly, we had increased depreciation expense of $97,000.

Year-to-date, through Q3 of 2018, operating expenses were $19.7 million compared to $17.8 million. This is an increase of $1.9 million or 11% over prior year. Notable changes in operating expense include increased operating and maintenance costs of $494,000. Again, this was primarily driven by costs associated with the acquisition of Turner Ranches, which was $139,000, as well as increases in utility expense of $95,000, property tax of $94,000, and medical expense of $75,000. It’s worth pointing out that the operating cost increases were primarily driven by growth and increases in our revenue.

We also had increased general and administrative cost of $1.1 million, which was primarily driven by an increase in salary and wages of $415,000, higher professional fees of $369,000, associated with our strategic initiatives and higher deferred compensation of $238,000. Lastly, we had increased depreciation expense by $331,000, primarily driven by all the capital investments made over the past year or so.

Now to discuss other expense. Other expense for Q3 of 2018 was $1.2 million, which was an increase of $351,000 compared to Q3 of 2017. This increase was primarily due to a decrease in the Valencia earn-out of $369,000. Year-to-date, through Q3 of 2018, other expense was $3.2 million, which was an increase of $608,000 or 23.6%, which again was primarily attributed to the decrease in the Valencia earn-out of $612,000. The 2018 annualized growth rate in Valencia service territory is 2.2% compared to 6.5% in all of 2017.

Turning to net income, Global Water had net income in Q3 of 2018 of $633,000 or $0.03 per share compared to $1.2 million or $0.06 per share in Q3 of 2017. Year-to-date net income was $3.2 million or $0.16 per share compared to $1.8 million or $0.09 per share for the same period in 2017. Adjusted EBITDA, which adjusts for non-recurring events such as ICFA revenue and also adjusts for option expense and our equity investment in Fathom, was $4.1 million in Q3 of 2018, which is down $1 million or 19.7% compared to Q3 of 2017. Adjusted EBITDA was down primarily due to the increase in deferred and board comp, the decrease in the Valencia earn-out, and a reduction in revenue associated with tax reform. Partially offsetting all of this was an increase in revenue due to organic connection growth, the acquisition of Turner Ranches, and increased rates.

Year-to-date 2018 Adjusted EBITDA was $11.8 million, which reflects a decrease of $586,000 or 4.7% compared to the same period in 2017. This decline is primarily attributable to the lower Valencia earn-out, the reduction due to tax reform, and the previously mentioned increases in G&A expense. Again, these were offset by increases in revenue due to organic connection growth, the acquisition of Turner Ranches, and increased rates.

This concludes our update on Q3 2018 results. I will now pass the call back to Ron.

Ron Fleming:

Thank you, Mike. It is clear, despite the revenue and EBITDA 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 continued 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 highlight concludes our prepared remarks. Thank you. Mike and I are now available to answer your questions.

Operator:

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

Our first question comes with Gerry Sweeney with ROTH Capital. Please, go ahead.

Gerard Sweeney:

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

Ron Fleming:

Good morning, Gerry.

Gerard Sweeney:

I had a question on the housing permits and etc. There is a lot of talk out in the media about how things may be peaking and slowing. Correct me if I'm wrong, you guys are in a little bit different situation in terms of location and housing affordability. Do you have any insight of maybe what's happening in your local markets versus what may be happening elsewhere?

Ron Fleming:

Yes. Sure. It's a great question. I think we talked about earlier in the call, year-over-year housing permits, which of course is the leading indicator to meters going in the ground, is still up year-over-year and north of 20%. I will say earlier in the year, that number was north of 50%. So, at least the escalation of the increase is slowing down. However, it's still in the right trajectory or the right trend in our areas.

Lots continue to be transacted completed through what the development process that the developers have to go through and then transacted to homebuilders. Frankly, all of the lots that are finished or near-finished in the City of Maricopa have been transacted to homebuilders or will be in the next 12 to 24 months based on what we're seeing. So, we really don't project a slowdown at this point.

Maybe, again, the slope of the curve and how much it might increase year-over-year might level off, but if we can level off and stay north of 5%, which all the data indicates that possible still, obviously, that would be pretty good for us. I do think that the point you made Gerry, that's kind of a lease for the foreseeable future will always be the main point about these locations as they are very affordable. You drive 30 minutes from Central Phoenix or Tucson—or sorry, or 10B where ASU is located, and you can still buy a house for under $250,000. That remains true today. The incremental interest rate increases are not having as much effect on that low cost housing that's going on in these areas.
Gerard Sweeney:

Got it, and then, obviously, Valencia, there's been a little bit of slowdown in rent, we saw it earlier in the year and then a little bit more pronounced (phon). Any idea of what's going on over there?

Michael Liebman:

Yes. Hi, Gerry, this is Mike. I think, obviously, we're not—we don't have control over that, but the City of Buckeye is 600 square miles. Our service area is 12 square miles of that. While we feel really good about the long-term prospects of collecting that $45 million over the 20 years, there is naturally going to be some ebbs and flows, but we would expect that to continue to get better or not over the next 20 years. So, we're seeing a little bit of pull back at 2.2% this year versus last year. We're just kind of along for the right on that one, but we still feel confident in the long-term being able to collect that over the long-term.

Ron Fleming:

Yes, and just add to that, the reason—one of the reasons we feel confident there, Gerry, is that 12 square miles Mike's talking about, even though it's small in relation to everything going on in Buckeye, it is located in a great location right on the Interstate as you leave town. Even though it's kind of subject to developers and where they build inter slots (phon) next, we just know that that location is going to see a lot of that growth in the years and decades to come.

Gerard Sweeney:

Got it, and then switching gears a little bit just to the acquisition. Obviously, Red Rock, Turner are in the book now. I think Red Rock had a couple of scheduled rate increases, I think, upwards of $300,000. I'm not sure if any of those have hit since, I was reading the report the other day for (inaudible). Could you let me know when those rates are scheduled to come in to that franchise?

Ron Fleming:

Yes. Sure. Gerry. Good question. August of 2018 was the most recent rate increase. To get the full benefit of that, it will take 12 months after that, but the next rate increase is scheduled for August of 2019. Then once those August 2019 rates are set in place, that will be final, and then it will take through the first three quarters of 2019 to see the annualized benefits of that last increase.

Gerard Sweeney:

Okay.

Ron Fleming:

I'm sorry, 2020, sorry.

Gerard Sweeney:

You mentioned in the prepared remarks that Red Rock was over $1 million of revenue. Is that inclusive of that August of '18 rate increase? Or what was that effort just...
Yes. That was historical. As the rates were increased in August of 2018, you see a little bit of pick up there for those five months.

Gerard Sweeney:


Michael Liebman:

Thanks, Gerry.

Operator:

This concludes the question-and-answer session. I would now like to turn the conference back over to Ron Fleming for any closing remarks.

Ron Fleming:

Thank you, Operator. I would like to thank all of those participating on the call for your interest in the Global Water. Thanks, and we look forward to speaking with you again. Have a good day.

Operator:

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