



Global Water Resources, Inc.

2019 Second Quarter Conference Call

August 08, 2019

CORPORATE PARTICIPANTS

Heather Krupa, *Vice President and Controller*

Ron Fleming, *Chairman, Chief Executive Officer & President*

Michael Liebman, *Senior Vice President, CFO & 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. 2019 Second 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 anytime.

I would like to remind everyone that this call is being recorded on August 8, 2019, at 1:00 p.m. Eastern Time.

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

Heather Krupa:

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

Yesterday, we issued our 2019 second 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. 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 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-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 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 second quarter of 2019. I'm going to let Mike Liebman add further detail on the financial highlights included in our earnings release, and I will focus on the operational highlights.

Those highlights include: First and foremost, in the quarter, we extended our employee safety and regulatory compliance nonrecordable incident streak. Just yesterday, our staff passed the two-year mark having now achieved over 730 consecutive days without a recordable safety accident. Also, it has been 1,227 days since our last compliance violation, or nearly 3.5 years. These remarkable achievements show the dedication of our employees and the care shown towards public health and safety as we deliver exceptional performance, both financially and operationally.

Our Director of Water Resources, Jake Lenderking, was appointed to the Board of the Pinal County Water Augmentation Authority. PCWAA, as it is known, serves as a resource and partner for the development and augmentation of water resources for the benefit of all users in the area known as the Pinal Active Management Area, a large portion of Pinal County where significant growth is expected to occur and where Global Water has material utility interest.

We secured a three-year revolving line of credit, up to \$8 million, to support the Company's growth strategy. That remains unused today—sorry, a two-year extension to the revolving line of credit. And finally, total active connections increased 8.9% to 44,715 at June 30, 2019, with organic connections up 4.6% in that period.

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 dwelling unit permits and followed by 25,000 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 single-family dwelling unit permits issued. This was the first time since the housing market collapse in 2008 that we realized over 1,000 permits in a single year.

Today, in 2019, it appears Maricopa is on track to meet or exceed this mark again. This acceleration supports our long-stated position that if sustained growth continues throughout Metro Phoenix, we will get

a larger and larger market share of the new homes based on the amount of lot and infrastructure capacity that exists in our service area.

Before turning the call over to Mike to review second quarter and year-to-date financial performance, I wanted to, again, lay out 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 top line revenue growth, while creating operational efficiencies and managing controllable expenses; we will make prudent capital investments, if necessary; we will expand our utility platform via new greenfield opportunities; and finally, we will pursue accretive acquisitions with consolidation benefits.

Accretive tuck-in 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. Additionally, as proven by our 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.

Michael Liebman:

Thank you, Ron. Hello, everyone.

Total revenues for the quarter were \$9.1 million, which was down \$1.7 million, or 15.8%, compared to Q2 of 2018. This decrease is primarily related to the ICFA revenue recognized in Q2 of 2018 that was not reoccurring.

Regulated revenues for the second quarter of 2019 were \$9.1 million, which is an increase of \$671,000, or 8%, compared to Q2 of 2018. This increase is primarily driven by the organic connection growth, in addition to the acquisition connection growth from Turner Ranches and Red Rock. Year-to-date through Q2 of 2019, regulated revenues were \$16.8 million compared to \$15.8 million through 2018. This reflects an increase of \$966,000, or 6.1%. Similar to the quarter, this increase is primarily driven by the organic connection growth, in addition to the acquisition connection growth from both Turner Ranches and Red Rock.

Operating expenses in Q2 2019 were \$6.87 million compared to \$6.73 million in Q2 of 2018. This is an increase of \$142,000, or 2.1%. Notable changes in operating expenses include increased operating and maintenance costs by \$192,000. This increase was primarily driven by: the additional cost associated with the Turner Ranches and Red Rock acquisition of \$183,000, as well as an increase in property tax and contract services, which increased as revenue increases; reduction in G&A expense by \$170,000, which can be attributed to the \$168,000 reduction in deferred compensation expense; and, lastly, increased depreciation expense by \$120,000 due to increase in fixed assets associated with the capital expenditure plan, as well as the acquisitions of Red Rock and Turner Ranches.

Other expense for Q2 of 2019 was \$1.1 million, which was relatively flat compared to 2018. Year-to-date through Q2 of 2019, other expense was \$1.3 million compared to \$2 million in 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 \$306,000.

Turning to net income: For the quarter, Global Water had a net income in Q2 of 2019 of \$779,000, or \$0.04 per share.

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 \$4.5 million in Q2 of 2019, which is up \$541,000, or 13.7%, compared to Q2 of 2018. Adjusted EBITDA was up primarily due to the increases in organic growth of 4.6%, as well as the acquisition growth from Red Rock and Turner Ranches.

I'd like to remind everyone that we were able to extend our \$8 million line of credit, as Ron mentioned, until April 30 of 2020. Previously, it was set to expire on April 30 of 2020—I'm sorry, we extended to April 30 of 2022. It was previously set to expire on April 30 of 2020. We extended the line an additional two years, and this line is currently unused.

This concludes our update on Q2 of 2019 results. I'll now pass the call back to Ron.

Ron Fleming:

Thank you, Mike. It is clear, excluding one-time revenue recognition events and revenue reductions caused by the federal tax reform and corporate rate reduction and the slowdown of our Valencia earn-out, both of which are beyond our control, that Global Water's top line 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 the regional service areas into 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.

This highlight 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're 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 Partners. Please go ahead.

Gerard Sweeney:

Hey. Good morning, Ron and Mike. Thanks for taking my call.

Michael Liebman:

Good morning, Gerry.

Ron Fleming:

Good morning, Gerry.

Gerard Sweeney:

Just a couple questions, specifically around growth a little bit, and you touched upon it in your comments. I track permits in single-family residences in Maricopa. Obviously, 2018 up significantly over '17. Late '18, early '19 almost seemed to slow a little bit, but permit activity since May and June appears to have accelerated even past rates that we saw in 2018. I'm not going to extrapolate it out further, but obviously things have gone very well there, lots of growth. Maybe you can give a little bit of nuance, what's happening on the ground outside of—not just single-family permits, some buildings, some infrastructure, and even some businesses moving into the region that may support even future growth, if that's possible.

Michael Liebman:

Yes. Thanks, Gerry. This is Mike. I'll just hit on the numbers, and we are seeing that acceleration. Q1 seemed to be a little bit of a slowdown compared to 2018. But Q2, as you see, is bringing that percentage back up. We're going up to 4.6%, and even in June and July, we're even seeing additional acceleration. You are correct, and we are seeing the same permit activity happening in the City of Maricopa. On the business side, I'll turn it over to Ron to give you a little bit of color on what we're seeing there.

Ron Fleming:

Yes. Thanks, Mike. Gerry, the City of Maricopa, I think now officially, last summer saw over 53,000 residents. When they did the census last time, they were just below 50,000. That's kind of an important point for a city, certainly remote suburbs such as Maricopa. When you get to north of that 50,000 and there's this type of growth occurring, that's kind of the sweet spot for commercial interest to increase, and that's exactly what we're seeing. We are seeing really more than we've ever seen in that city in our 15-year history there, more commercial development occurring. We expect that to continue right along with the population growth.

Gerard Sweeney:

Got it. That's helpful. Then also just one other question: I'm not sure how much you can comment on it, but I know you've got some other things that you're working on, potentially rate cases and things like that. But any movement on the acquisition front or any comments on that, if possible?

Michael Liebman:

Yes. Gerry, this is Mike. I'll just say, look, we continue to have active conversations and dialogue with folks. There's nothing of real meaning to discuss here at this point, but we are in active dialogue, and we'll continue to chase down some of those. We are dedicating resources as well to the rate case, so that is true. But we still are looking at the acquisition opportunities.

Gerard Sweeney:

Got it. Then final, final question: On the extended two years, any other major changes to any of the rates or anything involved associated with the revolver?

Michael Liebman:

No, no. That's still the same. The terms are still LIBOR plus 2.25%. Nothing's changed on that front. We just were able to extend it to get it—we got about a three-year runway versus what was going to be only one year left. It's good to have that additional couple years.

Gerard Sweeney:

Got it, great. Okay, great. Thanks guys. Appreciate the call.

Michael Liebman:

Thanks, Gerry.

Operator:

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 all those participating in this call for your interest in Global Water. Thank you, and we look forward to speaking with you, again. Take care.

Operator:

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