PCYO - Q1 2026 Earnings Call-20260108_133013UTC-Meeting Recording

January 8, 2026, 1:30PM

55m 58s

Marc Spezialy 0:13
Good morning, everyone, and welcome to Pure Cycle Corporation's first quarter 2026 earnings call. We have had a great start to the year and we're excited to share with you guys our results for the first quarter.
The first quarter, a couple housekeeping notes. The earnings presentation is on our website, so if you're listening on a phone or on replay, you can download the slides from our website. Also, we ask that you stay muted until our Q&A session.
And with that, I will turn over the call to our President and CEO, Mark Harding. Thank you, Mark. And I'll add my welcome. As Mark sort of foreshadowed, we've had a very good first quarter, typically our first quarters.
Usually a little more challenging just because of weather issues. And for those of you that are watching for ski reservations, we've had a pretty dry year and and a good weather year, so it's allowed us to.

+15*****67** 1:12
You.

Marc Spezialy 1:16
Really advance a lot of our construction projects out at Sky Ranch. So with that, let me go ahead and start the presentation. Our first slide is always our forward-looking statement.
Not historical facts contained in the reference in this corporation are forward-looking statements. I'm sure most of you are familiar with our forward-looking statements qualifier. You know always want to give a shout out to our management team and and here with me is Mark Bisali.

+15*****67** 1:38
Awesome.

Ali Khan 1:43
I hear.

+15*****67** 1:45
Yeah.

Ali Khan 1:47
I don't know.

Marc Spezialy 1:51
As well as Serena Finnegan, our controller on the event that they have any specific questions that they might be able to weigh in on, but a great team of professionals that that continue to really provide leadership to the company and really all segments of what it is that we're doing.

Ali Khan 1:52
Starting out.
Maybe to not photo.
How are you?
OK.

+91******86** 2:09
OK.

Marc Spezialy 2:11
As well as our Board of Directors, we have a terrific board, very, very heavyweight board for a company our size and and all are really engaged and and provide significant contributions to the company. But I want to give a shout out to.

+91******86** 2:14
OK.
We.

Marc Spezialy 2:27

Our team and and let you know their continued support and engagement.
As as most of you know, this is just a a quick investment snapshot. You know we've got a a continuing streak of profitable quarters. So we're we're very thrilled that we continue to deliver profitability and shareholder value. You know we operate in all three business segments.

AK **Ali Khan** 2:36
You can.

Marc Spezialy 2:53
Land development, water utilities and single family rentals and they're all doing great. We have good visibility with our land development. We're really.
Really striving to continue to develop and and build our recurring revenue base and then you know our great balance sheet, we continue to build, fortify our strong balance sheets and continue and invest in our business lines as well as grow the business and and create shareholder value. So really.

AK **Ali Khan** 3:07
In between these inputs.

+15*****67** 3:16
2.
I know.

Marc Spezialy 3:21
A solid diversification of the company's activities. Let me jump into the quarter results and as you see from a revenue side, you know great quarter on the revenue Q1 really I think it was a record setting.

+91******86** 3:31
OK.

AK **Ali Khan** 3:33
No, no.

Marc Spezialy 3:37
Q1 for us just because of the seasonality issues and and what we really see on the highlights are we we brought in two new home builders to our portfolio that are really engaged in phase 2D.
Which is what we're working on. We punched out completion of phase 2C at the end of our fiscal year last year and and continuing through with phase 2D and we'll talk a little bit more about 2E coming up, but due to the weather.

+15*****67** 4:00
Yeah.

Marc Spezialy 4:09
You know, we were able to get a lot of the curbs and even asphalt down in the November, December timeframe, which is really unheard of here. So we're about 80% done with the roads in 2D and that's about five or six months ahead of schedule. So really capitalizing on the weather and we really kept.
Our our contractors engaged on the site so that as we continue to have that weather, we were able to capitalize on that.
Moving over to the profitability side, net income and earnings per share, significant increases in net income and earnings per share and that's a result of the progress on phase 2D. So you see a significant uptick in both of those. So we're very pleased to be able to.

+15*****67** 4:39
OK.

Marc Spezialy 4:55
Continue to deliver those results and streamline our our revenues throughout the year and this would be you know a more typical even flow of those of those earnings and those revenue streams. But you know with the seasonality we kind of have those variability factors.
Through the first quarter, we achieved about 1/3 of our fiscal year forecast. So we're ahead of schedule on what our guidance was. Take a look at you know that great

start bringing in a little over 9 million in revenue and then about 6.2 million in gross profit, so.

DG **Dick Guido** 5:13
And and you

Marc Spezialy 5:31
Terrific, terrific results from our management team and our and our operators and and folks in the field. Year to date results, net income, earnings per share. Similarly we're ahead of our guidance, you know we've got about 37%.
Of our full year guidance on that. So terrific, terrific opportunity to continue to deliver that and then really moving forward from how we're looking at.
Developing the land side of it, really being able to be in a position to deliver more results on phase 2E, continuing to produce those lots for our own builder customers.

+91******86** 6:11
Yeah.

Marc Spezialy 6:13
So I really want to take those results and and parse those out a little bit for everyone. So we can separate that out into the three segments and show you kind of what the contributions are for each of those segments, breaking them down into the water utility segment.

TA **Tucker Andersen** 6:24
So.

+15*****67** 6:29
OK.

Marc Spezialy 6:30
As most of you are familiar with, we really have two revenue sources, 22 classes of customers. We have our domestic customers, which is where we deliver water and wastewater to residential units. So those are our customers that are at Sky Ranch, they're at other.

Projects that we provide water service to in other areas. And then we have our industrial customers where we provide water to the oil and gas industry primarily for fracking wells that they're drilling in and around mostly Arapahoe County. We have done wells in other counties, but.
The, the bulk of our activity really centers around Arapahoe County and the Lowry Ranch, which is our service area. And then in those revenues in the water and the wastewater side, we kind of have two different forms of revenues. We have the recurring monthly revenues where we're doing that on a metered basis.

david yehuda 7:16
Can you please?

+19*****46** 7:18
1.

Marc Spezialy 7:26
And then we also have the the capital component of that which are connections which are really connecting to our water system from our home builder customers, our homes, businesses to each individual system connection and and and those are through the form of tap fees and they they're.

+19*****15** 7:35
Yeah.

Marc Spezialy 7:45
Capital costs, which are usually incorporated into a mortgage or you know the development of that business. And so those are the two revenue streams attributable to that. When you parse out that data, we continue to see strong customer growth of the recurring revenue. So we get a 22% customer.

+91******86** 7:48
2.

Marc Spezialy 8:04
Hagar. So we're we're very pleased about continuing to grow that recurring revenue

and while we had a record quarter overall, the water segment a little bit softer than than normal and that was primarily attributable to just the timing of getting building permits.
Getting some of those tap fees and then also taking a a gap in the oil and gas deliveries. We had our oil and gas operators concentrating on building a portfolio of well permits and and we'll see that sort of tick up the rest of the year. We've got a number of wells that have been drilled and completed.

DY **david yehuda** 8:29
Hey, there's nothing. I don't get it.

Marc Spezialy 8:42
Completed and then they're just starting fracking later this month and they'll be fracking most of the year. So you're going to see a substantial uptick in that. You take a look at that in comparative quarters through the last couple of years, you know that shows you really kind of the variability of the oil and gas side, but we do expect that to tip.

+15*****67** 8:44
Finally.

DY **david yehuda** 8:50
Thank you.

Marc Spezialy 9:02
Pick up for the rest of the year. Taking a look at kind of that that one specific industry on the oil and gas side, they fluctuate and that as I said, it really is a function of kind of permits and getting.

DY **david yehuda** 9:03
It.

+19*****15** 9:11
OK.

+91******86** 9:13

Pretty good.

Marc Spezialy 9:17

The sites constructed they're they're building these large multi well pad sites that that will have somewhere between 10 and 20 wells on each of these pad sites. So they're really concentrating their activity to you know a a pad site and they have the directional drilling on these pad sites but.
As you see some of the trending in that this is kind of an annual snapshot of how we look for oil and gas revenues and and you know as an illustration in 2024, they were pretty evenly distributed throughout the quarters. I think you're going to start to see a little bit of that.
Similar activity of the quarterly distribution for the rest of the quarters for us in in fiscal 2026.
X.
What we do like to do is kind of give you a a feel for capacity, you know how much, how much water is available for our high volume customers like the oil and gas customers as well as where we're at on continuing to invest into the company's assets. So what we like to try to do.
Is make sure that we have a steady pace of investment in water and wastewater infrastructure for our customers and and balance that out with the sort of the need for that portfolio. And this kind of shows you we do have a substantial amount of capacity that we've invested in.
And and you know, if you took a look at it just for the quarterly area, you know, really didn't use all that much of it just because of that oil and gas variability. So we're really only using about 3%.
Of our overall water portfolio and then taking a look at you know the capacity that we have for annual production, we can produce about 2800 acre feet and we really only used about 150 acre feet of that. So it does give you a sense of kind of what the pedal strength is on our water portfolio and our water system.
Let's take a look at our land development segment. We're at this. This aerial shot is illustrative of the high school that is under construction. So we're very pleased to see that being coming out of the ground and and that will be completed in.
Time for our kids for the 20 fall of 2026.

In our land development segment, you've heard us talk a lot about the various phases, Phase 2C, which we did complete last fiscal year. We're we're midway a little bit more than midway on Phase 2D and and we have a percent completion methodology for how we recognize revenue on.
That continued lot protection for phase 2D and then also moving into phase 2E which will be about another 160 lots, but we'll start grading on that sometime in this this March time frame.
And really enjoying some of that good weather so that we can continue to do some of that pavement and and and curbs and gutters for delivering those lots. If you take a look at the lot development revenue, this is really where the strength of the quarter came from is really building into.
That phase 2D, we're complete with phase 2C really kind of highlighting some of this if you want to take a look at the number of homes that are being built and that's really kind of a function of the housing market. And I know there's a lot of press out there about the housing market and the strength of the housing market and.

+91******86** 12:49
It.

Marc Spezialy 13:00
How interest rates are impacting that, but we're seeing you know substantial continued support for what it is that we're doing. I think that's largely indicative of our market segmentation as an entry level product. Taking a look at the homes complete or under construction in phase 2B, you know which is really going to balance out the inventory.
For each of our home builders out at the project, we've got about 85% of Phase 2B completely built out. Taking a look at Phase 2C, which is what we just delivered, you know there's we have one of our newer home builders.

+19*****15** 13:20
Yeah.

+91******86** 13:34
OK.

Marc Spezialy 13:35

Going vertical with a strong portion of their portfolio and then we even have one of our new builders into the portfolio already starting homes in phase 2D. Even though we haven't fully completed 2D, we have completed.

Enough of the much of that infrastructure where we've got all the water, sewer, storm, curbs and gutters and access for that for them to start in 2D before we deliver all of those finished lots. And So what you're seeing is you know we typically had annual lot deliveries.

For what was a portfolio of four builders and and and they try and manage out that inventory so that they don't take any more inventory than what they foresee is for an annual year of production. And and as we as as the market sort of slowed, what we saw was that there was availability for.

Or other builders in there. So we moved our portfolio up to seven national home builders working on that. So that gives us a strong portfolio builders that that each of them are continuing to maintain their desired level of inventories and we can continue to pace our.

Development of the project so that we're continuing to accelerate the monetization of the land side. This is kind of an illustration of sort of the the snapshot, the visual snapshot of each of the phases from the subphases from phase two here, some nice aerials.

With segment activities, each of our entry level segmentations on these and and a lot of product diversity where we have you know a a 35 foot lot, 40 foot lot, 45 foot lot on the standard detached, but then we have segmentation into paired product which is a townhome product.

I'm sorry, a duplex product and then also townhome products that that really offer a variety of price points for this entry level market.

The land development timeline, this is kind of a an illustration of how we do the accounting for that, right. There's there's three basic phases that we deliver lots to our home builder customers and that's at a plat where you've got a a a severable title instrument to.

The individual lot and and we typically get a third of our revenue for the lot payment on that. Then we do the grading and wet utilities with that money to deliver that progress payment and then finally moving into the roads, curbs and gutters to get the finished lot payment. So that kind of shows you a.

Phasing of that and it really shows you how we layer in the phasing by quarters and and really I think the the key area for us this year was being able to really substantially do a bunch of finished lots in this Q2, which typically doesn't happen for us just because of the seasonality.
Want to really talk a little bit. We were able to expand and amend our interchange access permit with CDOT and really got us another phase. We've been talking about a lot of these sub phases for.
Two, which started out as about 850 lots and I think we're we have the flexibility to get about another 180 lots in there. And so this space to E is about 159 lots. This gives you an aerial of where that's going to look.
It's right across the street from the school there. And so we'll start grading on this this spring and you're going to start to see a bit more overlap in that in that in that chart we had before on how we deliver those lots to our Humbuilder customers.
As I mentioned, the key milestone was the start of construction of the high school and so this gives us a full K12 campus on site which is very you know it's a it's a high advantage most of our home builder customers really in in a.
In the feedback that they're getting from their purchasers, the the school is one of the key elements that are driving people to Sky Ranch. Just because it's a local school, it's walkable for everybody. You know, it's it's a terrific asset for us.
What we always like to highlight is kind of you know some of the key areas of where the Denver metropolitan area is growing and kind of gives you a perspective. I think this is a graphic that that many of you seen before, but it kind of gives you the fact that we really grow One Direction, right? We can't grow West just because of the mountains and.
And we find ourselves in really the most attractive submarket of the Denver metropolitan area along the I-70 corridor. If you're looking at the the mapping on the right of this illustration, that black line at the top is the Interstate I-70 shows you where Sky Ranch is positioned on that and then the the.
The pink area is really our service area, the Lowry Ranch and what you're seeing is you know more and more development occurring around the borders of the Lowry Ranch. And and so you know we're excited about continuing to expand our operations out at the Lowry property as the state of Colorado.
Determines what it is that they're looking for and how they'd like to monetize that asset for the school trust.
I want to give you an update on single family rental segment. We've got 19 homes

now completed and all rented. So that segment continues to drive recurring revenues. We've got another 40 units under contract.
And what we're trying to do is phase how those really hit the market. We're trying to phase those as around four or five units coming on the line each month and that'll start beginning in May and then bringing those units online so that we make sure that we can get them leased and continue to really offer.
An opportunity for those who are looking for a house but are running into the affordability challenges and that that continues to be one of the key issues in the housing market is the affordability. Taking a look at some of the individual performance on their continued growth in the rentals, that's because adding more.
Units online as well as capital appreciation of those assets is a very tax advantage segment for us because we retain the equity of the lot and the water service connections in there and and those houses continue to grow in value as we continue to add value to the overall community.
Little bit about kind of the phasing of how we're looking at bringing these units online for each of these different phases from you know the first phase one which we completed several years ago up to what we're looking for in two E so bringing online about 100 units.
For that.
I'll talk a little bit about our capital allocation and kind of how we're building that continued shareholder value. Really, you know, want to emphasize each of these segments, the water segment where we're growing assets in each of these segments through investing in them, whether we're investing into the brick and mortar of the land segment.

+19*****15** 20:50
Yeah.

Marc Spezialy 20:53
Whether we're investing into pumps and pipes and and and diversion structures for our water segment and then building our home inventory for a single family liquidity, we continue to grow the balance sheet in all three of these segments.
And then really take a look at you know protecting and preserving the balance sheet so that we can have that liquidity for continuing to invest in our each business segments and and deliver recurring revenues for our our customers.

How that looks, you know we drive shareholder returns through those recurring revenues and water single-family units and a diversified mix of of revenue from tap fees to industrial water fees. We have oil and gas royalties which were were substantially.
They were very strong last year. We continue to build our earnings and and really each of these segments kind of build value from each other. So there's a vertical integration in some of those segments that give us where we get value to one, we're adding value to all.
Shareholder value, it's re-rates our fiscal year guidance as well as gives you some interim and build out forecast revenues for our asset growth. So when you take a look at kind of the segments of the revenues, the water recurring revenues as well as single-family rental revenues gives you snapshot how we're building that.
Through the portfolio as well as what that asset growth is, we've talked substantially about kind of bringing on that asset value from Sky Ranch, building out the rest of the residential projects as well as the commercial projects, so.

+19*****15** 22:24
OK.
2.

Marc Spezialy 22:35
Great opportunities and and we continue to execute on that trending. This illustrates the profitability trend and our fiscal year guidance and kind of the near term outlook. So again we want to stay on pace with that. We've got a great quarter on delivering you know ahead of schedule and ahead of results on.

+19*****15** 22:54
2.

Marc Spezialy 22:55
Fiscal 2026 and then this kind of shows you as we get that interchange constructed, you know how we look to open up and unlock the balance of the portfolio value valuation and sensitivities. Our fiscal year guidance was in that that 26 to $30 million range.
Earnings per share, 43 to $0.52 per share and kind of the upside in the timing

acceleration for delivering some of those lots and how we might continue that trend. Continuing to reinvest in ourselves with our share buyback program and balance the liquidity needs of the company and and how we're investing into each of our land assets against what we continue to believe is an undervaluation of the company's current trading products.
What I also wanted to do a bit of a new slide this this quarter and really kind of illustrate you've heard us talk about the interchange, its importance and and kind of how it's phasing and and what we're looking to do is get that that permit finalized with the county and and CDOT sometime early.

+19*****15** 23:53
OK.

Marc Spezialy 24:05
Half of this year and then really take a look at the bonding opportunities with some mill levies that we've reserved at the at the project and start construction on that in 2027. But this is kind of what it looks like and and how it's going to Orientate to the to the overall development.
We're looking that the existing interchange will go away. We'll realign that along the section line and give it kind of a diamond, diamond interchange capacity here. And so this is obviously an important component for us to continue to build into phase three as well as bringing online.
The commercial opportunities for that?
Taking a look at a little bit longer range outlook, the the commercial parcels really provide a lot of the high value land and and and a lot of the AV that assessed value is really where the public improvement reimbursables get their strength on.
You know us not having to advance those funds getting reimbursed, I think our, our, our, our receivable on that's currently around $50 million. And so the the combination of the assessed value, Colorado's what we define as a sales tax incentive stage. So we get.

+15*****67** 25:10
OK.

Marc Spezialy 25:21

Literally four times the tax revenues from commercial assessed value as we do residential assessed value. And then in this particular case, we get public improvement fees on that, which is really a sales tax.
Receipt on that. So those two are significant revenue drivers and and and so this kind of gives you a feel for some of the land planning that we're doing there with some some grocery anchors and then you know taking a look at a flex building structure like this where.
You know what we're looking at is maybe offering opportunities for us to to partner with others that might be high water users. You know some of the current activity we've we've engaged local realtor, real, real estate, commercial, industrial real estate brokers that are very active.
In data centers and and you know we have a very unique opportunity here at Sky Ranch and and together with Pure Cycle given the fact that we have a high availability of water. So we can we can really distinguish ourselves for these high water use and high water intensive.
Uh, type users. So uh, we'll see how that develops over the next uh few months, year or so.
So with that, those are our prepared remarks and maybe what we can do is open it up to some questions and get a little bit of color if you'd like on kind of how things are rolling along. So if you're on mute or if you're not on mute and you've been quiet, thank you and you know, just go ahead and.

+19*****15** 26:56
OK.

Marc Spezialy 27:01
Shout out and if you've got a question, we'll try and give you give you some detail.

EK **Eliot Knight** 27:11
Mark. Yes, Elliot. Good morning.

+91******86** 27:13
Hello.

+19*****15** 27:18
and I.

Eliot Knight 27:18
Very interesting to see you put the estimates of earnings out there. There was one pretty obvious blank and that was for fiscal 27. What should we be thinking about in terms of estimated?

Marc Spezialy 27:35
Earnings range for fiscal 27, good question. You know what you know 27 is going to be a large component of phase 2E and then taking a look at you know how we roll into.
Some of the Interstate construction and some of the other segments. So I think it's going to look a lot like the last couple of years. There's not going to be a real breakout year in 2027, but we really think that breakout year is going to be more once we get the interchange complete and get that commercial online and into development, there are opportunities.

+19*****15** 28:03
The.

Marc Spezialy 28:11
Opportunities to do non high traffic commercial users out there that we're marketing to, but as we continue to grow traffic, we have that obligation to kind of continue to build that infrastructure.
OK. So probably $0.75 a share is too high for fiscal 27 is what I think you're saying.
Yeah, I I wouldn't say that that would be a a good clear guidance. But you know when we take a look at that commercial and bringing on you know that in that 2028 time frame, you really do supercharge.
Because what we're really going to see, we're going to see delivery of lots on the residential side and then we think we double up on that revenue stream on the delivery lots on the commercial side.

Eliot Knight 28:55

OK, um.
Refresh my mind. I can't remember whether on taps sold, the pretax margin is 50% or 60%. Which is it?

Marc Spezialy 29:11
That's a great question. You know when we look at it on the aggregate, if you look at the build out of you know what will be 60,000 units of it, we believe that margins around 50% because we have to continue to build that system.

+19*****15** 29:20
OK.

Marc Spezialy 29:28
In a more short-term basis, I think we're seeing a lot more margin on those because we we kept ahead on developing capacity on that. And so you know when when we're looking at year over year in the last couple of years and the next couple of years, those margins might be a little bit higher on that, but when we.
If you look at it on an average build out, you know if you take 40,000, $40,000 applied to 60,000 taps at $2.4 billion revenue potential on that, that's usually about it's going to cost us about $1.2 billion to build that system out, but I.
Think near term because we have that excess capacity, those those actual realized margins are going to be higher than that 50%.

EK **Eliot Knight** 30:17
OK. So when you in the past have talked about we're going to have to spend a billion dollars, that billion dollars.
Is is it amortized in the cost when?
Is the.
50% pre-tax margin after including amortization of that billion dollars that you talk about. That's including, yes, OK.

Marc Spezialy 30:51
It is included.

Eliot Knight 30:53
OK. Thank you very much.

Marc Spezialy 30:56
You bet.

Tucker Andersen 31:01
Mark Tucker Anderson, can you hear me? I can Tucker. Nice to hear from you. First, I'd like to take a minute as long as you guys were nice enough to provide it to shout out hello to my old friend Elliot Knight. But anyway, couple couple questions. First, what do you see as the opportunities for water acquisition?

+91******86** 31:13
Ha ha.

Tucker Andersen 31:21
At this point, as you've talked about in the past, you're always on the lookout for adding to your.

Marc Spezialy 31:25
Water acquisition and opportunities for you to utilizing that water. Could you talk about that broadly? You bet you know I'd say we've got a very strong water portfolio right now and and when we take a look at water acquisitions cause we always do and and and you know we're one of the ones that.

+91******86** 31:27
Yeah.

Marc Spezialy 31:45
You know, folks are are constantly knocking on doors with projects.
I think our our we're we're we're content with where our portfolio is today and our acquisitions are really going to be strategic where they are adjacent to our existing portfolio, right. They provide the most economies of adding to it and.
The synergies around where we've got our investments today. So I would say you

know our our appetite for water acquisitions is probably it has to be the right water, right, it has to be in the right location.
And so it it, you know, I I'd say we're more cautious about water acquisitions than I think we would otherwise be in maybe some of the other areas like land. We'd be more aggressive on land acquisitions than water acquisitions right now just because we want.
Want more portfolio on vertically integrating that value because where we buy that land, we have water that we can serve it, we have infrastructure that that's there that we can serve it and then you know building into the land portfolio and then single family rental portfolio that really that drives all three segments where a water.

+91******86** 32:54
We.

Marc Spezialy 33:01
Acquisition would be nice. It will be valuable because we're not making anymore and in fact it's getting drier and drier. So you know the existing water rights continue to to illustrate value, but it's a bit, it's a bit, we already have deep portfolio there. So Tucker, I would say.

Tucker Andersen 33:20
They have to be the right water right in the right location. Well, you've you've just segued into the next topic on my on my question list here and that is what's happening in the area of land acquisitions given the sort of.
Tension between home building having slowed down substantially, but you still being in a fairly rapidly growing area where, as you pointed out, you can only grow in so many directions and and are you seeing, are you more optimistic, less optimistic or sort of sort of the same in terms of your?

+91******86** 33:48
6.

Marc Spezialy 33:55
Potential for land acquisitions, I'm more optimistic. You know, I'd say conversations that we've had, you know with the landowners through the years and and and where

they were previously to where they are today are much more interesting and much more active. So I would say I'm more optimistic about.
Where that sits for us to expand our portfolio and really, you know, show a stronger runway of, you know, beyond the six, $700 million that we think we're going to monetize out of Sky Ranch.

Tucker Andersen 34:33
Well, I I I look forward to that. Although you know my my baseline comparison was always going to be the attractiveness of Sky Ranch and I'm not expecting you to buy anything quite that attractive at this point.

Marc Spezialy 34:44
Well, if you're you're right about that and and I I'd hate to see the economy that leads us to what it would look, what what it looked like when I did acquire Sky Ranch, but notwithstanding, yeah.

Tucker Andersen 34:57
Yeah, exactly. We don't want that. Third, in terms of, in terms of the, I found the data center comment interesting. Where in your area are there potential locations of data center and data centers and how does that sort of fit in with your service area?

Marc Spezialy 35:15
Great question. And and you know we spent a bit of a time working on this, this data center opportunities. You know there's a lot, a lot of money sitting waiting for ready to go sites and and there's really.
There's three metrics for a data center. You know what are the property location, availability of of power and availability of water. And and I'd say we have the the the advantage that we have is we have the water side and and a lot of these cities and municip.

+91******86** 35:49
Yeah.

Marc Spezialy 35:50
Municipalities really don't want that type of user just because it doesn't. It doesn't

grow their AV as fast. They may end up having to commit 5700 homes worth of water to 1 user and that user's not going to have the same tax base as that.
700 homes worth wood. And so we have the ability of providing that water to them. We're long. It's a good, it's a good allocation for us. You know, the sighting of it is less important. They can, they can move around, but they do need to be close to water. They do need to be close to power and because of.
Ranches location, it really does check all those boxes and and so we have had conversations with specific users. We've had engagement with Cushman and and they're, you know, they're the one of the largest.
Brokers that are managing sites for data centers. So we're very, we're very, we're very optimistic that that might lead to a great opportunity for us.

TA **Tucker Andersen** 36:59
And last, my question is in in your market, what's happening to price appreciation? In general, in the Denver market on existing homes and two, is your first phase or maybe your first two phases been in existence long enough so that you're starting to see resales and how those resales compare to the owner's original cost?

Marc Spezialy 37:22
Yeah, we are seeing great appreciation on the resales in Sky Ranch and and I think that's attributable to you know when we broke into the market, you know we had, we had a very, you know, attractive lot value which allowed our home builders to have a very attractive.
Home price. And so some of the phase one home prices are up as much as 3040% since they were built, which is terrific for, you know, the the community. It's terrific for those homeowners. You know, on average home appreciation is in that 4 to 5% on a national average, I'd say.
We're seeing a little bit stronger performance on that at Sky Ranch because you're getting more amenities, you're getting schools, you're getting, you know, a more mature community on that and there's less inventory at this price point. And so if you bought a house for 430,000.
$1000 you know that appreciation is gonna it's it. There's still no homes for sale sub 500. And so there's a lot of opportunity for appreciation of those homes sub 500.

+19*****15** 38:31
U.

Tucker Andersen 38:33
So that makes Sky Ranch Ranch then. That's one of the real attractions for your existing builders then, in effect.

Marc Spezialy 38:39
It is, it is that's that I I'd say that's why you know in a in a relatively weak market and and you can see in some of the local press where a lot of home builders are dropping a lot of projects in and around the metropolitan area, but we're getting, we're getting new home builders in our existing project.
Thanks, Mark. Keep up the good work. Thanks, Doctor. Good to hear from you.

Joakim By 39:06
Hi, Mark and Tim. This is Joakim from Circlus Asset Management in Stockholm, Sweden. How are you?
Great to see you. Thanks a lot. So I have two questions and the and the first one was on the guidance range. It would be interesting to hear you elaborate a little bit around the the two different it was quite broad outcomes.

Marc Spezialy 39:31
I I'd say that again. The interest, oh, the guidance rate, the guidance rate, I I, you know what that's gonna be is really a a a flex into how much oil and gas we get in there.

Joakim By 39:31
And it would be interesting to hear what the guidance range that you provided for the year.

Marc Spezialy 39:49
You know, we they they pay us to be at their beck and call, right. They pay us a lot of a high rate for delivering raw water and they want a ton of water, but they go from zero to 100 in days, right? And so sometimes it depends on.

+91******86** 39:50
Hmm.

Marc Spezialy 40:08
You know how the how the rig availability is, how you know what I do know is they have all their permits lined up and then you know they've constructed their pad sites and so it's a matter of keeping that rig on site. So I know they drilled 10 wells on one pad site. They're currently drilling I think another dozen wells on another.
Other pad site. So we see some four, we see some, there's some foreseeability into 20 between 20 and 35 wells on that. And so that's kind of the that's the range on that because it is a high.

Joakim By 40:39
No.
A high margin opportunity for us. OK, great. Thanks. The other question was around water assets, if you have seen water prices starting to creep up and and I think, I think that's the general trend and what's the pricing?
Water assets right now and what would be the kind of the worth of the water if you marked it to market, so to say?

Marc Spezialy 41:10
Yep, great question. And there's two benchmarks for that. You know, we continue to see strength and appreciation in the tap fees. So our tap fees over the last say three or four years have increased around 6-7 percent per year. So we're up or up north of around.

Joakim By 41:11
Mhm.
Mhm.

Marc Spezialy 41:30
$42,000 a year in our water and wastewater connections.

Joakim By 41:31
Mm.

Marc Spezialy 41:34
And then when taking a look at just the straight cost per acre foot, you know we bought some water in a in a strategic location. Our first farm that we bought in that location was about four years ago, four or five years ago we paid about 9700.
$100 per acre foot for that and most recent transactions are north of $20,000 an acre foot. So you know that gives you kind of two different benchmarks, actual acre foot purchases as well as.

Joakim By 41:59
OK.
Mhm.

Marc Spezialy 42:10
The strength of the service model that we have and and providing service on those 60,000 connections.

Joakim By 42:12
Mm.
OK, thanks a lot and and have a nice day. You too.

Marc Spezialy 42:30
Maybe I'll just take a second too. I know you got, I don't know if you were asking specifically about our guidance in fiscal 2028, kind of where that's coming from. But you know a lot of what we're projecting after the interchange in 2027 is the ability to sell some of that commercial along with phase three.

+15*****67** 42:32
But.
Yeah.

Marc Spezialy 42:49

So when we when we add the capacity to Sky Ranch, you know our lot, our lot revenue will really be able to scale as long as the market holds it with some commercial lots as additional to some home lot. So you know in 2025-2026.

+15*****67** 42:49
I.

Marc Spezialy 43:05
We're just selling residential lots in subphases into to kind of stay within our capacity limits of the interchange. What we kind of see in 2028 and beyond is the ability to do residential as well as commercial. I don't know if that was kind of specifically what your question was related to, but but that's really the big change that you see.
And some of the guidance that we're we're expecting in in the future. So I don't know if you want to comment on that or yeah that's a that's that's a good clarification.

Joakim By 43:33
Thanks a lot. That's that's super helpful.

Marc Spezialy 43:40
I'll just remind anybody who's only on phone. If you're not able to communicate, you can hit star 6.

Eliot Knight 43:42
No, no.

Marc Spezialy 43:49
Um.
To be unmuted if you're on phone.

+19*****46** 43:51
In the main.

Eliot Knight 43:55
In in the meantime, if nobody has a question, would you talk a little bit, Mark, about

what's going on at the Lowry Ranch? Your comments suggested again.
That building is right up to it.
I know you don't speak for the landlord, nor do you want to, but do you have any sense at all as to whether they are giving thought?
To starting to develop that land commercially because.
We have an exclusive there and it's 20 times the size of Sky Ranch.

Marc Spezialy 44:40
Those are, those are the the correct stats. So you're right, I, you know, we continue to to believe that's our our, our most valuable asset, right. You know how you monetize water, it's nice to buy water, right.
But it's very hard to kind of monetize water rights other than providing service and and our model of providing service, you know, we're investing in infrastructure. We have a franchise service area at the Lowry Ranch it is.
It is one of the most unique properties in the country, right? There's no property like, you know, having 27,000 acres of continuous land right next to a metropolitan area.
And and you know when we when we got into this 30 years ago and I I I see my my good friend **** Guido on the call.
Who is one of our, you know, you date back to, you know, 1990 and and Elliott, you were you were around in 1990 as as as likely Tucker was very closely after that. But you know it was so far away from the Denver area, right?

+91******86** 45:37
OK.

Eliot Knight 45:41
I was next.

Geoff 45:47
Away from the Denver area, right?

Marc Spezialy 45:49
You take a look at the the migration.
You take a look at the of of the Denver area over that period of time and surrounding Lowry and and and you know where the landlord was looking at kind of

monetizing and generating revenue for those assets back in 1990 and where that opportunity is 30 years.

Geoff 45:54
There we go.
The network is looking at kind of modifying generation 7 or.

Marc Spezialy 46:11
Later, you know, it just has has tremendous value and it's really an asset for the public education, the K12 public education system here. It's, you know, I can't help but be excited about all of the activity surrounding it.
And and really the the significant opportunities that the state has with it, but you know it is, it is their asset, it is an asset that they look at holistically and saying we want to do everything we can and and everything possible with that that some of those lands.
Are going to be conserved. Some of those lands are going to be you know for a multi revenue use purpose. Some of those lands are going to be developed and and so the the magnitude of the challenge for them on that is really just to figure out what the best way to use it and and you know it's hard when you're taking a look at. How am I gonna eat this elephant? You know, and it's one bite at a time. You know, you can't look at it holistically. It's 27,000 acres. You've got to scale it back and look at, you know, what am I gonna, what are the opportunities with some of the most?
In demand parcels and and how do we look at that and and how do we want to continue to participate with that you know one of the things that.
We've done and and increase our portfolio is we have the ability to help them develop it. You know, whereas in 30 years ago we were just looking at the water utility side and now our portfolio looks that we can help develop the land, we can develop the infrastructure, we can develop the open space, we can develop recreational uses, we can develop a whole bunch.
Of things that would would check all the boxes that they're looking for on that. And so how do we match those up with their needs, their wishes and their timeline and and you know we're we're very active on that, you know, but we're not trying to get over our skis ahead of them on that either. So we want to be partners, we want to be.

+91******86** 48:09

OK.

Marc Spezialy 48:18

A catalyst in it and we also want to make sure that you know we we are, we are a strong advocate for you know their their wishes and their desires for the property.

+91******86** 48:33

Thank you.

Geoff 48:36

Mark, can you hear me? I can.

Marc Spezialy 48:40

I was interested in that the slide that had commercial development on it. I think it was the first time, wasn't it? Yeah, yeah, yeah. We want that. That's kind of wanted to kind of give you 2 things because we talk about that interchange all the time and you know, to give you a relative perspective of the importance of that relative to the overall project.

Geoff 48:59

From a practical, practical perspective, is the commercial development dependent on the new interchange? It is, yeah.

Marc Spezialy 49:10

And what's the timing on the interchange, realistic timing. So I think we get that, you know we've been working on that permit for the last three years with the county and CDOT. We're we're fairly close to getting that submittal and you know the submittal on it's going to be like 2000 pages of.

You name it. Engineering, rights of ways, designs, permitting, you know, traffic control, everything associated with it. And then, you know, they each stage of that over the last three years, they've reviewed, they've commented, they've kind of.

Uh, set the uh, set the parameters on that.

And then so we'll get that done into them sort of this spring, you know they'll review

it in its completeness then then we move forward to final design concurrently with that and and the bonding of that later in the year and then we look to go to.
Bid for the interchange sometime end of the year and be under contract for construction in 2027.
And and it'll only take, you know, probably 6-9 months, probably nine months to to construct. It's not a, as you saw, it's not a hugely complex one and we're able to take advantage of existing on off ramps. We're just really constructing a new bridge. Wider bridge, longer, longer ramps to the.

Geoff 50:41
New one. So if things went according to that plan, it would be completed construction beginning of 2028 calendar.

Marc Spezialy 50:52
Yeah, yeah.

Geoff 50:56
OK. You didn't talk anything mention public comments and and opportunities for the public to delay or stop. Is that going to be an issue? I that's a good question. I'm not sure that there is a comment.

Marc Spezialy 51:15
Period for that cause it's it's it's an it's it's just replacing an existing interchange. So if it were a new interchange, it might be a little bit different process, but because we're just it's an existing interchange replacement upgrade.

Geoff 51:34
OK. That's all I had. Thanks, Mark. Yeah, good to see you, Jeff.

Jacob Westphal 51:41
Hey, Mark. Yeah. Hey. So I just wanted to ask on the data center potential. A lot of people don't like living near data centers. And so how are you thinking about where this location would be within Sky Ranch?

Marc Spezialy 51:42
Jacob.

Jacob Westphal 51:57
And then also obviously a good way to unlock, you know, some of that water capacity, but would you be able to monetize it at the same rate as like a single family home? So if there's.

Marc Spezialy 52:13
If it if the data center's 500, you know single family homes, would you be able to charge them a similar rate for that? Good questions, both of them on the first one location, you know we're we're sort of talking if if we.
Look at the site that we're currently evaluating, it would be tucked up into kind of that top corner of the commercial parcel. So nobody would be living next to it, next to it being a relative term. What is next to it, you know is, is, is next to it being a few 100 feet, is next to it being?
You know, 1/4 of a mile. So that's kind of the separation that we would see between that land use and our residential land use. So I do think we've got, you know, a good spacing and a good buffering opportunity for that. We're not just looking at that one site, we're looking at other sites.
That are going to be more remote where we could get water to them on a more remote basis and maybe it's where power is more accessible in a more remote location. These data centers are not site specific and quite frankly being next to the Interstate isn't what they would.
Otherwise need. They don't need that kind of access that we have that site that that site's zoned, permitted, ready to go with all of the water up there is super attractive, right? So a lot of these are, you know, what's the availability? What's your timeline? Can we, can we jump into a site sooner rather than later?
And so all those things are are attractive for Sky Ranch because it's already ready to go as it relates to, you know, what that water supply might look like that that's a little bit, you know, there's a lot of nuances in that because they don't need full potable water, right. They don't need that same level of service.
That you know they're not going to be drinking that water supply. So we've had conversations with them about water quality, water, raw water service that might

have a little bit of a price incentive for them where we don't have the same level of cost, we don't have the same level of water quality monitoring, those sorts.
Of things. So that one's TBD. You know, we do want to capitalize on the value of our water supply, but we also are cognizant of the fact that we're very long on water supply and maybe we have a supply agreement with them for a period of time that would be look one way and maybe get that water back in another way to give them some.
Incentive so that we're not losing 60,000 units worth of capacity, but then we're also using that water in the interim. So there's all of those opportunities with that type of customer.

+17*****77** 55:02
I

Marc Spezialy 55:03
Thanks, Mark. You bet. Great question.
Well, if there's no other, you know, thoughts on the quarter, you know, don't hesitate. If you're listening to this on rebroadcast or your technology didn't work, or you had a you got distracted and had to run up something else, don't hesitate to give me a holler.
You know, we're continuing to really accelerate the company and we're very excited about where we're at. We're excited about execution and we're excited about how things are going to look for the coming quarters and coming years. So thank you all for your continued support and we wish you very best in the new year.
Back mark.

+91******86** 55:49
Thanks, Mark.

Marc Spezialy 55:52
Xbox.

◉ stopped transcription