

# PCYO - Q2 2026 Earnings Call-Meeting Recording

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1h 13m 49s



**Marc Spezialy** 0:18

Good morning, everyone, and welcome to Pure Cycle Corporation's second quarter 2026 earnings call.



**Marc Spezialy** 0:26

As in prior quarters, we'll start the present. We'll start the call with a presentation from our CEO, Mark Harding, and then we'll provide time for questions and answers afterwards. The person you're trying to reach is not available at the tone. Please record your message. When you have finished recording, you may hang up.



**Marc Spezialy** 1:04

OK. All right. Sorry about that. So we'll start the earnings call with a presentation from Mark Harding and then we'll open up the lines for questions and answers afterwards. Without further ado, I'd like to introduce Mark Harding, our CEO. Thank you. Good morning, everyone.

My wingmen today are Mark Spezali, our CFO, and our controller Serena Finnegan. So if you have any tough questions, we'll have a solid team to weigh in on all of the details here.

For those of you that are looking at this, we do have a deck for this. It's on our website. I think it's on our landing page. You can click on that and then we'll be able to advance through the presentation and give you the details on it.

So with that, I'll start and start with our forward-looking statements. Statements that are not historical facts contained or incorporated by reference in this presentation are forward-looking statements as that is the meaning of the Securities and Exchange Act. Most of you are familiar with that.

Next slide, I want to continue to emphasize the team that we get to work with an outstanding team of professionals that really bring their game every day. And so it

helps us, it helps Dr. value for the corporation. So continued.

Shout out to our management team, also our Board of Directors. I do want to welcome our newest board of member Dan Roller and look forward to working with him. He is actively engaged and really working with the directors and the team, so we look forward to working with him.

Let's take a look at kind of the investment snapshot here. We continue to deliver shareholder returns and returns on our assets through consistent and profitable results, continuing our street with 27th.

Continuous profitable quarter here, we're growing our revenues, our recurring revenues and durable revenues through all three business segments. We continue to grow our asset base by delivering lots to our national home builder customers as close to a just in time basis and and really doing that to really.

Match market demands and and we do see a lot of cyclical nature in the housing market. Water is a little bit more tempered in that, but we continue to really focus on our assets and monetizing our assets and build shareholder value.

Really through our our strong balance sheet and and strong liquidity position, let's dive right into the results. Really had a great quarter and and this year's been a a more tempered year to be able to even out our our revenues and our.

Our cash flows on this and that's really been a function of a very, very mild winter for for my fellow skiers. We're mourning the loss of a ski season, but we're celebrating the opportunity for us to really do a lot of the work that we can't do seasonally in the.

In the winter by a lot of the concrete work and the asphalt work. So what you see is kind of a more even paced development where we're able to through our cost of completion on our project be able to even out these cash flows on it.

Quarter over quarter revenue, this first six months about 5.1 million in revenue, about 2.8 million in gross profit and and really those are driven by those percent completions on delivering our our lots to our customers we're about.

As much as six months ahead of schedule on some of the lot deliveries on that. And so a lot of our builders are are equally thrilled with that because they were able to get out in the field and put up some model homes for this spring season.

Taking a look at net income and earnings per share, again, those are going to match really exceeding our guidance typically on quarter over quarter just because of the advancements on our projects on that. So net income a little over a million earnings per share.

About \$0.05 per share and really this is up by about 36%, really driven by all segments, mostly land, but water as well as single family rentals. We're adding a few more of our rental segments in there and we'll have a little bit more color on that later, but also seeing a bit of an uptick in our.

Water through industrial water sales to oil and gas operators this year, taking a look at just the comparison to our guidance, our full year guidance. So we're right at that 50%.

Our guidance through halfway through the year. So that's a bit unusual for us just because the winter quarters are usually our weakest year or weakest quarter of the year just because of the seasonality of weather out here and so we're about 14.3 million.

In total revenue of our close to \$30 million forecast or guidance and then profit at about 9 million to our about 19,000,000 guidance on that. So really terrific results year over year.

Moving to net income and earnings per share, also we see those pacing more evenly through the year. Margin results are showing a bit more moderated because we have advancements and investments.

Into the delivery of lots slightly ahead of our contract delivery. So those will normalize through the rest of the year and really kind of help us temper those floats. So specifically with the the quarter end results, what I'd like to do is kind of drill down to each of these segments and talk a little bit about what it is that each of these are driving for us.

One of the things I recently heard was an acronym called HALO, which is used to describe some companies that in the context of this, it's a heavy asset, low obsolescence and I found that pretty descriptive over our company and you can't get a more low obsolescent asset.

Set then water utilities and so we'll drill down on the water utilities and and talk specifically about what we're seeing in that that growth and and margin opportunities. We really deliver water to customers kind of in three various segments. We have our our domestic deliveries which is.

Your potable water that we deliver to residential and commercial users. We have our industrial segment which delivers water to our oil and gas operators and then we have continued customer growth which is our connection fees and those are one time fees that are paid by our.

Homebuilder customers and then that just adds to the customer growth of the

overall segments.

Taking a look at revenues on 1/4 year to date basis, we continue to see some customer growth corresponding revenues driven by the connection fees which is really adding new customers to the to the system.

Our oil and gas revenues are up this year and I think we'll see a very strong performance in industrial water sales and then just monthly water and wastewater sales continue to grow. And that's really a function of, you know, continued growth in the the rates.

As well as the number of customers for that.

Detailing out the industrial segment, our oil and gas sales are up significantly over last year's primarily because last year was largely a permitting year for our our operators, mostly our largest operator.

Who was working to secure as many as 200 permits in and around our service area and really that's translated into increased drilling and increased fracking this year, which is really turning out quite well for them given the the rise in oil prices. So they couldn't have timed that better for bringing a lot of that new supply online.

The outlook looks very good for this year. I think we'll exceed our guidance that we had taken a look at this year and and I think it's going to continue into the future, right. We we see you know rigs that we have a dedicated rig to our service area which is drilling.

Some of those 200 well permits and that'll probably take them somewhere around the three years to drill all those wells. You know our revenue per while continues to strengthen. We do have a multi-year contract with our operators to deliver these water supplies, so.

It allows us to do some strength and planning and then also making sure that our infrastructure is capable of not only meeting our industrial, but the domestic demands on that.

One of the things that we like to highlight in our water segment is the capacity that we have and and the fact that you know we continue to grow in developing this capacity. But yet we're still only using a small fraction of our portfolio while we generate significant revenues from this segment and and really at very attractive margins.

When we're really looking at that variable demand for oil and gas, they do have a preferential pricing on that where we do get a premium on that to make that water supplies available to them as they need that in the in the volumes that they need.

Let me move into highlighting our land development segment. This is a nice aerial of our high school at Sky Ranch that's being constructed. So we're very excited about that.

It'll it'll really deliver not just you know it's a full K12 campus. So we've got the primary school which is AK8 as well as our high school there and and really a lot of the relocation and and.

Customer feedback on buying in the community is a function of the school campus that we have here. We're we're delighted to continue to work with our charter school operator, National Heritage Academy, our terrific partners and bringing educational excellence at Sky Ranch.

Talking a little bit about how we're delivering lots. So this this fiscal year really focusing on punching out phase 2C which was about 228 lots and we're about 95% complete with that and then also.

Phase 2D, which we're almost 80% complete on that and really that's the big advancements for this quarter. Over the winter months we were able to get a lot of that infrastructure in the ground. Very proud of our portfolio of home builder customers.

You know all of the major home builders including the Lennar, Dr. Horton, KB, Taylor, Morrison, Challenger, Pulte, Oakwood, all bring entry level homes to the Denver market. Phase two started out with about 780 homes, but through some product alignments and.

Diversification that's really grown to about a little over 1000 lots in that area. So we do see a significant uptick in our density out at Sky Ranch and that's terrific for us. Not only does that allow us to deliver more lots, but it allows us to increase the assessed value which really has an impact.

Fact on generating additional capacity, bonding capacity within the district to repay our reimbursables on that, which you see us continue to grow. Let's drill down a little bit on that land development by phase period over period. You know the revenues really did crush it, we.

Really are generating significant Q2 revenues, more of a function of that mild winter and an opportunity for us to kind of turn up the volume and get that.

That pavement down and and and finish those lots so that the home builders can get those building permits and really start getting their model homes up for the selling season. We do see an uptick in traffic out of Sky Ranch. All our builders are seeing an uptick on that and a little bit more of a conversion to that.

There's lots of reasons, you know that that housing has variable demands, whether that's interest rate sensitivities and we see a little bit of volatility in the interest rate segment. I think that still is the number one incentive that our home builders are offering is a mortgage buy down.

I think they're they're they're hitting that sweet spot of trying to buy down those mortgages right below that 5% range, so that 4.99. So when you see a lot of that adjustments from the Federal Reserve on interest rates, you know that may not have as big an impact on this particular segmentation.

Of it just because that's the primary incentive that our our home builders are offering our our our first time buyers in in converting those into sales.

The pace of our land development will normalize through the rest of the year. We really do have a little bit to complete in that phase 2D and then are really moving into grading the next phase, which is going to be 2E. That's about another we got. Another good slide on kind of the the visual aspect of completing out each of these. And so as you see you can see that in the the lower left cell there where we've got a number of homes that are up and constructed for.

That phase 2C and then phase 2D, while it's a little bit out of the picture on this, we do have model home lots being developed in there. So we have really two active phases that are complete where they're developing lots. So we've got about.

Maybe 430 lots available for home builders to really tap the market on a on a variety of products. We've got all all phases of the products, whether they're a standard 40 detached, 45 foot front load, 45 foot rear load, 35 foot rear load.

Duplexes, townhomes, we really have a a very strong portfolio of diversity of product type out there which is really creating opportunities for for almost every type of home buyer in that.

Moving on to kind of the development timeline here, this gives you kind of a an overview of our phasing and and as most of you know most of our contracts are geared towards a a system of developing a.

Portion of the infrastructure in phases and then having once that's complete, having our home builder customers reimburse us and support the next phase of the development activity and so we get payments at the plat stage.

Which is when we finish the recorded plat and there's a real property interest that they acquire and then a second payment which is at the completion of wet utilities once we're done with the water, sewer and storm facilities on.

The phase and then finally that third payment at finish lot phase. And so that's where

you saw some of those lots being pulled forward on being able to finish a number of those lots on Q2. As I started to allude to, we are starting phase 2 E, so our grading contractors mobilizing on site.

We'll be hitting that this month and really those are about 160 lots that we're looking for delivery and continuing pacing that so that each of our builders can have a year's worth of inventory. Those will be 2027 lots. So we expect those to deliver sometime in the summer of 2027.

That phase 2E here is to give you kind of an orientation of where that's at. It's directly across the street from our school and and this is, this is really more of an infill site.

We have most of the infrastructure done on that. A lot of the road network is done, most of the main lines on the water and the sewer system are.

Already in place that kind of gives you that's our water, our peak, our water storage tank and pump station there in the picture as well. But that's a very streamlined process for us to be able to bring this online. You know it's about another \$14 million in lot revenues correspondingly.

4.3 million in tap fees and about \$240,000 in recurring revenue from the number of customers that we have on that.

This was kind of a celebratory opportunity for us together with the National Heritage Academy, really on the ground breaking for that and really partnering with our our local school district, the Venice School District as well as you know the the National Heritage Academy to bring this K12 campus.

To our development.

Wanted to show a continuing one of the most underappreciated assets I think we have in our portfolio is our service area and and as many of you have heard me talk through the years, you know the Denver metro area continues to grow out.

On the eastern plains, we really live on an ocean. We can't grow West as a metropolitan area. So really moving to the east side of it, this really kind of gives you an illustration of the level of activity that's occurring around our service area on the Lowry Ranch as as you all know this.

The state of Colorado owns the Lowry property. It is owned in the school trust and and they develop the their assets to generate revenue for the public education system here in the state of Colorado. And there's a couple of parcels that are really just highlighted here.

One on the South side of the property and that kind of gives you a that bottom picture is an orientation looking N and and that you know is a very active

development on that that's about 1/2 section 320 acres and then also properties that you know you've seen the.

What's occurring on the West side with all the development from the City of Aurora that's on the West side, but then also projects starting on the north side of the property as well. And so there's substantial opportunities all around the property and and it's well positioned.

For whenever the state looks to find opportunities for the Lowry Range, you know we are the exclusive water and wastewater provider for this particular property and you know have having been able to develop Sky Ranch, I think we can demonstrate that we would.

Up.

Partner with them on opportunities for land development should should that occur. But we really do want to kind of give you a perspective of kind of the growth of the metropolitan area and how that grows in relationship to where some of our assets are, whether that's Sky Ranch or whether that's our service area at.

Moving into our third segment, single family rental, there's a bit of an update and what I'd probably call a realignment for a couple of reasons in the single family rental segment, as many of you know.

The current administration has had some strong comments about corporate ownership of of homes. You know, I probably would push back a little bit on that on kind of the justification for that. But you know they were sort of concerned about corporate ownership and and what that is doing to housing affordability and.

And so we took a strong look at how we were positioning the growth trajectory of this particular segment and really decided to slow our growth of this segment and take a look at these assets and and and in a couple of ways we wanted to really get a strong look at what the return on the.

Investment is for these segment assets and as they settle in, as we've got them constructed, as we've got them leased out, we really want to understand, well, what are these, what is the return for this particular asset and is that going to meet an acceptable level of threshold here for the company and making?

Ensure that that delivers the returns that the shareholders are looking for in that. And So what we've done is pushed back a number of those lots that we were having our home builder customers build for us and as an illustration here, this kind of shows you.

The lots that were identified in blue are the ones that are either constructed or under

construction, and so that'll total up to be about 60 units. The lots that we have that are kind of highlighted in this light yellow, light green color, those are the.

Lots that we kind of re evaluated and and we're able to resell back to each of the home builders that are building their product classes in there. And So what we've done is kind of pair that back from a growth strategy up to about 90 units and really scale that back to about.

60 units and so that'll allow us to have a little stronger performance on the revenue from the land development segment because we'll, you know we're getting about 100 to \$110,000 a lot on that.

And so we'll see that come back to the company and then really take a look at really what the performance is on this segment, be able to get our, our, our returns on that and really report that to you and and make a decision as to how this segment continues in the future, so.

That's been really the key realignment here is to take a more measured growth approach to our single family rentals on that.

You know, we've got 19 homes completed to date and they are all completely rented. We are seeing extremely strong demand for rentals in this unit. So I, you know, I'm very optimistic about the continued performance of it.

Each of the homes as we bring them on market are already rented. I think we've got homes rented for home deliveries that we're seeing up through August right now. So we do continue to see that as a strong performer in the segment.

And then you know this will, this will instruct you know us on how the appreciation of the homes are going as we continue to add value to the community, not only from the schools, but then all the commercial development and open space and trails and the recreational opportunities that we deliver. You know we are seeing continued strong.

Growth of these home values and that's an opportunity for us to really measure that within the overall segment.

You know, one of the most attractive features of the single family rentals is the recurring revenues and the asset appreciation. So period over period revenues are up 20% mostly as a result of additional units we continue to see.

Growth in the monthly rentals on this and you know what we really like to do is make sure that we get all these units fully leased and and have 100% occupancy in that showing the growth trajectory.

This is kind of how each of the phases are performance and and this is a bit of an

update from from our previous position on that where we were growing up to about 90 homes and I think we really took a look at that and payer back almost all of the units in in phase 2D.

Portion of the units in phase 2C really just as a reactionary element to some of the pressures that this segment was receiving on on ownership, corporate ownership and then also opportunities to demonstrate to you all what the return of this segment is going to look like.

Let's talk a little bit about shareholder value, our assets and kind of what we have in use and and really a little bit about where we're headed. As most of you know, we are extremely hawkish about our equity with our last issuance being more than 15 years ago. And so we we really.

We do fund our operations through our balance sheet. If you take a look at really all of the components of this, we maintain a strong balance sheet, believe our assets are significantly more valuable than their recorded value. And that's mostly because they're legacy assets. They've been acquired, you know, many, many years ago. You know more than more several decades ago and and taking a look at each of these individual segments, if you take a look at our water segment, you know we have about 74 seven call it 75 million in total assets and that's about 44% of the total assets of the company.

But then when you take a look at kind of what's developed and what that contribution is, you know that's only about 4% developed. So you you see how that kind of you know the the the pedal that we have left in the water segment and and and really the opportunity that we have to continue to grow that segment in our business.

Business land segments, you know we we acquired Sky Ranch in 2010. You know it's about a \$5 million acquisition of the land. We did get some water beneath that as well and then taking a look at kind of the developed land for sale, how we do the percent completion on that.

You know that that represents about 6% of our total assets and it's about 20% developed. So you know while we continue to generate strong returns year over year on that, we still have a good amount of land that we have developed more homes. And then the commercial value on that. So really terrific opportunities to continue to the grow the the land development segment and and as many of you know we continue to look for other opportunities in the land development segment taking a look at our single family home segment that's a relatively small segment about total

of.

5% of the total assets and and you know had a little detailed discussion about that on kind of how we're going to really mark that performance of that segment. But really the the biggest opportunity for us here is our total liquidity here and taking a look at the cash and receivables, you know it's about a 44% asset and.

And you know largely, largely held in that note receivable from the municipality where we continue to develop the infrastructure, those public improvements are reimbursable to us and and we take a look at you know building the assessed value through adding additional homes there.

Our next opportunity for monetizing some of that assets likely to be in 2027 where we're taking a look at financing and refinancing. We'll have a financing on the interchange. As many of you know, we talked about kind of how we're going to construct a new interchange.

On the Interstate there, but also being able to refinance some of the phase two bonds and and really capitalize on the opportunity. We financed our first bonds on phase two at about 780 units.

And growing that to the thousand 1030 units gives us an opportunity to have a significant reimbursement for refinancing those bonds now that they'll be mature and more assessed value than we originally planned in the first financing. So that'll be a great opportunity for us moving forward.

You know the the low obsolescence in the recurring revenue really come from water and wastewater revenues and rents from our single family home rental segments.

And so you you do have strong sticky revenue on on those sides and and really a lot of the growth revenue from selling lots to national home builders as well as.

That the connection charges to add our customer growth into our water utility segment.

Talk a little bit about shareholder value. You know we consistently grow our balance sheet and income statement quarter over quarter, year after year and and really generate kind of leading industry leading margins from all segments whether that's going to be the water segment.

The land development segment and the single family rental segments. And so we're very, we're very targeted to continue to monetizing our assets, taking a look at where we're at in our our guidance, so.

We're taking a look at our guidance for 2026 at about 2.7 million in recurring revenue and asset growth bringing that a little over 160 million. So those two, those

still look strong.

Profitability trends, we continue to build shareholder value on really each of these segments and really on pace for delivering our fiscal year end results. We will, we will share some guidance on 2027 at our Q3.

As we get a little bit clearer picture of kind of how the phase two E is going to come along and the tap fees and the oil and gas deliveries for physical 27 become a little clearer for us.

Taking a look at kind of that total gross revenue, our our guidance is going to be in that 26 to \$30 million range. We're still supporting that earnings per share in that same range 43 to 52 cents and you know upside in some of that acceleration of that's really going to be probably.

The the timing of the delivery of lots as well as I think oil and gas and so we'll have a lot a much stronger year in selling industrial water sales just because of the the.

Permitting that was done last year and really I think the strength and the price of oil will really reinforce the fact that our operators are going to really try and capitalize on that, keep those rigs in active service on our service area and in and around our service area. So we don't have just the one operator.

We we do have several operators that are looking at programs and multi well pad sites this year. So we we believe we'll have a a very strong performance on that industrial setting.

We continue to reinvest and repurchase shares believe our stock is is undervalued, significantly undervalued. We are we're we're we're encouraged by some of the recent strength in the stock and really you know do believe that the the assets do have continued support and.

And really focused on continue to deliver that shareholder value and some of the ways of doing that are really going to be kind of the development of our commercial opportunities getting this interchange completed. We were really at the final stages of that permitting process.

And getting that into CDOT and Arapahoe County who are regulatory agencies here, but it does allow us to accelerate not only the the commercial opportunities but also continuing on on the residential side. So that that's another thing to keep a look out. In the next fiscal year. And then also I did want to kind of give you a a revised video. We're trying to kind of keep this video as part of our format to kind of share with you the the progress that we make, so.

It's about a minute long, but I'll give you kind of an opportunity to see, gives you a

perspective that should be an all white picture there in the background and it's just not. So that gives you an illustration of kind of the dry year that we've had and and it also gives you kind of a picture. You can see the landscaping as is fairly dry.

Throughout the community, you know it's pretty typical, but I think that's we're going to have a a challenged year for some of our water supplies and other providers. I think we're strong in our position in our portfolio, but you know other providers are going to see very seasonal.

Water deliveries just kind of drills in on that phase 2C number. We've probably got more than a third of these homes permitted and and started and then also gives you kind of where we're taking a look at 2D where you've got home builders really starting.

Construction activity on that project as well and and really this is the unusual aspect. We would not expect to have all these roads paved and these lots available for that, but we were able to capitalize on that this year with the with the mild winter and so that's a great opportunity for us.

And our home builders and then moving into kind of phase 2B, we're nearly complete here. We probably only got maybe half a dozen home lots that are yet to be constructed in that phase and then this kind of rolls up into.

A good view of the of the high school and construction progress on that. We've enjoyed that opportunity as well. They are ahead of schedule with the mild winter that we've had as well. So that will open up in August for our school kids for the next 272627 school year. So that's.

Exciting for us and then ultimately kind of a shot at where we're going to be with that interchange and our commercial properties up there in that area. So we are actively marketing our commercial properties. We've got you know both retail and industrial brokers engaged and are seeing some exciting opportunities. You know we're.


We're out there pitching a lot of those, a lot of the retail and and and some industrial opportunities for distribution centers, a number of different types of uses, whether that's going to be a heavy water user or just access to that.


Interstate is a terrific asset for us. So with that, I guess all those are our prepared remarks. So what I'd like to do is open it up for Q&A. I think the easiest way to do the Q&A is, you know, if you want to unmic and just shout out a question and then we'll coordinate.

Seeing how that technology works for everyone. So with that, I'll turn it over to you all.

 **Eliot Knight** 37:29  
Mark, it's Elliott.

 **Marc Spezialy** 37:32  
Hi, Elliott.

 **Eliot Knight** 37:33  
Hi there. I've got several questions for you. Most important, on your last call, you made it clear that completion of the new interchange is very important. You sound encouraged.  
Could you give us a real a detailed update?

 **Marc Spezialy** 37:57  
Yeah, drilling down in that. So the the interchange we have, we've been working on that and it's it's government always has an acronym for it and then in Colorado it's it's called the 1601 permit process and so you do that in conjunction with the Colorado Department of Transportation. And it's a it's a comprehensive effort, right? You go through every component of your interchange design. You know what the load capacities are going to be, what the traffic movements are going to be, you know what the distance setbacks are for signal. Signals to the interchange, the environmental aspects of it. And so we're now at about a 30% design of that interchange. So we really have a a solid idea of how that's the cost estimates are going to be and then really how you fund that. And so it's a, it's a private. Permittee, the Sky Ranch Cab will be the permittee for that and then we work together with Arapahoe County because they'll be the administration of that. It's in the jurisdiction of Arapahoe County. We should be submitting that 1601 to see that we submitted every every component of that. As we go along for their review and their concurrence. So what we hope to do is have that ready sometime this June and then really be in a position of going to final design on that. That'll probably take through the end of the year. And then take a look at funding that bonding of that. We've got specific mills that

have been set aside within the community to be able to bond that. So we have that as a component of the 1601 and then start construction in 2020. 27 with a completion in 2028, so that would be the timeline.

 **Eliot Knight** 39:54

OK. That's tip that slipped a little bit from completion in 2028 because on the last call I think you were thinking in late 2027.

 **Marc Spezialy** 40:06

Yeah, yes, that that it probably has slipped just a little bit. But you know we continue to be able to deliver each individual phase. So I think we'll still, we won't really miss any of our cadence on lot deliveries on that and I think what we've tried to do is.

 **Eliot Knight** 40:07

OK.  
Good.

 **Marc Spezialy** 40:25

Is work concurrently with some of our commercial opportunities because those have a lead time as well and we want to make sure that we can bring those online as we're constructing the the interchange.

Hmm.

 **Eliot Knight** 40:43

No, no mention of it today. Could you please update us? Anything you can tell us there?

 **Marc Spezialy** 40:47

Yes.

Yes, you know we, we, we, it's not that we're not continuing to pitch that, but Colorado's probably not as attractive as a state on some of these larger hyperscaler data center type opportunities and it's really two fold one.

You know, a lot of these, the ones that we have were were very active pitching, really are looking for tax incentives. And so the state has a bill before the legislature. They have two competing bills. They have one bill that is seeking incentives and one bill

that's seeking to disincentivize.

And and Colorado just has a dysfunctional relationship with itself on being able to set a consistent policy. But you know they are, they are heavy water users, which is something that we certainly have an opportunity to support, but they're also heavy power users.

And you know Colorado probably is a little more challenged than other areas on bringing on additional power, particularly gas, gas turbine based power in the area. And so those are the risk elements that some of the some of the data centers that we have been marketing to are sharing with us.

We'd still like the opportunity. There still are data centers that are being built in this area and so we'll compete with that and and see where it lands. But it's not just the data centers, you know we have you know water and and and bottling opportunities. Those are going to be heavy water.

Customers that we're pitching to and then just overall distribution centers and things like that for our our commercial industrial opportunities.

 **Eliot Knight** 42:38

OK. Thank you. Last question. I was delighted to see that you've added another 1600 plus acre feet of water.

You've acquired little bits and pieces of water, I think in the last few years. The company continues to say it has 30,000 acre feet of water.

It must have more than that, doesn't it? How much does it have?

 **Marc Spezialy** 43:08

We do, we do. You're you're you're a state to keep keep tabs on that. You know we're probably increased that portfolio about 10% and so we're maybe you know closer to 3300 or 30.

3000 acre feet of water and you know correspondingly we do have the ability to probably provide service to more than 60,000 connections and those are very important metrics. You know those are longer tails on it, but when you take a look at how we scope that opportunity.


You know, we talk about, you know, \$40,000 connection charge at 60,000, which is about 2 1/2 billion dollars. And that number's probably gone up considerably. You know, it's probably closer to \$3 billion worth, you know, but those are longer lead that that kind of carries us out.


And and continues to add to you know the the real depth of that segment of the business and you know as we get closer to that 25,000 connections within the company we can.


Really detail out really how much more that we have to serve and I think couple of areas for that, you know the Denver area growing out in in and around Sky Ranch, in and around Lowry, which is our service area are really the key opportunities for us to continue to add to that portfolio.


That that customer sent me in that portfolio.


 **Eliot Knight** 44:41  
Thanks very much.


 **Marc Spezialy** 44:42  
You bet. I see Jeff's got to stand up.


 **geoff** 44:47  
Good morning. How are you?

 **Marc Spezialy** 44:48  
I'm great. Thanks. Nice to see you.

 **geoff** 44:52  
Quick question. The, as I recall, you were going to wait for the commercial development until the interchange was actually finished. Did I understand that you're currently actively marketing the commercial opportunities?

 **Marc Spezialy** 45:10  
We are, yes.

 **geoff** 45:13  
Is that an acceleration of what you had wanted to do?

 **Marc Spezialy** 45:15  
So.  
Well, you know, I think we had that timeline and and as Elliot kind of highlighted, you


know, we were looking at getting that 1601 permit kind of this summer and I think we'll look to get that towards the end of the year. But we had already set that up in motion, right. We want to be in front of these users. It's not something that you can just.


Directly turn on and say, OK, get out there and start building your building or your retail use or whatever it is. We really want to make sure that it is a highly attractive site and we want to be regionally specific. We want.


All of those folks that are looking at sites and interchanges to be appreciating what it is that we're putting into this opportunity and and and put it into their scope and planning and and we do have some capacity to get started on it. You know it's not. 100% conditioned on the interchange being developed. We have an existing interchange, it does have service capacities and we do have opportunities where we can add maybe it would be a non traffic sensitive type user to the.


Site someone like a distribution center that would have the appreciation, OK, we can use the existing interchange to get our building permitted and started and then as that gets completed, you know really would have that truck traffic. So that's what we were trying to do is.

Is parallel that process and make sure that you know this doesn't have that long lead time and and really deliver just in time.

 **Geoff** 47:03  
OK. Thank you.

 **Marc Spezialy** 47:05  
You bet. Jacob.

 **Jacob Westphal** 47:10  
Hey, Mark, uh, just quick, do you have any expectation on the timing of the next receivable?

 **Marc Spezialy** 47:18  
Great question. You know we, we, we will take a look at what that capacity is from the 2022 bonds. And so those typically have a five-year call provision and so that's where they start to burn off in 2027.  
And taking a look at really the differential that we had in our first filing and our

second filing, we think there's somewhere around 10 to \$12 million worth of additional reimbursables from refinancing just what we've already financed there. And then as we move into phase three, we'll take a look at because that will be that 2027 time frame as well as we complete that interchange and really start processing permits into phase three, you know that could be as much as \$20 million. So in in I think we got about 10. \$10 million of refinancing of one bonds and then probably another \$20 million of fresh financing moving into phase three.

 **Jacob Westphal** 48:25

Awesome. And then can you talk about the builder's appetite for lots right now delivered the current phase ahead of schedule? We know new home demand's been kind of sluggish given interest rates. So I guess I'm just wondering, is there any risk of an air pocket between this phase?

And then starting the next phase, if it takes a while for the builders to deliver the lots that you delivered ahead of schedule, like how does that impact the timing of starting the next phase?

 **Marc Spezialy** 48:58

That's a great question. You know and so, so really what we what we saw as as a result of kind of this pull back in the market and and I'd say consumer confidence is the number one number one factor on decisions to buy houses, you know interest rates.

Always impact that, but that's you know that's not I think at our segment where home builders are able to buy down mortgages and at an entry level point that's a little less costly for them. You know when you're buying down a mortgage at 4, you know maybe a point at.

\$450,000 home is a lot less than if you're buying down that point at a \$800,000 home and and so that sensitivity for us isn't so much in interest rate, but more consumer confidence.

And So what we were able to do is pull in new home builders to the portfolio. We had four home builders, 4 national home builders that were part of the portfolio as we started phase two. We now have seven and and those three new ones that are in the in the mix on this thing are really they have they're into.

Filing 2D and so they have one year inventory and we're looking at 2027 in deliveries

and so they may not be in 2C, but they're in 2D and then the other four were in 2C and 2D and so they are a little bit long.

On that annual inventory, but the other ones are a little short on that annual inventory. And so that gives us the opportunity role phase 2E in because they're the ones that want those 27 deliveries working on the 26 deliveries that they already have. And so that's that's an opportunity for us to bring in more builders.

Builders and and you know we really like having that yearly deliveries for them and a number of builders in there. So they're bringing you know diversity of products. So it's it's not cannibalizing the market, it's really having an opportunity where we have a very robust.

Portfolio builders.

 **Jacob Westphal** 51:10

Awesome. Thanks, Mark.

 **Marc Spezialy** 51:11

You bet.

If we had to mute everybody at the beginning of the call, so if you have dialed in on the phone and you're trying to ask a question, you would enter star 6 on your keypad. We'll unmute you.

And then you can just unmute your mic and shout out if you've got got a question.

There there was a question in the chat related to a slight decline in some reoccurring revenue from 2025 to 2026. We I looked into that and it looks you know we have some commercial customers non oil and gas that are offsite of Sky Ranch.

That are governmental buildings that could fluctuate from year to year and that that looks like what it's what what's causing that slight decline. Obviously we're not seeing a decline on the average house per residential house in Sky Ranch, nor are we forecasting any kind of decline there even with.


Water restrictions that are coming forward. So it happens to be just a slight anomaly between some offsite customers that are showing that slight decline.

OK. Well, if there aren't any other, Craig.


 **Craig Weingart** 52:36


Markin.


Mark, how are you?

 **+13\*\*\*\*\*91** 52:43  
Hello. Um, fine, thanks.

 **Marc Spezialy** 52:45  
Great.

 **+13\*\*\*\*\*91** 52:47  
Go ahead.

 **Craig Weingart** 52:49  
Couple quick questions with for you. One on the land acquisition, any updates from any of the potential spots you're looking at and or from Lowry? I know you discussed Lowry, but nothing else except for just the fact that everything is built out already and we need that. That's the next logical spot.  
And then secondly, when it comes to stock buyback, I know you guys have been buying back stock, but really just to maybe offset the, you know, not to reduce share count. Any thoughts to to stepping that up at a quicker pace with the stock still sitting here?

 **Marc Spezialy** 53:26  
A couple of good questions. You know, we are taking a look at Um.  
New acquisitions really you know there there are a number of land areas in and around Sky Ranch and and other areas and and and you know there's a there's a soft. Way of taking a look at that, you know where we go out and we buy the land and and and hold that in inventory and you know is that is that the best use for our shareholder capital because some of those projects would be very long stemmed in being able to do that and there's some you know we're.  
Trying to get opportunity, I think a priority of opportunities where we can either get those in a partnership, get those in, you know, away acquisitions in a way where that doesn't become a big.  
Drain on tying up shareholder capital for many, many years on that. And so you know there, there, there's still opportunities in there. You know, most of those guys really aren't that excited about that type of structure.  
And and So what we want to do is time those out. If if we've got an opportunity that

we can buy cheap land, but that land doesn't look to turn over for seven to 10 years, that may not be our highest priority. There are opportunities where that has come up.

And and you know, we sort of said, well, you know, we like that land interest and we might not be the buyer today, but we might be the buyer, you know, in five years and it doesn't matter where we may have to pay a little bit more in five years, but it's also five years closer to when that would be looking.


Looking for development. So we're really being disciplined about that type of opportunity you know did did highlight Lowry and and you know those are we we continue to see great great opportunities there you know that that is controlled by the state and you know we'll we'll work with them and whatever.

Their timeline is on something like that. So we'll be reactionary to that on the share buyback. You know we took a look at you know what our, what our trading windows are and you know we wanted to open up some flexibility on that to be able to be more aggressive on particular areas. There's there's certainly a lot.

A lot of restrictions on you know the windows that we can repurchase those shares and we wanted to be a little bit more flexible for that. And so we did modify our our window of trading activity and then you know really.

Greg, I think our our continued focus is you know capital stack to be in a position to reinvest in the company and and and this our balance sheet and our liquidity and our flexibility here has been really demonstrated by being able to do that this winter and and having the capital to be.

 **+13\*\*\*\*\*91** 56:33  
So.

 **Marc Spezialy** 56:33  
Able to do that. And so you did see a real change in the liquidity where we were dropping that liquidity down substantially because we did deliver in advance of those. And as that comes back and that liquidity continues to reimburse, there are opportunities for us to increase our share buyback and.

 **+13\*\*\*\*\*91** 56:39  
What?



**Marc Spezialy** 56:53

And that's something that we continue to evaluate and and we will take advantage of as as appropriate.

Dan Aronson.

How was How's the world in Minneapolis?

Can't quite hear you, Dan. I think we also had a question from the caller. If the caller ending in 6191, I think you tried to ask a question.



**+13\*\*\*\*\*91** 57:26

Yeah, I did. This is Greg Bennett. Could you go through the economics of the you're de-emphasizing the rental program, but what, what are the economic, what is the return?

Unlevered rate of return in the rental program, I mean you're am I correct the the loan that you have against these properties is a floating rate loan and.



**Marc Spezialy** 57:54

6.



**+13\*\*\*\*\*91** 57:56

Yeah, I'm just curious. You've never mentioned what the place is rent for, what the capital you have tied up in them. Could you go through the economics of that?



**Marc Spezialy** 58:02

Yep.

Yes. Yeah. I mean, and so I'll give you kind of a high level version of that. So typically what we see is we're carrying forward some of that equity in the lot and the water. And so when we go out and we contract with our home builders to build us those homes, they're coming in around 300.

\$50,000 is really the cost that that vertical construction is on that home. The home typically appraises somewhere in that \$530,000 range. So we have about \$180,000 margin in there and a lot of that's just kind of the equity.

Equity value of that, we do have a credit instrument for that. It's a fixed rate credit instrument, not a variable rate one. So we do have a a facility that you know we're we're using that.

 +13\*\*\*\*\*91 58:49

But.

 **Marc Spezialy** 59:01

Credit facility and not our cash to be able to do that. You know it's about a 6 1/2% credit facility. So our first few were done at a very low credit facility, right around that 4 1/2% rate. So it was much better at that rate.

The rentals on these cover the debt service on that and provide us a margin. So typically these homes are renting around \$3000. I'll just use that as a kind of a round number. Some are a little lower, some are a little higher depending on the number of bedrooms and the square feet of that. And so when you take a look at all those, you know we don't have a lot.

A lot of holding costs on those and so you know our rate of return on that somewhere in the 8 to 10% range. But we want to, we want to dial that in. We want to see, OK, is that you know how is that performing? What is the capital appreciation of those homes if those homes are?

Depreciating at you know 4 or 5% together with the rental incomes, we want to see what those segments are performing at and making sure that that meets our our investment threshold. So that's really you know the pause of continued growth of that segment is to get a good handle on how that segment.

Is performing and and report that out and and make a determination you know at management and the board level as to is that adequate and do we want to keep moving forward with it.

 +13\*\*\*\*\*91 1:00:32

OK. Second question on you mentioned in your comments in the oil and gas segment, the impression I got is that you contracted out for the drilling.

Companies is are those all, is that firm take or pay or let's just say oil prices go down to \$60.00 a barrel or \$50.00 a barrel. Are these is the contract a take or pay or can they say no, we're not going to take the water we've decided to.

To slow down our drilling operation.

 **Marc Spezialy** 1:01:09

Yeah, great question. You know the the oil and gas companies really will pay a

premium for you to be at their beck and call. And so when we when we when we price our.

Our spot oil and gas or industrial deliveries, that's about three times 3X what we price it out at our residential customers. But the downside of that is that sometimes they don't back on that call and and so no.


We don't have a very fixed amount of take or pays and we're one of the very few providers that can dial up and dial down on their systems and that makes us very attractive to them and so the premium that I think we.


Charge them for that flexibility is is really good for them and good for us. And as I as you saw last year we had relatively weak oil and gas deliveries compared to 2023 time frame.


Or 2024 time frame and and so you know it it it is a variable demand it is it is hard for us to forecast because you know they do they it takes a significant amount of lead time for them to get their permits in line get their rigs committed and and So what we will see.

Is we will see some pretty robust demand through 2026 and we will see a pretty healthy opportunity in 2027 given what they've already put, what they drilled to date. And so I think we're pretty.

 **+13\*\*\*\*\*91** 1:02:39  
3.

 **Dan Aronson** 1:02:52  
And.  
Mhm.

 **Marc Spezialy** 1:02:53  
We're pretty confident about the next two years on that, but you know forecasting out beyond that as you as you highlight is a real function of how oil and gas is doing in in the overall commodity index.

 **+13\*\*\*\*\*91** 1:03:09  
OK. And final question, and I'm in a car, but I didn't see your slide, but in the very beginning of your presentation, you gave an aerial view I guess of of Aurora or some of the properties I guess that are South of Sky Ranch.

That were undergoing my my impression was they were undergoing development of home sites. Is that correct?

 **Marc Spezialy** 1:03:34

That is correct.

 **+13\*\*\*\*\*91** 1:03:37

Yeah. So the stuff that's been permitted South of the Sky Ranch that's actively being developed, what's the time for? I mean, how many units is that? What's the absorption, you know, is that thousands of units? Is that and? Is that like a five year plan for these are other companies or it's Aurora, but what's the time frame to get all those years? Yeah.

 **Marc Spezialy** 1:04:03

That's right.

Yeah. And and and so you know just that you're you're correct that and there's a lot of land in and around this area, right. All the I-70 corridor is probably the highest development corridor in the metro area.

 **+13\*\*\*\*\*91** 1:04:08

The.

 **Marc Spezialy** 1:04:24

And and you know it, it has a reason for that being the case. One, it has transportation. Secondly, you know it has available land. And so there are a number of projects which are thousands of residential units and they're all around our area and the Denver area is adding around.

15 to 17,000 units a year. And I would say, you know this sub markets probably 1/3 to 40% of that domain, whether it's in Aurora, whether it's in Uncorporapo County, you know it really is the strongest.

 **DA Dan Aronson** 1:04:54

Yes.

 **Marc Spezialy** 1:05:03

Development segment in that area and it will continue to be that way. You know it will, it will add you know seven, six, 7000 units a year in this corridor for the next 50 years, right. There's no other area to develop. So we worry less about oh you know. How do we compete necessarily at Sky Ranch to the next development? You know, I think we have a lot of advantages that bring us into a higher performing master plan community than other areas, but at the end of the day, it's all going to absorb and so this happens.

Happens to be we're targeted in the right segment of the Denver metro area. We're offering, you know, the right product. We're offering the right model for delivery of lots to our home builder customers. So we worry less about, you know, is that project gonna absorb?

In conjunction with our project absorbing and are we going to see any competition in that area, I would say that's not the biggest metric for us. What we really want to do is be the right developer being that we're doing the horizontal work, we're doing it exactly the way our customer wants it with.

 **Dan Aronson** 1:06:09

But.

 **Marc Spezialy** 1:06:19

Annual lot deliveries we're adding to the builder portfolio so that we have all of the builders in our our, our projects and whether we have one project at Sky Ranch, but we have multiple projects where there are other you know Sky Ranch to Lowry, any of the other projects we want to make sure that.

We continue to pace those deliveries and maintain, you know, what will be a very long tail of land development.

 **+13\*\*\*\*\*91** 1:06:49

Yeah, I guess my question was more when, when do other parties have to come to you for water if you don't own the land, right?


 **Dan Aronson** 1:06:54


OK.


 **Marc Spezialy** 1:06:55


That's, that's, yeah, misunderstood that. So if they're in the City of Aurora, which you know as you can see on most of the land directly South of Sky Ranch is in the City of Aurora. They will not come to us, right. They will get their water from the.


 **Dan Aronson** 1:07:08  
Yes.


 **Marc Spezialy** 1:07:15  
City of Aurora, those land areas that are not incorporated into the city and incorporate Arapahoe County Lowry, they will get their water from us. And so I would say it's it's maybe an even split.  
Opportunities that are going to be competing with us that are going to get their water from Aurora and then opportunities that we are competing for to be the developer or just the water utility provider because they're in unincorporated Arapaho County, whether we develop it or another developer developed it.  
Is that?

 **+13\*\*\*\*\*91** 1:07:53  
OK. Thank you, Mark. Appreciate the good work.

 **Marc Spezialy** 1:07:54  
You bet, yeah.


 **Dan Aronson** 1:07:56  
Hey Mark, I think I figured out my microphone settings here. Congratulations to you and the team on another solid quarter here. Should have following up on the question on with with regard to water.


 **Marc Spezialy** 1:08:00  
There you go. Perfect.


 **Dan Aronson** 1:08:13  
You've got capacity, obviously you've got great variability with industrial water sales. What can you just refresh us what, what the opportunity, what your obligations are to wise and what the opportunity there is, especially if I think you alluded to earlier in


your comments that this might be a challenging year when it comes to water supplies in other areas.

 **+13\*\*\*\*\*91** 1:08:39  
1.

 **Dan Aronson** 1:08:39  
Do you have the ability to sell?

 **+13\*\*\*\*\*91** 1:08:43  
No.

 **Dan Aronson** 1:08:45  
Through the Wise program or draw from the Wise program.

 **Marc Spezialy** 1:08:50  
We we we do have the ability to draw from the Wise program. So that's a that's an addition as Elliott identified earlier. That's one of the acquisitions of water supply that's added to the portfolio. We get about I think our full subscription in there is about 900 acre feet of water.  
That system's fully built. We have capacity within that system. So we have in addition to the 900 acre feet, we have three MGD of pipeline capacity in there and and the the the wise is a.  
Kind of a partnership among 12 different water providers in the Denver metro area and and what we've done over the last several years is there are opportunities where we want more water like if we have very heavy.  
Oil and gas demands in the winter and other of the Wise participants do not have real high water demands because their summer irrigation season hasn't quite kicked in. There are opportunities for us to get more water out of Wise.  
And then sometimes when the heavy irrigation season's going on and we have light oil and gas or industrial water deliveries, you know our our domestic deliveries are relatively modest. They're probably 25% of the total capacity that we deliver in any given year.  
Year We have opportunities to sell water to the other Wise participants. So we go both ways in Wise where we're able to trade for more water or trade for less water in

that opportunity within Wise.

You know, is there opportunities for that to expand? Yes, we're looking at partnerships and regional partnerships for storage as as many of you who have been following the company for a long time now we have some very valuable storage reservoirs and so those are opportunities for us to develop and store other. Water supplies as as our partners look to develop those water supplies, you know have have a higher treatment capacity where we can deliver more than our subscription and wise into that. So that will grow over time for opportunities for us to expand.

And you know it would be a spot water type market, but opportunities for you know as as oil and gas over the next 10 years starts to mature out and if they if they recycle in and refract those wells that will continue to build in the next cycle.

Of the development of this Niobrara formation and then also opportunities for us to be spot and peak water deliveries to other wise participants. So we look at all those opportunities and that interconnect of that system is a is a very important aspect of that.

 **Dan Aronson** 1:11:55

OK. That's great. Thank you. Appreciate it.

 **Marc Spezialy** 1:11:58

You bet.

But terrific, terrific questions and I I want to thank you all for your continuing engagement. You know we continue to really pace the development of our assets and really you know are looking forward to build out at Sky Ranch. We're looking forward to continuing to.

Extend in the land development and really monetizing our service area and more water opportunities and really building this in. And so we we couldn't be more excited about our runway and and really the the market penetration that we've seen as a utility provider in the Denver area as well as a.

Land developer in the Denver area. And so I think that's going to continue to generate really handsome returns for us and returns for the shareholders. So if you didn't get on the call, if you're listening to this on a rebroadcast and a question arises, you know, certainly don't hesitate to give us a call. We will.

Have our our annual Investor Day this coming July. So I do we have a date set on

that? I think it's like 10 of the same third, third week or third week of July. So be be on the lookout for that. I think it's typically on a Wednesday. I know I did get. One shareholder that was looking for combining that with a a Friday activity, but we'll we'll we'll we'll send some information out as it gets a little bit closer to that. But again thank you all for your continued investor confidence and we look forward to the next.

Steps.

Thank you.

Good.

● stopped transcription