



Pure Cycle Corporation (PCYO)

Fall 2021

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I. Investment Overview

Buy PCYO at standard allocation

1

Sky Ranch Development

- Pure Cycle Developing 930 acres of land and will become the sole provider of water to approximately 5000 SFE
- Project is generating revenue in multiple ways and will create a perpetual revenue stream of municipal water usage (\$1500/connection)
- Management is strategically phasing out the sale of lots to generate the highest margins

2

Growing Diversified Revenue Mix

- Water utility segment growing as Sky Ranch lots are sold along with tap fees for each lot
- Water recycled and sold for industrial use
- Build to rent adds a perpetual recurring revenue stream that will increase FCF
- Pure Cycle has entered into an agreement with an O&G operator that will start drilling in 2022

3

Increased Residential Demand

- Denver real estate market has outpaced national market
- The Denver Regional Council of Governments estimates that the Denver metropolitan area population will increase by 40% by 2040
- Work from home has made metro Denver a very attractive spot for new homeowners

4

Water Assets in Dry Region

- The Interbasin Compact Committee estimates that Colorado could face between a 200,000 to 600,000 acre-feet water supply gap
- Colorado law requires land developers to provide evidence that they have a sufficient water supply before zoning applications are considered

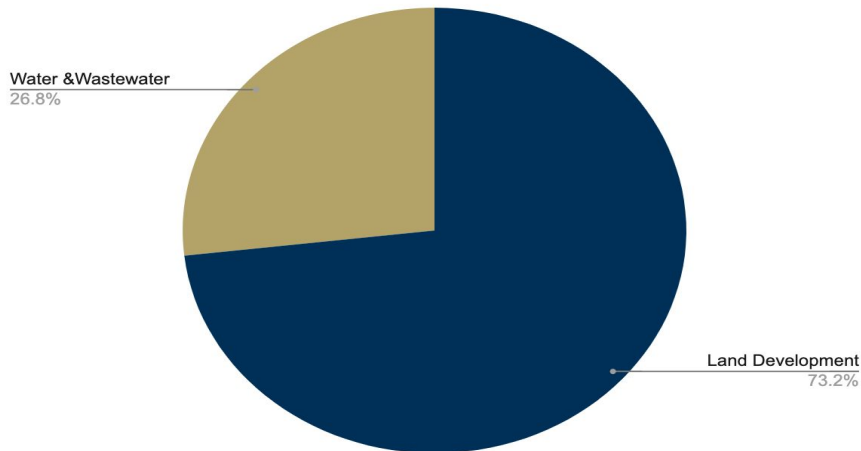
Business Description

- Vertically integrated water and wastewater service provider in a water short region
- Developing Sky Ranch Master Planned Community for the development of metropolitan Denver (I-70)
- Sky Ranch is being developed for familial, commercial, and industrial space to be serviced by their water services
- Three segments of business: water and wastewater services land development, and build to rent (BTR)

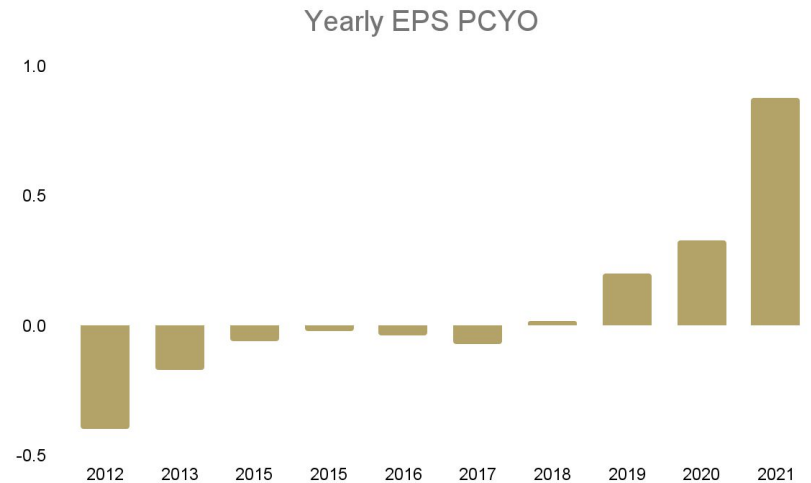
Key Statistics

GICS Sub-Industry	Public Utilities and Water Supply
Market Cap	\$329.0M
Revenue	\$22.3M
Current Price	\$15.41
52-Week Range	\$8.52 - \$16.63
Beta	0.67
Dividend Yield	N/A
Credit Rating	

Segment Breakdown



EPS





Mark W. Harding - President and CEO

- Involved with Pure Cycle for 30+ years and has served as CEO for 20+ years
- Background in computer science, investment banking, and consulting
- Serves on 5 different water advisory boards related to water issues in Denver, including the Rangeview District, Sky Ranch District, and the Sky Ranch CAB



Kevin B. McNeill - Vice President and CFO

- Joined in 2004 as Pure Cycle's Controller
- Returned in 2020 as VP/CFO
- Responsible for financial and accounting operations

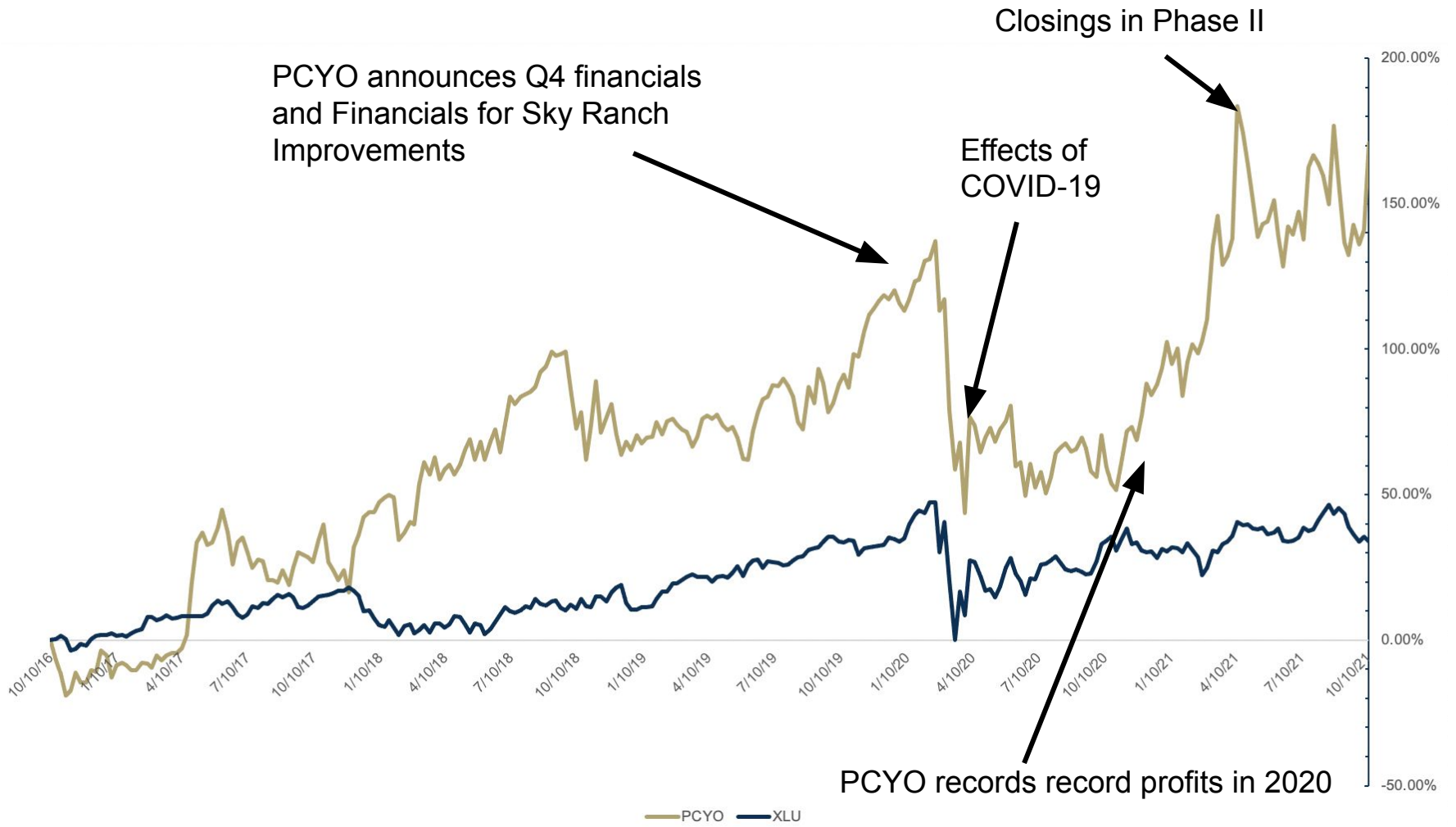


Dirk Lashnits - VP of Land Development

- Joined in 2017 with 20 years of land developing experience in Colorado
- Civil engineering degree
- Helps mitigate risk with in depth knowledge and understanding

Qualified individuals who are all experts of the Denver area with significant stake in the company

5-Year Stock Performance

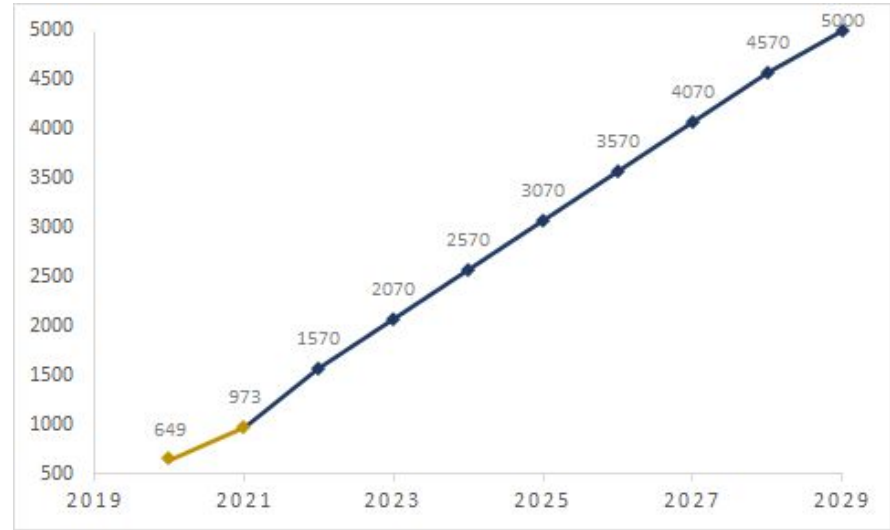


II. Business Segments

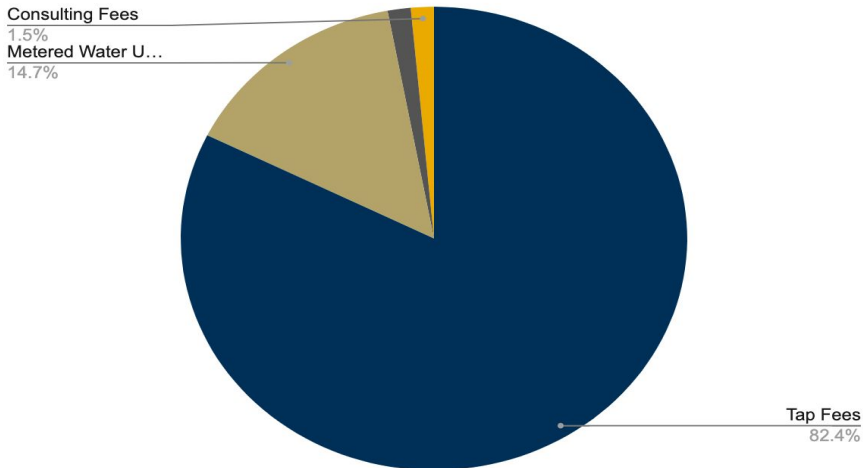
Segment Overview

- Valuable portfolio of water assets
- Capacity to service 60,000 SFE
 - Each SFE provides \$1,500/year in metered water usage
- 29,500 AF of total water
- Collect \$30,000/connection in tap fees
- Recycle water to sell for industrial and irrigation use
- Exclusive rights to provide water to Rangeview District

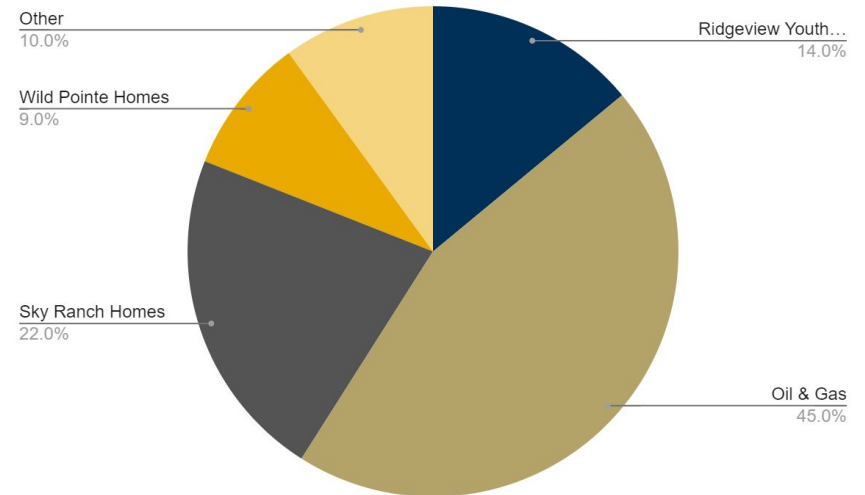
Monthly Water Customers



Revenue Breakdown



Significant Customers



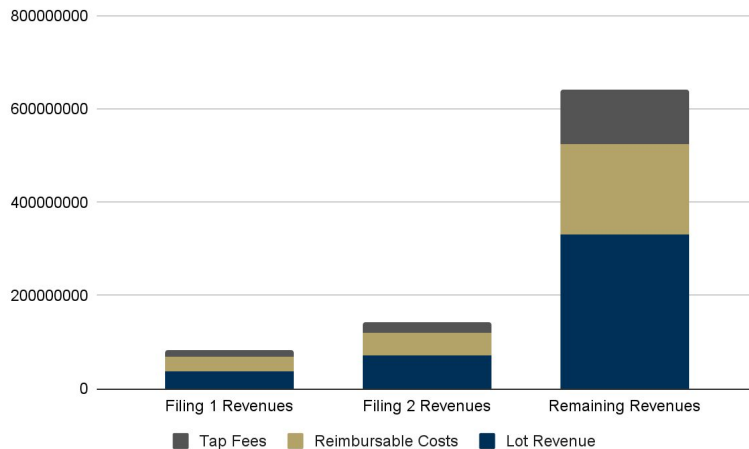
Sky Ranch and Phase 1 Development

- Sky ranch is an ongoing development of 930 acres of land 15 miles east of Denver purchased by PCYO during the recession
- 3600 lots (5000 SFE)
- **Phase 1:**
 - 506 lots sold and delivered 2 years ahead of schedule
 - full occupation expected by December 2021
 - Received \$10.5 million of \$31.6 million in reimbursables

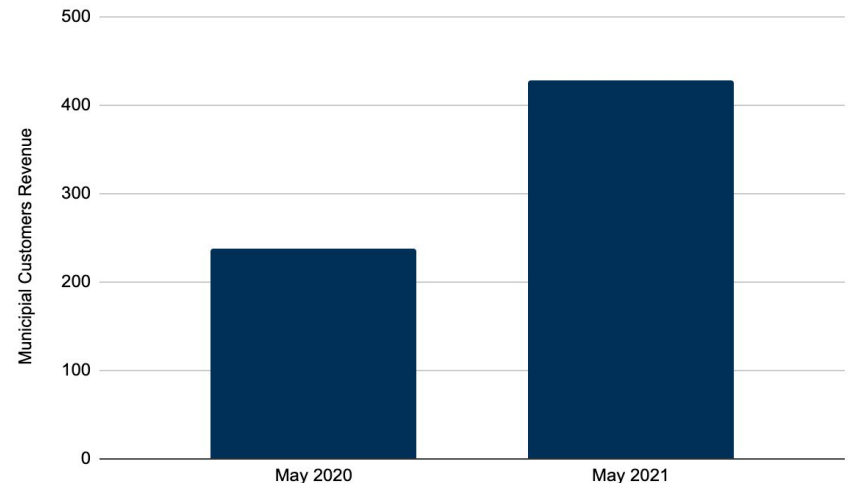
Sky Ranch Phase 2

- **Phase 2:**
 - 895 lots, 800 contracted to home builders and 100 BTR
 - 152 lots sold, and the rest contracted
 - selling at a 30% increase from Phase 1
 - delivery expected to begin in the later months of 2021
 - The estimated lot revenues of \$72.6 million, \$21.5 million in tap fees and \$48 million in reimbursable costs

Revenue Breakdown



Municipal Water Usage Nine Months Ended May 2021



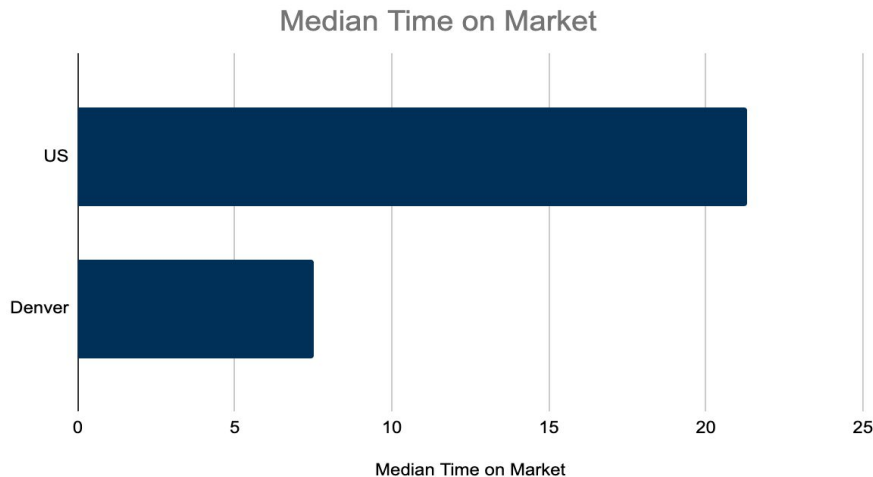
Overview

- New business segment aimed at renting out single family homes in the Denver area
- Potentially most profitable segment as Pure Cycle will collect rent and water services cost
- Each home estimated to provide \$15000/year of FCF
- Segment will provide a regular steam of recurring revenue
- Phase 1:
 - 3 houses on Sky Ranch Phase 1
- Phase 2:
 - 106 houses in Phase 2 of Sky Ranch
- Estimated 4% annual appreciation in fair market value
- Estimating 12 homes per year
- Able to leverage inexpensive capital (3.75%) , and a highly liquid balance sheet towards the cost of each home



Denver Housing Market

- Strong sellers market, not enough supply for the demand
- Average home price nationally: 375k vs Denver: 530k
- In Denver, median home price \$465k in March 2020, steady increase to \$532k in Sep 2021
- Influx of employees, regarded as the most friendly city for telecommuters
- Denver homes duration on market: 10 days in 2020, 7 days in 2021



Colorado Water Resources

- Limited water supply - government declared a water shortage on Colorado river
- State of Colorado allotted 51.75% of Colorado river water in the upper basin
- Tiered pricing system on customer water usage
- Reclamation facilities provide low cost water for uses like irrigation
- WISE - shared infrastructure with other water providing companies
- Zoning laws require proof of sufficient water supplies



III. Valuation

Company	Market Cap (millions)	5Y Rev CAGR	Forward EV/EBITDA	Debt/EBITDA	Operating Margin	Price to Book	FCF Margin	Dividend Yield
Pure Cycle Corp (PCYO)	\$374.9	92.50%	13.13	-0.77	12.30%	3.72	0.93%	0.00%
Global Water Reserve (GWRS)	\$429.8	7.60%	8.33	5.1	21.37%	13.7	1.57%	1.50%
Vldler Water Reserve (VWTR)	\$228.1	22.93%	146.25	-5.02	-14.92%	1.29	1.60%	0.00%
York Water (YORW)	\$627.3	3.15%	23.39	3.94	42.77%	4.25	-2.66%	1.60%
California Water (CWT)	\$3,170.0	6.86%	16.73	4.11	28.38%	2.84	-2.80%	1.50%
Median	\$429.8	7.60%	16.73	3.94	21.37%	3.72	0.93%	1.50%
Average	\$966.0	26.61%	41.6	1.472	17.98%	5.16	-0.27%	0.92%

Positives

- CAGR - Exceptionally high growth rate with strong plans that should enable more growth
- EV/EBITDA - Low ratio when compared with its comps, signals a great deal
- Price to book - Indicates that it is a great value compared to its comps
- Debt/EBITDA - Very low debt level

Negatives

- Div Yield - CEO has expressed interest in issuing dividends

Sensitivity Analysis (Implied 28% upside)

		Exit Multiple				
		15.0x	15.5x	16.0x	16.5x	17.0x
WACC	5.48%	\$ 20.89	\$ 21.24	\$ 21.58	\$ 21.93	\$ 22.28
	5.98%	\$ 20.12	\$ 20.45	\$ 20.79	\$ 21.12	\$ 21.45
	6.48%	\$ 19.39	\$ 19.71	\$ 20.03	\$ 20.34	\$ 20.66
	6.98%	\$ 18.69	\$ 19.00	\$ 19.30	\$ 19.60	\$ 19.91
	7.48%	\$ 18.03	\$ 18.32	\$ 18.61	\$ 18.90	\$ 19.18

Model Assumptions

- Steady growth in metered water usage segment
- Sky Ranch lot sales until 2031 at current prices
- Reimbursements from Sky Ranch CAB spread until 2031

WACC Assumptions

Assumptions	
Tax Rate	24%
Exit Multiple (EBITDA)	16.0x
WACC Calculation	
Risk Free Rate	1.30%
Beta	0.74
Market Risk Premium	7.00%
Cost of Equity	6.5%
Pre-Tax Cost of Debt	0.00%
Market Cap	\$ 337
BV of Debt	\$ 0
Equity-to-Value	100.0%
Debt-to-Value	0.0%
WACC	6.48%

IV. Conclusion

	Risk	Mitigation
1	<p>Reliance on Sky Ranch</p> <ul style="list-style-type: none"> A significant portion of Pure Cycle's future is dependent on the success of Sky Ranch 	<ul style="list-style-type: none"> Phase 1 was already extremely successful, finishing 2 years ahead of schedule The current forecasts and early success of Phase 2 suggest that this trend will continue, and we will soon see dividend payouts.
2	<p>Slow Down in Housing Market</p> <ul style="list-style-type: none"> The success of the land development project is highly dependent on the demand of the housing market If the current population trends were to slow down, Pure Cycle could take longer than expected to sell lots 	<ul style="list-style-type: none"> Colorado added 750,000 residents between 2010 and 2020, 115,000 of which moved to Denver Adams County, the location of Sky Ranch, grew by over 17% in the past 10 years, resulting in a housing market that currently cannot provide enough housing
3	<p>Revenue Fluctuations</p> <ul style="list-style-type: none"> Due to the nature of some revenue recognition like tap fees and reimbursements, Pure Cycle's revenue could seem to fluctuate between quarters as they receive lump sums in different periods. This could have a negative effect on their stock price 	<ul style="list-style-type: none"> This has no effect on their long term performance or cash flow. In fact, it could be a contributor to why the market has not realized Pure Cycle's true value
4	<p>Municipality Reimbursements</p> <ul style="list-style-type: none"> If the Sky Ranch Community Authority Board does not have the capability to reimburse Pure Cycle then profit margins of the Sky Ranch project will be significantly suppressed 	<ul style="list-style-type: none"> The CAB has already reimbursed \$10 million and its capability is dependent on its ability to issue bonds and collect taxes If phase 1 demand is sustained then the CAB should have no issue with generating revenue and reimbursing Sky Ranch

Development of Master Planned Community

- Pure Cycle is monetizing their water assets by developing a Sky Ranch, to which they are the exclusive water provider
- Phase 1 sold out 2 years ahead of schedule and phase 2 lots are selling at a 30% increase
- Commercial lots will be developed in upcoming phases and are expected to sell for even more and increase water usage

Investment in growing Denver area

- Population trend in Denver metro area is outpacing the national average
- People in the area are leaving the city to live in the suburbs (Sky Ranch)
- I-70 corridor is at a perfect location benefit from the population growth and work from home shift

Sustainable stream of diversified revenue

- Pure Cycle will earn ~\$30,000 per house in tap fees, this is around \$24M for phase 2 only
- Once more people move into Sky Ranch, municipal water usage revenue will increase significantly, giving Pure Cycle a recurring stream of cash
- Management has already discussed that they are looking into giving out dividends in the future

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V. Appendix

Discounted Cash Flow



	Historical			Expected 2021	Projected									
	2018	2019	2020		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	\$ 7	\$ 20	\$ 26	\$ 14	\$ 45	\$ 48	\$ 33	\$ 50	\$ 55	\$ 66	\$ 66	\$ 77	\$ 83	\$ 84
% YoY Growth	N/A	191.43%	26.96%	-45.95%	221.43%	6.67%	-31.25%	51.52%	10.00%	9.75%	9.50%	9.25%	9.00%	8.75%
Cost of Goods Sold	\$ 4	\$ 14	\$ 18	\$ 5	\$ 18	\$ 22	\$ 17	\$ 28	\$ 33	\$ 40	\$ 40	\$ 47	\$ 51	\$ 51
Gross Profit	\$ 3	\$ 7	\$ 8	\$ 9	\$ 27	\$ 26	\$ 16	\$ 22	\$ 22	\$ 26	\$ 26	\$ 30	\$ 32	\$ 33
% Margin	40.00%	31.86%	29.34%	64.29%	59.29%	54.29%	49.29%	44.29%	39.29%	39.24%	39.19%	39.14%	39.09%	39.04%
EBITDA	1	4	3	4	13	15	10	16	18	22	22	26	28	28
% Margin	8.57%	21.08%	12.36%	28.57%	29.57%	30.57%	31.57%	32.57%	33.57%	33.62%	33.67%	33.72%	33.77%	33.82%
Less: Depreciation	0	0	1	1	4	4	3	4	4	5	5	6	6	7
EBIT	0	4	2	3	10	11	8	12	14	17	17	20	22	22
Less: Taxes	0	1	1	1	2	3	2	3	3	4	4	5	5	5
EBIT*(1-T)	0	3	2	2	7	8	6	9	11	13	13	15	16	17
Add: Depreciation	0	0	1	1	4	4	3	4	4	5	5	6	6	7
Less: Inc. in NWC		7	(11)	1	5	1	(2)	4	1	2	(0)	2	1	0
Less: CapEx	0	0	1	1	3	3	2	3	3	3	3	3	4	4
Add: Reimbursements			11	-	10	15	25	25	25	25	25	25	25	25
FCF to Firm	0	(4)	24	2	13	23	34	32	36	38	40	40	43	44
PV Factor					0.94	0.88	0.83	0.78	0.73	0.69	0.64	0.61	0.57	0.53
PV of FCF					12	20	28	25	26	26	26	24	24	24
PV of Terminal Value									242.7					242.7

Firm Value	478.7
Less: Debt	\$ 0
Equity Value	478.6
Shares Outstanding	24
Share Price	\$ 20.03

	Historical			Expected 2021	Projected									
	2018	2019	2020		2022	2023	2024	2025	2026	2026	2027	2028	2029	2030
Drivers:														
Revenue Growth	N/A	191.43%	26.96%	-45.95%	221.43%	6.67%	-31.25%	51.52%	10.00%	9.75%	9.50%	9.25%	9.00%	8.75%
Margin Expansion:														
Gross Margin	40.00%	31.86%	29.34%	64.29%	59.29%	54.29%	49.29%	44.29%	39.29%	39.24%	39.19%	39.14%	39.09%	39.04%
EBITDA Margin	8.57%	21.08%	12.36%	28.57%	29.57%	30.57%	31.57%	32.57%	33.57%	33.62%	33.67%	33.72%	33.77%	33.82%
Depreciation (% of Sales)	4.3%	1.5%	3.9%	8.6%	8.37%	8.17%	7.97%	7.77%	7.57%	7.62%	7.67%	7.72%	7.77%	7.82%
Net Working Capital:														
A/R	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 3.5	\$ 3.8	\$ 2.6	\$ 4.0	\$ 4.4	\$ 5.3	\$ 5.3	\$ 6.1	\$ 6.6	\$ 6.7
DSO	57.36	19.68	15.50	28.68	28.78	28.88	28.98	29.08	29.18	29.13	29.08	29.03	28.98	28.93
Inventory	\$ 5.2	\$ 11.6	\$ 0.5	\$ 2.0	\$ 7.3	\$ 8.8	\$ 6.7	\$ 11.2	\$ 13.4	\$ 16.1	\$ 16.1	\$ 18.8	\$ 20.3	\$ 20.5
DIO	451.9	304.6	10.0	146.0	146.1	146.2	146.3	146.4	146.5	146.5	146.4	146.4	146.3	146.3
A/P	\$ 0.8	\$ 0.2	\$ 0.2	\$ 1.0	\$ 3.7	\$ 4.4	\$ 3.4	\$ 5.7	\$ 6.8	\$ 8.2	\$ 8.2	\$ 9.5	\$ 10.3	\$ 10.4
DPO	69.5	5.3	4.0	73.0	73.3	73.9	74.2	74.5	74.5	74.4	74.4	74.4	74.3	74.3
NWC	\$ 5.5	\$ 12.5	\$ 1.4	\$ 2.1	\$ 7.2	\$ 8.2	\$ 5.9	\$ 9.5	\$ 11.0	\$ 13.2	\$ 13.2	\$ 15.4	\$ 16.6	\$ 16.8
Change in NWC		\$ 7.0	(11.1)	\$ 0.7	\$ 5.1	\$ 1.0	\$ (2.2)	\$ 3.6	\$ 1.5	\$ 2.2	\$ (0.0)	\$ 2.2	\$ 1.2	\$ 0.2
CapEx (% of Sales)	5.71%	1.96%	2.32%	7.14%	6.64%	6.14%	5.64%	5.14%	4.64%	4.59%	4.54%	4.49%	4.44%	4.39%

SKY RANCH

Phase 1 & 2

Key Comparisons

- 50' Lots sold for 40% more
- 45' lots sold for 30% more
- Higher density and diversified product mix
- Lot construction costs to remaining relatively the same
- Majority of water and wastewater infrastructure already built in filing 1 and can be used for filing 2 with far less expenditures

Filing 1 - 506 Lots

Lot Sales	\$ 36.7 million
Current Reimbursables	\$ 10.5 million
Future Reimbursements	\$ 21.1 million *
Tap Fees	\$ 14.9 million**
Costs	\$ 35.8 million
Net	\$47.4 million

*Recognized in income in Q2-2021
**\$11.3 million in date with \$3.6M expected before end of 2021

Filing 2 - 900 Lots

Lot Sales	\$ 72.6 million
Reimbursables	\$ 48.1 million
Tap Fees	\$ 65.5 million
Costs	\$ 262,000,000
Net	\$76.7 million

Revenues



Expenses



Market Watch

"Housing demand in the Denver area continues to outpace supply, and as a result of increasing costs and the need for large down payments, the single-family rental market is growing exponentially. Our national home builder customers have expressed interest in building these homes, offering renters a brand new home without the hassle of buying."

- Mark Harding, President of Pure Cycle

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DENVER METRO AREA MARKET WATCH May 2021



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