Innovation in the water treatment business is in their name.

written by InvestorNews | March 23, 2021

As the name states, H2O Innovation Inc. (TSXV: HEO | OTCQX: HEOFF) is an innovator in the water treatment business focused on membrane technology. For the last 20 years the company has designed and fabricated state-of-the-art, integrated water treatment solutions for municipal, energy and natural resource end users, specializing in applications for drinking water, water reuse, wastewater treatment and industrial process water. Developed in-house, their solutions are custom built to adapt to all types of applications.

The company further breaks down their activities into three operating segments: Water Technologies & Services (WTS) which designs and builds custom water, wastewater and water reuse systems, supporting the customer with both site and remote services, as well as digital solutions, to optimize performance and maximize life of the equipment; Specialty Products (SP) utilizes a global network of more than 100 distribution partners to manufacture and delivers specialty chemicals, components, and consumables to end-users with a focus on membrane applications; and Operations and Maintenance (O&M) for contract operations of water, wastewater, and water reuse treatment, collection, and distribution systems, pumping stations, and associated assets for customers throughout North America.

H20 Innovations certainly has positive momentum for itself as a company but also being in a business segment that is becoming a greater focus for the world in general but also the ESG investing community. In their most recent quarterly and year-end

results, they posted their fourth consecutive year of revenue and adjusted EBITDA growth. Additionally, the company has reported positive earnings for the last 3 quarters, which is very impressive for a growing company.

When it comes to growth, one of H2O Innovation's Key Strategic Objectives is M&A. Most recently the company announced on February 1, 2021, that it had acquired Genesys Membrane Products, S.L. located in Madrid, Spain to boost its membrane chemicals capabilities. It positions the company to better access the Latin American membrane chemical market, in particular the mining industry. H2O Innovation has averaged just under one acquisition a year since 2013. There are over 1,200 privately owned businesses active in the water industry with revenues in excess of $50M, but only one larger than $10B. So there is a lot of opportunities to grow the business this way and so far H2O Innovation has had success finding the right fit and successfully integrating these acquisitions.

As for organic growth, the company is focusing on improving gross margins through increased sales, improved operational excellence and via product innovation. Another key is further reduction in SG&A likely to come from acquisition synergies.

By 2023, the stated goal is to increase revenue from $134M (Actual FY 2020) to between $175-250M including 2-4 strategic acquisitions. With only 78M shares outstanding (90M fully diluted) and a paltry $14.1M in debt there is some good upside for shareholders if the company can execute on its goals. Globally there is no shortage of potential acquisitions available to H20 Innovations and a clean balance sheet gives the company the option to fund these with debt or equity, whichever is more accretive.