

Closing new water infrastructure contracts rapidly H2O Innovation continues winning streak

Water infrastructure is a huge business vital to our society. Clean drinking water, efficient treatment of wastewater, and water conservation and reuse are all key to our healthy survival. Understanding this President Biden's American Jobs & Infrastructure Plan (revamped as the \$1.2 trillion Bipartisan Infrastructure Framework) plans to allocate US\$111 billion for water infrastructure. The exact details are still to be finalized with a likely approval expected ("hoped for") before the Senate breaks up and leaves Washington from August 9 to September 10. This means there is a reasonable chance to see a large U.S. infrastructure package approved before August 9, 2021.

If approved one company set to be a potential beneficiary is H2O Innovation Inc. (TSXV: HEO | OTCQX: HEOFF). H2O Innovation is a complete water solutions company that provides water, wastewater, and water reuse & recycling, desalination solutions focused on design, build, service, and contract operations. H2O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology. H2O Innovation's customers include those from municipal, energy, and natural resource end users.

H2O Innovation has three divisions:

- 1. Water Technologies & Services (WTS)** – Applies membrane technologies and engineering expertise to deliver equipment and services to municipal and industrial

water, wastewater, and water reuse customers.

2. **Specialty Products (SP)** – Is a set of businesses that manufacture and supply a complete line of specialty chemicals (PWT™ and Genesys® were recently merged to form H₂O Innovation Specialty Chemicals Group.), consumables and engineered products for the global water treatment industry.
3. **Operations & Maintenance (O&M)** – Provides contract operations and associated services for water and wastewater treatment systems.

H2O Innovation's 3 business segments all targeting to create a better water infrastructure



Source: H2O Innovation company presentation

H2O Innovation continues to win new contracts at a rapid pace

Announced on June 1, 2021, H2O Innovation signed C\$4.5 million of new contracts. The news release stated: “H2O Innovation....was awarded 10 new projects over the last months,

including six industrial ones. These new contracts, totaling \$4.5 million, will bring the Corporation's Water Technologies & Services ("WTS") business pillar sales backlog to \$35.0 million."

Announced on June 23, 2021, H2O Innovation signed a new contract worth C\$5.0 million. The news reported: "H₂O Innovation Inc.... is proud to announce it has recently been awarded the Operations and Maintenance ("O&M") contract for the Town of Warren, Rhode Island with a total value of \$5.0 million, bringing the Corporation's O&M sales backlog to \$71.3 million."

H2O Innovation's financials are forecast to improve each year

H2O Innovation is targeting their niche areas with addressable markets of US\$4.5 billion out of the total water infrastructure addressable market of US\$837.5 billion.

Currently, H2O Innovations' revenue is forecast to reach C\$147 million (~US\$118 million) and a net income of C\$4 million in 2021. 2021 PE is forecast at 40.4. It is worth noting that H2O Innovation's US\$118 million in forecast revenue is just 2.6% of their US\$4.5 billion addressable market. Looking at the latest financial results from Q3 in the 2021 financial year, where net earnings amounted to C\$2.1 million (up from a net loss of C\$3.1 million YoY), H2O Innovation looks to be on track to meet or exceed the above forecast.

In 2022, H2O Innovation's net income is forecast to grow to C\$5 million and then in 2023 to reach C\$7 million, equating to a forecast 2022 PE of 32.6 and a 2023 PE of 24.6.

Given the rate of growth of new contracts and the large back orders it is looking like H2O Innovation may exceed these forecasts. Also as it stands based on the current forecasts net income is set to almost double from C\$4 million in 2021 to C\$7 million in 2023.

Closing remarks

H2O Innovation continues to win new water infrastructure contracts at a rapid pace. It certainly looks like H2O Innovation is set for some impressive growth in revenue and net profits the next 2-3 years and still has a huge potential runway of growth ahead, given they are currently only tapping 2.6% of their US\$4.5 billion addressable market. All this is before we factor in the potential from the proposed US\$111 billion for water infrastructure in the USA.

Trading on a 2021 PE of 40.4 (2023 PE of 24.6) and a market cap of C\$177 million it could still be very early days for the success story of H2O Innovation. H2O Innovation President and CEO Frédéric Dugré thinks so, as you watch on an InvestorIntel video interview here. This is developing into a strong story in what looks to be a booming sector the next few years. Stay tuned.