

# First Quarter Results Set the Tone for a Compelling FY2022

November 10, 2021 (Source) – Key financial highlights

- Revenue growth of 9.7 % reaching \$38.4 M for Q1-FY2022 from \$35.0 M for Q1-FY2021;
- Adjusted EBITDA<sup>1</sup> reached \$4.0 M, or 10.5 % of revenues, for Q1-FY2022, compared to \$3.5 M, or 9.9 % of revenues, for Q1-FY2021;
- Net earnings amounted to \$0.6 M or \$0.007 per share for Q1-FY2022 compared to net earnings of \$1.0 M or \$0.013 per share for Q1-FY2021;
- Consolidated backlog of \$122.8 M at the end of the quarter; and
- Strong financial position with a net debt<sup>1</sup> of \$3.4 M.

*All amounts in Canadian dollars unless otherwise stated.*

(TSXV: HE0) – H<sub>2</sub>O Innovation Inc. (“H<sub>2</sub>O Innovation” or the “Corporation”) announces its financial results for the first quarter of fiscal year 2022 ended September 30, 2021.

“We are starting our new fiscal year on a strong financial basis supported by sustained business drivers: growing capital equipment backlog, sales network expansion with new distributors and account managers, start-up of new O&M projects in Rhode Island and Mississippi and continuous recurrent revenues at high margins. All pieces of our business puzzle are clicking together and generates an increasing number of business synergies and operational efficiency. On top of that, our financial position remains strong with a very low level of debt, which allows us to stay opportunistic for acquisitions. I could not be more confident and prouder of our progress”, **stated Frédéric Dugré, President and Chief Executive Officer of H<sub>2</sub>O Innovation.**

## First Quarter Results

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. Consolidated revenues from our three business pillars, for the three-month period ended on September 30, 2021, increased by \$3.4 M, or 9.7 %, to reach \$38.4 M compared to \$35.0 M for the comparable quarter of the previous fiscal year. Assuming a constant USD exchange rate between the periods, the consolidated revenues increase would have been 13.4 %, or \$4.7 M. This overall increase was partially fuelled by the acquisition of Genesys Membrane Products, S.L.U. (“GMP”) on February 1, 2021, which contributed \$2.4 M in revenues for the three-month period ended on September 30, 2021.

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2021		2020	
	\$	% <sup>(a)</sup>	\$	% <sup>(a)</sup>
<b>Revenues per business pillar</b>				
WTS	<b>9,011</b>	<b>23.5</b>	6,242	17.8
Specialty Products	<b>11,335</b>	<b>29.5</b>	11,389	32.5
O&M	<b>18,038</b>	<b>47.0</b>	17,365	49.7
Total revenues	<b>38,384</b>	<b>100.0</b>	34,996	100.0
Gross profit margin before depreciation and amortization	<b>10,920</b>	<b>28.4</b>	9,477	27.1
SG&A expenses <sup>(b)</sup>	<b>7,085</b>	<b>18.5</b>	6,209	17.7
Net earnings for the period	<b>618</b>	<b>1.6</b>	984	2.8
EBITDA <sup>2</sup>	<b>3,276</b>	<b>8.5</b>	3,105	8.9

Adjusted EBITDA <sup>1</sup>	<b>4,018</b>	<b>10.5</b>	3,482	9.9
Adjusted net earnings <sup>1</sup>	<b>2,132</b>	<b>5.6</b>	2,119	6.1
Recurring revenues <sup>1</sup>	<b>33,096</b>	<b>86.2</b>	31,568	90.2
(a)	% of total revenues.			
(b)	Selling, general operating and administrative expenses ("SG&A").			

The WTS' financial performance for the first quarter of fiscal year 2022 was strong with 44.4 % growth in revenues. The WTS team has completed a busy period during which they reached substantial completion on several projects and the service activities grew by 32.3 % compared to the same quarter of last fiscal year.

Even though revenues from Specialty Products remained fairly stable for the first quarter of fiscal year 2022, EBAC increased by 30.4 % compared to the same quarter of last fiscal year. The improvement of the profitability is due to a higher proportion of sales coming from specialty chemicals-related products.

During the first quarter of fiscal year 2022, O&M business pillar showed organic growth of 9.8 %, offset by an unfavorable USD exchange rate impact and temporary reduction of the gross profit margin in % due to timing in some construction work on MUD contracts.

The Corporation's gross profit margin before depreciation and amortization stood at \$10.9 M, or 28.4 %, during the first quarter of fiscal year 2022, compared to \$9.5 M, or 27.1 % for the same period of the previous fiscal year, representing an increase of \$1.4 M, or 15.2 %, while the revenues of the Corporation increased by 9.7 %. The percentage increase was driven by improved gross profit margins in Specialty Products, which are characterized with higher gross profit margins' product, compared to the same quarter of the previous fiscal

year. This increase was partially offset by decreased gross profit margins in WTS and O&M business pillars.

The Corporation's SG&A reached \$7.1 M during the first quarter of fiscal year 2022, compared to \$6.2 M for the same period of the previous fiscal year, representing an increase of \$0.9 M, or 14.1 %, while the revenues of the Corporation increased by 9.7 %. The acquisition of GMP on February 1, 2021 contributed \$0.4 M of this increase. Moreover, the increase is due to hiring of sales resources, higher domestic travel within the U.S. and Canada for services and O&M activities as well as higher stock-based compensation costs and insurance costs, partly offset by the decrease in the professional fees, compared to the same quarter of last fiscal year. On a sequential basis, when compared to the fourth quarter of last fiscal year, the Corporation's SG&A increased by \$0.2 M to \$7.1 M, from \$6.9 M.

The Corporation's adjusted EBITDA increased by \$0.5 M, or 15.4 %, to reach \$4.0 M during the first quarter of fiscal year 2022, from \$3.5 M for the comparable period of fiscal year 2021, while the revenues of the Corporation increased by 9.7 %. The adjusted EBITDA % improved and reached 10.5 % for the first quarter of fiscal year 2022, compared to 9.9 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins, partly offset by the increase of the SG&A ratio.

Net earnings amounted to \$0.6 M or \$0.007 per share for the first quarter of fiscal year 2022 compared to net earnings of \$1.0 M or \$0.013 per share for the comparable quarter of fiscal year 2021. The variation was impacted by the increase of the SG&A ratio, higher other (gains) and losses – net and higher tax expenses that were partially compensated by higher gross profit margins, lower acquisition and integration costs and lower finance costs. The increase in other (gains) and losses – net was driven by higher changes in fair value of

contingent considerations due to first quarter performance beyond initial forecast.

## **Non-IFRS financial measurements**

### **EBITDA and adjusted EBITDA**

EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes expenses otherwise considered in net earnings according to Generally Accepted Accounting Principles (“GAAP”), namely the unrealized exchange (gains) losses, the change in fair value of contingent considerations and the stock-based compensation costs. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition and integration costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net earnings based on the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies. Even though adjusted EBITDA is a non-IFRS measure, it is used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the GAAP measures, allows them to see the Corporation’s results through the eyes of management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

### **Reconciliation of net earnings to EBITDA and to adjusted EBITDA**

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2021	2020
	\$	\$
Net earnings for the period	618	984
Finance costs – net	557	579

Income taxes (recovery)	<b>140</b>	(296)
Depreciation of property, plant and equipment and right-of-use assets	<b>866</b>	789
Amortization of intangible assets	<b>1,095</b>	1,049
<b>EBITDA</b>	<b>3,276</b>	3,105
Unrealized exchange (gain) loss	<b>(246)</b>	214
Stock-based compensation costs	<b>219</b>	43
Changes in fair value of the contingent considerations	<b>767</b>	62
Acquisition and integration costs	<b>2</b>	58
<b>Adjusted EBITDA</b>	<b>4,018</b>	3,482

### **Adjusted net earnings**

The definition of adjusted net earnings excludes acquisition and integration costs, amortization of intangible assets from acquisition, unrealized exchange (gain) loss, change in fair value of the contingent considerations and stock-based compensation costs. The reader can establish the link between net earnings and adjusted net earnings with the reconciliation items presented in this press release. The definition of adjusted net earnings used by the Corporation may differ from those used by other companies. Adjusted net earnings and adjusted net earnings per share are non-IFRS measure and they are used by management to monitor financial performance and to make strategic decision.

### **Reconciliation of net earnings to adjusted net earnings**

(In thousands of Canadian dollars)	<b>Three-month periods ended September 30,</b>	
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Net earnings for the period	<b>618</b>	984
Acquisition and integration costs	<b>2</b>	58

Amortization of intangible assets related to business combinations	<b>992</b>	986
Unrealized exchange (gain) loss	<b>(246)</b>	214
Changes in fair value of the contingent considerations	<b>767</b>	62
Stock-based compensation costs	<b>219</b>	43
Income taxes related to above items	<b>(220)</b>	(228)
<b>Adjusted net earnings</b>	<b>2,132</b>	2,119

### Net Debt

The definition of net debt consists of long-term debt less cash, excluding and/or including contingent considerations. Net debt is a non-IFRS measure without a standardized definition within IFRS and is used by the management to measure the liquidity of the Corporation. The definition of net debt used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	<b>September 30, 2021</b>	June 30, 2021
	\$	\$
Current portion of long-term debt	<b>2,998</b>	2,975
Long-term debt	<b>12,190</b>	12,941
Contingent considerations	<b>7,527</b>	6,738
Less: Cash	<b>(11,768)</b>	(15,409)
<b>Net debt including contingent considerations</b>	<b>10,947</b>	7,245
Contingent considerations	<b>7,527</b>	6,738
<b>Net debt excluding contingent considerations (''Net debt'')</b>	<b>3,420</b>	507

### Recurring revenues

Recurring revenue by nature is a non-IFRS measure and is

defined by management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or coming from a business with a recurring customer sales pattern. However, there is no guarantee that recurring revenues will last indefinitely. The Corporation's recurring revenues are coming from the Specialty Products and O&M business pillars as well as the service activities of the WTS business pillar. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other. The definition of recurring revenues by nature used by the Corporation may differ from those used by other companies.

### **H<sub>2</sub>O Innovation Conference Call**

Frédéric Dugré, President and Chief Executive Officer, and Marc Blanchet, Chief Financial Officer, will hold an investor conference call to discuss the first quarter financial results in further details at 10:00 a.m. Eastern Time on Wednesday, November 10, 2021.

To access the call, please call 1-888-440-2131 or 438-803-0534, five to ten minutes prior to the start time. Presentation slides for the conference call will be made available on the Corporate Presentations page of the Investors section of the Corporation's website.

**The first quarter financial report is available on [www.h2oinnovation.com](http://www.h2oinnovation.com). Additional information on the Corporation is also available on SEDAR ([www.sedar.com](http://www.sedar.com)).**

### **Prospective disclosures**

Certain statements set forth in this press release regarding the operations and the activities of H<sub>2</sub>O Innovation as well as other communications by the Corporation to the public that describe more generally management objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Forward-looking statements include the use of the

words such as “anticipate”, “if”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “should” or “will” and other similar terms as well as those usually used in the future and the conditional. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined and are based on the estimates and opinions of management on the date the statements are made.

In this press release, such forward-looking statements include, but are not limited to, statements regarding the Corporation’s ability to grow its business and to reach specific financial objectives and targets and involve several risks and uncertainties. Those risks and uncertainties include, without limitations, the Corporation’s ability to maintain its financial position and its business improvements and to complete, deliver and execute projects and deliveries, in due time and as expected by the customers, despite the challenges and impacts of the COVID-19 pandemic. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 27, 2021 available on SEDAR ([www.sedar.com](http://www.sedar.com)).

Should one or more of these risks or uncertainties materialize, or should the assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. Unless required to do so pursuant to applicable securities legislation, H<sub>2</sub>O Innovation assumes no obligation to update or revise forward-looking statements contained in this press release or in other communications as a result of new information, future events, and other changes.

### **About H<sub>2</sub>O Innovation**

Innovation is in our name, and it is what drives the organization. H<sub>2</sub>O Innovation is a complete water solutions

company focused on providing best-in-class technologies and services to its customers. The Corporation's activities rely on three pillars: i) 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, ii) Specialty Products (SP) is a set of businesses that manufacture and supply a complete line of specialty chemicals, consumables and engineered products for the global water treatment industry, and iii) Operation & Maintenance (O&M) provides contract operations and associated services for water and wastewater treatment systems. Through innovation, we strive to simplify water. For more information, visit [www.h2oinnovation.com](http://www.h2oinnovation.com).

*Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) nor the NYSE Euronext Growth Paris accepts responsibility for the adequacy or accuracy of this release.*

**Source:**

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<sup>1</sup> These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this press release. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release in section "Non-IFRS financial measurements" to give the reader a better understanding of the indicators used by management.

<sup>2</sup> These non-IFRS measures are presented as additional

information and should be used in conjunction with the IFRS financial measurements presented in this press release. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release in section "Non-IFRS financial measurements" to give the reader a better understanding of the indicators used by management.