H2O Innovation Continues to Improve its Profitability in the 2021 Second Quarter

February 11, 2021 (Source) –

Key Financial Highlights

- Revenue growth of 4.9 % over the same period of the previous fiscal year, reaching $35.0 M for the second quarter of fiscal year 2021;
- Gross profit margin (%) before depreciation and amortization expenses of 26.8 % for the second quarter of fiscal year 2021, compared to 24.8 % for the second quarter of previous fiscal year;
- Adjusted EBITDA[1] reached $3.6 M, or 10.2 % of revenues, for the second quarter of fiscal year 2021 compared to $2.3 M, or 6.9 % of revenues, for the comparable quarter of previous fiscal year;
- Net earnings amounted to $0.3 M for the second quarter of fiscal year 2021, compared to a net loss of ($0.9 M) for the comparable quarter of previous fiscal year; and
- Solid financial position with a net debt-to-adjusted EBITDA[1] ratio of 0.90 at the end of the quarter, compared to 0.84 as at June 30, 2020.

Subsequent Event

- Acquisition of the remaining 76.0 % of the issued and outstanding shares of Genesys Membrane Products, S.L. (“GMP”) to expand its specialty chemical products and laboratory services to its large international distributor network and to increase its commercial presence in Latin America, notably within the mining industry.

All amounts in Canadian dollars unless otherwise stated.

(TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its financial results for the second quarter of fiscal year 2021 ended December 31, 2020.

"We are delighted to present a solid financial performance as well as continuous business improvements during our second quarter of fiscal year 2021. These results are in line with our short-term and 3-year financial targets which aim to continue to expand our operational and EBITDA margins. Strategically, our focus to maximize customer retention through recurrent products and services offering, to push for innovation and operational excellence is paying-off. Combined to our M&A strategy, in which GMP's recent acquisition fits perfectly, we are in a good position to exceed our 11.0 % adjusted EBITDA target that we set for FY2023. Moreover, the addition of two (2) new O&M municipal long-term contracts in the state of Florida and New Hampshire combined to the recent $3.2 M wins of high-profile industrial and wastewater projects in the WTS business pillar, solidifies our business model and our organic growth in the coming quarters and position H_2O Innovation as a water player of essential reputation", **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

(In thousands of Canadian dollars)	**Three-month periods ended December 31,**				**Six-month periods ended December 31,**			
	2020		2019		**2020**		2019	
	$	**%** [a]	$	% [a]	**$**	**%** [a]	$	% [a]
Revenues per business pillar								
WTS	**6,944**	**19.9**	7,384	22.2	**13,186**	**18.9**	15,589	25.3

Specialty products	**10,387**	**29.7**	10,375	31.1	**21,776**	**31.1**	15,567	25.3
O&M	**17,638**	**50.4**	15,575	46.7	**35,003**	**50.0**	30,401	49.4
Total revenues	**34,969**	**100.0**	33,334	100.0	**69,965**	**100.0**	61,557	100.0
Gross profit margin before depreciation and amortization	**9,385**	**26.8**	8,283	24.8	**18,862**	**27.0**	14,974	24.3
SG&A expenses[(b)]	**5,840**	**16.7**	5,896	17.7	**12,049**	**17.2**	10,955	17.8
Net earnings (loss) for the period	**268**	**0.8**	(909)	(2.7)	**1,252**	**1.8**	(1,945)	(3.2)
EBITDA[1]	**2,827**	**8.1**	1,113	3.3	**5,932**	**8.5**	2,154	3.5
Adjusted EBITDA[1]	**3,562**	**10.2**	2,313	6.9	**7,044**	**10.1**	3,916	6.4
Recurring revenues[2]	**31,163**	**89.1**	28,033	84.1	**62,731**	**89.7**	50,672	82.3

(a) % over revenues.

(b) Selling, general and administrative expenses (“SG&A”).

Second Quarter Results

Consolidated revenues from the Corporation’s three business pillars, for the three-month period ended on December 31, 2020, increased by $1.7 M, or 4.9 %, to reach $35.0 M compared to $33.3 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Gulf Utility Services (“GUS”) on July 1, 2020, which contributed $1.7 M in revenues during this quarter. Genesys, which was acquired on November 15, 2019, contributed $3.0 M to the revenues of the second quarter of fiscal year 2021, compared to $1.6 M for the same quarter of fiscal year 2020. The first quarter of fiscal year 2021 was strong for Specialty Products business pillar, including the delivery of significant orders. Therefore, having an exceptional first quarter, with several large-scale orders delivered before September 30, 2020 had the effect of having less orders delivered in the second quarter and consequently, less revenue recognition. The O&M business pillar was positively impacted by the acquisition of GUS and showed organic growth of $0.3 M this quarter. During the second quarter, the O&M team started a new 3-year contract for a municipality in Florida, which also impacted positively the revenues of this business pillar. Revenues coming from the WTS business pillar decreased by $0.4 M compared to the same quarter of fiscal year 2020 but is in line with the Corporation's business plan to prioritize WTS' projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars. With $3.2 M of new industrial and municipal projects secured at the end of the second quarter and early January 2021, revenues from the WTS business pillar are expected to gain positive momentum in the coming quarters of H_2O Innovation's current fiscal year.

The Corporation's gross profit margin[3] stood at $9.4 M, or 26.8 %, during the second quarter of fiscal year 2021, compared to $8.3 M, or 24.8 % for the previous fiscal year, representing an increase of $1.1 M, or 13.3 %. The increase of gross profit margin (%) is explained by the business mix in the Specialty Products business pillar, with more sales coming from Genesys, characterized with higher gross profit margins' products, compared to the same quarter of the previous fiscal year. Additionally, the WTS and O&M business pillars showed an improvement of gross profit margin (%), in line with the Corporation's strategy to focus on projects with a higher margin profile.

The Corporation's SG&A reached $5.8 M during the second quarter of fiscal year 2021, compared to $5.9 M for the same period of the previous fiscal year, representing a decrease of $0.1 M, or 0.9 %, while the revenues of the Corporation increased by 4.9 %. The decrease is driven by the reduction in selling and general expenses in the WTS business pillar following the restructuring implemented by the Corporation in the fourth quarter of fiscal year 2020, partly offset by the acquisition of GUS on July 1, 2020 and the acquisition of Genesys on November 15, 2019, which contributed $0.1 M and $0.4 M respectively in SG&A expenses. On a sequential basis, when compared to the first quarter of fiscal year 2021, the Corporation's SG&A decreased by $0.4 M to $5.8 M, from $6.2 M, partly due to higher professional fees occurred in the first quarter. Overall, the SG&A ratio is maintained below 18.0 %.

Net earnings amounted to $0.3 M and $0.003 per share for the second quarter of fiscal year 2021 compared to a net loss of ($0.9 M) and ($0.014) per share for the comparable quarter of fiscal year 2020. The variation was impacted by the increase in the Corporation's consolidated revenues, the improvement in gross profit margins, lower acquisition and integration costs that were compensated by higher taxes expenses and higher other losses resulting from fluctuations in the exchange rates. Moreover, the SG&A ratio decreased from 17.7 % to 16.7 %.

The Corporation's adjusted EBITDA increased by $1.3 M, or 54.0 %, to reach $3.6 M during the second quarter of fiscal year 2021, from $2.3 M for the comparable period of fiscal year 2020. The adjusted EBITDA % improved and reached 10.2 % for the second quarter of fiscal year 2021, compared to 6.9 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues, by the improvement in gross profit margins and the decrease of SG&A ratio.

Cash flows from operating activities used ($0.3 M) for the quarter ended December 31, 2020, compared to ($0.4 M) of cash flows used from operating activities during the same period of previous fiscal year. The cash flows for the three-month ended December 31, 2020 resulted primarily from the net earnings of $0.3 M, plus $2.5 M of non-cash adjustments to the net earnings consisting primarily of depreciation and amortization, stock-based compensation costs, changes in fair value of contingent considerations, finance costs – net, partially offset by the share of profit of an associate and deferred taxes, and $3.1 M in unfavorable changes in working capital items. In comparison, the cash flows for the three-month ended December 31, 2019 resulted primarily from the net loss of ($0.9 M), plus $2.2 M of non-cash adjustments to the net loss consisting primarily of depreciation and amortization, stock-based compensation costs, changes in fair value of contingent considerations, finance costs – net, partially offset by deferred taxes, and $1.7 M in unfavorable changes in working capital items.

Six-months results

Revenues stood at $70.0 M, compared to $61.6 M last year; gross margin was $18.9 M, or 27.0 %, compared to $15.0 M, or 24.3 % last year; adjusted EBITDA was $7.0 M, or 10.1 %, compared to $3.9 M, or 6.4 % last year; net earnings was $1.3 M, or $0.016 per share, compared to a net loss of ($1.9 M), or ($0.033) per share last year, essentially for the same reasons mentioned for the second quarter.

Reconciliation of net earnings (loss) to EBITDA and to adjusted EBITDA

The definition of adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") does not take into account the Corporation's finance costs – net, stock-based compensation costs, unrealized exchange (gains) / losses, change in fair value of contingent considerations and acquisition and integration costs. The reader can establish the link between adjusted EBITDA and net earnings (loss) by looking at the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

Even though EBITDA and adjusted EBITDA are non-IFRS measures, 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 the management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.

	Three-month periods ended December 31,		**Six-month periods ended December 31,**	
(In thousands of Canadian dollars)	**2020**	2019	**2020**	2019
	$	$	**$**	$
Net earnings (loss) for the period	**268**	(909)	**1,252**	(1,945)
Finance costs – net	**534**	610	**1,113**	1,039
Income taxes	**235**	(297)	**(61)**	(304)
Depreciation of property, plant and equipment and right-of-use assets	**789**	691	**1,578**	1,380
Amortization of intangible assets	**1,001**	1,018	**2,050**	1,984
EBITDA	**2,827**	1,113	**5,932**	2,154
Unrealized exchange (gain) loss	**428**	(241)	**642**	(344)
Stock-based compensation costs	**39**	54	**82**	114
Changes in fair value of the contingent consideration	**42**	96	**104**	211

Acquisition and integration costs	**226**	1,291	**284**	1,781
Adjusted EBITDA	**3,562**	2,313	**7,044**	3,916

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.

Net Debt

The definition of net debt consists of bank loans and long-term debt less cash. The definition of net debt used by the Corporation may differ from those used by other companies. For more details, please consult the "Non-IFRS financial measurements" section of the MD&A. Net debt-to-adjusted EBITDA ratio is a non-IFRS measure without a standardized definition within IFRS. The Corporation uses this ratio as a measure of financial leverage and it is calculated using our trailing twelve month adjusted EBITDA.

H_2O 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 second quarter financial results in further details at 10:00 a.m. Eastern Time on Thursday, February 11, 2021.

To access the call, please call 1 (877) 223-4471 or 1 (647) 788-4922, 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 second quarter financial report is available on www.h2oinnovation.com and on the NYSE Euronext Growth Paris website. Additional information on the Corporation is also available on SEDAR (www.sedar.com).

Prospective Disclosures

Certain statements set forth in this press release regarding the operations and the activities of H_2O 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 new WTS and O&M projects, in due time and as expected by the customers, despite the challenges the world is facing with the current COVID-19 pandemic. Information about the risk factors to which the

Corporation is exposed is provided in the Annual Information Form dated September 23, 2020 available on SEDAR (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_2O 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_2O Innovation

H_2O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users. The Corporation's activities rely on three main pillars. The first one is ***Water Technologies and Services*** and includes all types of projects as well as digital solutions (Intelogx™ and Clearlogx®) to monitor and optimize water treatment plants. H_2O Innovation's second pillar, ***Specialty Products***, includes a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water industry, through H_2O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 75 countries. Finally, H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment and associated assets for all of its clients and ensures that water quality meets regulatory requirements, through the third pillar – ***Operation and Maintenance***. Together, they employ nearly 470 employees for the operation of more than 275 utilities in two Canadian provinces and twelve US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast. For more information, visit 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.

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[1] 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 to give the reader a better understanding of the indicators used by management.

[2] Gross profit margin presented before depreciation and amortization.