H2O Innovation Reports Strong First Quarter 2021 Results as Its Business Model Shows Robustness in a Lasting Pandemic

written by Raj Shah | November 10, 2020
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Key financial highlights

- Revenue growth of 24.0 % over the same period of the previous fiscal year reached $35.0 M for the first quarter of fiscal year 2021;
- Gross profit margin (%) before depreciation and amortization expenses of 27.1 % for the first quarter of fiscal year 2021, compared to 23.8 % for the first quarter of previous fiscal year;
- Adjusted EBITDA[1] reached $3.5 M, or 9.9 % of revenues, for the first quarter of fiscal year 2021 compared to $1.6 M, or 5.8 % of revenues, for the comparable quarter of previous fiscal year;
- Net earnings amounted to $1.0 M for the first quarter of fiscal year 2021, compared to a net loss of ($1.0 M) for the comparable quarter of previous fiscal year;
- Solid financial position with a ratio net debt/adjusted EBITDA[1] of 0.92 at the end of the quarter;
- Cash flows from operating activities generated $1.3 M for the first quarter of fiscal year 2021;
- Expanded Texas O&M business platform with Gulf Utility

Service, Inc. acquisition.

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 first quarter of fiscal year 2021 ended September 30, 2020.

“We are delighted to present, on the heels of a solid fourth quarter, strong financial results for this first quarter of our new fiscal year. As we continue to grow our revenues organically and through acquisitions, we are enjoying margin expansion of our gross profit and adjusted EBITDA concurrently, which translate into an increasing net earnings of $1.0 M for the first quarter – a record-high quarterly performance for the Corporation. Our business strategy to focus first on recurring revenues is working and providing financial stability in such uncertain and volatile market conditions. Despite the on-going pandemic, the water sector remains resilient and essential to our day-to-day. In addition, our business model is robust and our financial situation is strong, allowing us to envision the coming fiscal year with confidence and with the ability to complete other potential acquisitions of Specialty Products and O&M businesses,” **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

	Three-month periods ended September 30,					
(In thousands of Canadian dollars)	**2020**		2019			
	$	**%[a]**	**$**		%[a]	
Revenues per business pillar						
WTS	**6,242**	**17.8**	8,205		29.1	

Specialty products	**11,389**	**32.5**	5,192		18.4	
O&M	**17,365**	**49.7**	14,826		52.5	
Total revenues	**34,996**	**100.0**	28,223		100.0	
Gross profit margin before depreciation and amortization	**9,477**	**27.1**	6,707		23.8	
SG&A expenses[(b)]	**6,209**	**17.7**	5,052		17.9	
Net earnings (loss) for the period	**984**	**2.8**	(1,033	)	(3.7	)
EBITDA[2]	**3,105**	**8.9**	1,065		3.8	
Adjusted EBITDA[1]	**3,482**	**9.9**	1,625		5.8	
Recurring revenues[1]	**31,568**	**90.2**	22,639		80.2	

(a)	% over revenues.
(b)	Selling, general and administrative expenses (“SG&A”).

First Quarter Results

Consolidated revenues from our three business pillars, for the three-month period ended on September 30, 2020, increased by $6.8 M, or 24.0 %, to reach $35.0 M compared to $28.2 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Genesys during the second quarter of fiscal year 2020, which contributed $2.8 M in revenues during this quarter, and by the acquisition of Gulf Utility Service, Inc. (“GUS”) on July 1, 2020, which contributed $1.5 M in revenues during this quarter. The growth is also explained by the increase of $3.4 M coming from the organic growth of the Specialty Products business pillar and $1.1 M coming from O&M, partly offset by the decrease in revenues of $2.0 M from WTS. Such increase is in line with our business plan to grow first the Specialty Products and O&M business pillars, as well as to prioritize projects in WTS business pillar with higher gross profit margins, or projects that can fuel opportunities for other business pillars.

The Corporation's gross profit margin[2] stood at $9.5 M, or 27.1 %, during the first quarter of fiscal year 2021, compared to $6.7 M, or 23.8 % for the previous fiscal year, representing an increase of $2.8 M, or 41.3 %. The percentage increase of gross profit margin is explained by the business mix, with more sales coming from the Specialty Products business pillar, which are characterized with higher gross profit margins' product, compared to the same quarter of the previous fiscal year. These higher-margin sales, positively affected by the acquisition of Genesys and the strong growth of Piedmont business line, contributed significantly to increase the gross profit margin in the first quarter of fiscal year 2021. Additionally, the WTS business pillar showed an improvement of gross profit margin percentage, in line with the Corporation's strategy.

The Corporation's SG&A reached $6.2 M during the first quarter of fiscal year 2021, compared to $5.1 M for the previous fiscal year, representing an increase of $1.1 M, or 22.9 %, while the revenues of the Corporation increased by 24.0 %. The acquisition of Genesys in the second quarter of the previous fiscal year contributed $0.6 M of this increase. The acquisition of GUS on July 1, 2020 contributed $0.1 M of this increase. Also, following the acquisition of Genesys located in another country (United Kingdom), the Corporation incurred higher professional fees, compared to the same quarter of previous 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 $6.2 M, from $6.0 M, partly due to the acquisition of GUS on July 1, 2020. Overall, the percentage of SG&A over revenues is maintained below 18.0 %.

Net earnings amounted to $1.0 M for the first quarter of fiscal year 2021 compared to a net loss of ($1.0 M) 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 and lower taxes costs. Moreover, the SG&A percentage over revenues remained stable.

The Corporation's adjusted EBITDA increased by $1.9 M, or 114.3 %, to reach $3.5 M during the first quarter of fiscal year 2021, from $1.6 M for the comparable period of fiscal year 2020. The adjusted EBITDA % improved and reached 9.9 % for the first quarter of fiscal year 2021, compared to 5.8 % 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.

Cash flows from operating activities reached $1.3 M for the quarter ended September 30, 2020, compared to $2.2 M of cash flows generated from operating activities during the comparable quarter of the previous fiscal year. The cash flows for the three months ended September 30, 2020 resulted primarily from the net earnings of $1.0 M, plus $2.1 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 $1.8 M in unfavorable changes in working capital items. In comparison, the cash flows for the three months ended September 30, 2019 resulted primarily from the net loss of $1.0 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 $1.0 M in favorable changes in working capital items.

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 September 30,			
(In thousands of Canadian dollars)	**2020**		2019	
	$		$	
Net earnings (loss) for the period	**984**		(1,033	)
Finance costs – net	**579**		453	
Income taxes	**(296**	**)**	(9	)
Depreciation of property, plant and equipment and right-of-use assets	**789**		689	
Amortization of intangible assets	**1,049**		965	

EBITDA	**3,105**		1,065	
Unrealized exchange (gain) loss	**214**		(103	)
Stock-based compensation costs	**43**		60	
Changes in fair value of the contingent considerations	**62**		114	
Acquisition and integration costs	**58**		489	
Adjusted EBITDA	**3,482**		1,625	

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 first quarter financial results in further details at 10:00 a.m. Eastern Time on Tuesday, November 10, 2020.

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 first quarter financial report is available on www.h2oinnovation.com. 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 concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined. 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. Those forward-looking statements involve a number of risks and uncertainties, which may result in actual and future results of the Corporation to be materially different than those indicated. 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). 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 70 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*** – under the names Utility Partners, Hays Utility South Corporation and Gulf Utility Service. 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

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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 report. 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.