

ESG Investor Spotlight on Climate Change and Water

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As world leaders gather in Glasgow for the United Nations Climate Change Conference (also known as COP26) one has to be aware that as the world continues to suffer from more severe weather, some of the things we take for granted may become more costly and/or scarce. The impact of extreme heat and droughts could potentially affect the supply and availability of clean water for drinking, as well as for irrigation and our supply of fresh food. Albeit COP26 is primarily focused on mitigating greenhouse gas emissions, we need to look past that to what the consequences of a changing environment could have on humanity. For years, if not decades, clean water has been portrayed as a critical commodity whose time will come. Perhaps now that weather patterns appear to be getting more volatile, we may finally be seeing the start of this.

Today we are updating an InvestorIntel favorite – [H2O Innovation Inc.](#) (TSXV: HEO | OTCQX: HEOFF) which designs, manufactures and commissions customized membrane water treatment systems, provides operation and maintenance services for that equipment, and designs, manufactures and sells a complete line of OEM specialty products such as chemicals, consumables, couplings, fittings, cartridge filters and other components for multiple markets in the water treatment industry. For the last 20 years the company has designed and fabricated state-of-the-art, integrated water treatment solutions for municipal, energy production, and natural resource end users, specializing in applications for drinking water, water reuse, wastewater treatment and industrial process water. Developed in-house, the company's solutions are custom designed, adapted and built for

all types of applications.

The Company breaks down its activities into three operating segments: Water Technologies & Services (WTS), which designs and builds custom water, wastewater and water reuse systems; Specialty Products (SP), utilizing a global network of more than 100 distribution partners to manufacture and deliver specialty chemicals, components, and consumables to end-users, with a particular focus on membrane applications; and Operations and Maintenance (O&M), for contract operations for water, wastewater, water reuse treatment, collection, distribution systems, pumping stations, and associated assets for customers throughout North America.

At the end of September, the Company released its [results for its fiscal year](#) ended June 30, 2021, reporting record fiscal year 2021, revenues and profitability. Highlights included annual revenues reaching \$144.3 million, representing a \$10.7 million growth or 8.0 % year over year; net earnings of \$3.1 million, or \$0.039 per share, compared to a net loss of \$4.2 million, or \$0.061 per share, for the previous fiscal year; and a strong financial position with a net debt of \$0.5 million at year end, compared to a net debt of \$10.5 million as of June 30, 2020. On the M&A side, H2O Innovation completed two acquisitions complementing its [O&M services in Texas](#), and expanded its reach in Spain and Latin America with the [acquisition of Genesys Membrane Products, S.L.](#), a specialty products marketing and sales network.

The Company fell a little short of market expectations, however, despite the positive results, and the stock lost 10% upon the announcement of its fiscal 2021 numbers. However, redemption may be right around the corner when [Q1 results](#) for the current fiscal year come out on Wednesday, November 10th. If we ask why an investor should be optimistic, the answer is that since June

30th H2O Innovations has announced an [O&M contract](#) for the City of Laurel, MS with a total value of \$10.4 million over 4 years; it has also been awarded [six new capital equipment projects](#) in its WTS business line, and reached completion on six others, with the new contracts valued at \$4.8 million; its Piedmont business line [secured new orders](#) for fiber reinforced polyester cartridge filter housings and duplex stainless couplings totaling \$4.0 million along with the signing of five new distribution agreements in Latin America; and its SP business line has been [selected to provide antiscalant](#) to the world's largest seawater reverse osmosis desalination plant. This is important because one of primary focuses of H2O Innovations is building recurring revenues across its three business segments, and it has realized an 87% threshold. That suggests that all the above announcements should be additive to the upcoming Q1 results.

Thankfully the planet earth hasn't descended into the harsh, inhospitable environment of the desert planet, [Arrakis](#), the setting of the latest version of the movie "[Dune](#)" based on the must-read [book\(s\) by Frank Herbert](#). But as the reliability of fresh water becomes more of a concern, it's good to know that companies like H2O Innovations have our back. Perhaps we are finally starting to see the commoditization of water that could make the stewards of clean water, like H2O Innovations, which was [Water Company of the Year at the 2020 Global Water Awards](#), very important and valuable. In the meantime, this Company with its recurring revenues, clean balance sheet and a market cap of just over \$200 million.

Frédéric Dugré on why H2O Innovation's Q3 2021 Financial Results were "the best quarter ever announced"

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In a recent InvestorIntel interview, Tracy Weslosky speaks with Frédéric Dugré, President and CEO of [H2O Innovation Inc.](#) (TSXV: HE0 | OTCQX: HE0FF) about how H2O's [Q3 2021 financial results](#) provided "...the best quarter ever announced" and why "...water is the right space to invest in".

In this InvestorIntel interview, which may also be viewed on YouTube ([click here to subscribe to the InvestorIntel Channel](#)), Frédéric also discusses the significance of H2O winning two [new projects](#) and four contract renewals in North America and how they are positioned to potentially benefit from President Biden's US\$111B [water infrastructure plan](#). Further to his Q3 2021 update, Frédéric provides an update on how H2O has increased efforts in the North American water reuse market and is continuing to expand in Latin America. With 7 financial analysts following H2O, Frédéric shares more on how the ESG investment community benefits from investing in clean water.

To watch the full interview, [click here](#)

About H2O Innovation Inc.

H2O 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. H₂O 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 H₂O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 75 countries. Finally, H₂O 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.

To learn more about H2O Innovation Inc., [click here](#)

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If you have any questions surrounding the content of this interview, please email info@investorintel.com.

H2O Innovation looks set to potentially benefit from President Biden's US\$111B water infrastructure spending

plan

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Did you know that globally [1 in 3 people](#) do not have access to safe drinking water? And yes, mostly in the third world; however, there are also problems in the first world. As part of U.S President Biden's American Jobs & Infrastructure Plan, he intends to allocate [US\\$111 billion](#) for water infrastructure. The Biden plan seeks to modernize aging drinking water, stormwater, and wastewater systems in the USA.

The White House Fact Sheet [states](#):

"Across the country, pipes and treatment plants are aging and polluted drinking water is endangering public health...An estimated six to ten million homes still receive drinking water through lead pipes and service lines...President Biden's plan will eliminate all lead pipes and service lines in our drinking water systems, improving the health of our country's children and communities of color."

Water treatment company [H2O Innovation Inc.](#) (TSXV: HE0 | OTCQX: HE0FF) looks to be in the right place at the right time. H2O Innovation has been in the water treatment industry for over 20 years but the future has never looked so good.

H2O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology. They provide multiple water solutions in the areas of drinking water, wastewater, water reuse & recycling, desalination, and water solutions. H2O Innovation's customers include those from municipal, energy, and natural resource end users.

A summary of H2O Innovation's business



Source: [Company presentation](#)

H2O Innovation to grow their water reuse business

H2O Innovation is capitalizing on the momentum from the U.S plan to improve water infrastructure by developing a new digital marketing strategy that focuses on its globally recognized expertise in water reuse. The Company [recently hired Alejandro Sturniolo](#) to fulfill the role of Global Head of Water Reuse and Strategic Partnerships. Alejandro has been involved in the water industry for the past 22 years and he currently serves as Vice-President and board member for the International Desalination Association (“IDA”) and Latin American Association of Desalination and Water Reuse (“ALADYR”).

H2O Innovation continues to win new contracts and renew existing ones

On May 12 they [announced](#): “H2O Innovation wins two new projects and renews four operation and maintenance contracts in North America. These contracts, with a total value of \$3.3 million, bring the O&M backlog to \$77.3 million.” The backlog refers to H2O Innovation’s backlog of orders for their business and highlights the strength of demand for their services.

Chief Strategy Officer of H2O Innovation, Gregory Madden, [stated](#): “The contract renewals show a commitment to the H2O Innovation Playbook concept that we win by creating value and delighting our customers. We have great relationship with our customers which is shown in our industry leading contract renewal rates. In Western Canada, we started with our first O&M contract in the region only three years ago, and we are now operating more than 15 facilities.”

H2O Innovation is expanding in Latin America

In news released on May 3, 2021, H2O Innovation [announced](#) that in addition to their acquisition of Genesys Membrane Products, which added an office for the Corporation in Santiago, Chile; H2O Innovation plans to strengthen existing and generate new relationships with original equipment manufacturers in Latin America, a high growth potential market. Their subsidiary, Piedmont, has recently signed Pavax as a new distributor in Brazil, and now has over 20 distributors in Latin America.

Growing revenues, margins, and profits

H2O Innovation's combined strategy of acquisition and organic growth has resulted in a steady increase in revenues over the past years, to the point where they are forecast to be profitable in 2021. Net profits are forecast to reach [C\\$4 million in 2021](#) (on C\$147 million revenue, 3.03% net margin), C\$5 million in 2022 (on C\$156 million revenue, 3.42% net margin), and C\$7 million in 2023 (on C\$167 million revenue, 4.47% net margin). This equates to a forecast 2021 PE of 43.5 and a 2022 PE of 35.1.

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 exceed the above forecasts. Another nice bonus was that net debt fell to C\$3.3 million at the end of the quarter, compared to a net debt of C\$10.5 million as at June 30, 2020.

H2O Innovation President & CEO Frédéric Dugré [stated](#): "Once again we are extremely proud to present a strong financial performance for our Q3 results. The sustained free cash generated from our operations combined with constant margin improvement testifies to the work of the last months, even

years.”

Closing remarks

H2O Innovation has been successfully growing their business to the point where the company reached profitability last quarter and has also dramatically reduced their debt. Additionally, the company has a huge order backlog of business and rising recurring revenues. A great achievement. Not surprisingly the stock price is up [147%](#) over the past year.

Looking ahead the outlook continues to brighten, notably more so if the Congress passes President Biden’s American Jobs & Infrastructure Plan (containing the water infrastructure US\$111 billion plan). H2O Innovation’s expansion into Latin America should potentially be another winner.

H2O Innovation trades on a market cap of C\$192 million. A great company and having a great year.

Appendix

President Biden’s plan to ensure clean water and to upgrade wastewater and support clean water infrastructure



Source: [White House Fact Sheet](#)

H2O Innovation awarded more

contracts on the heels of record FY2020 fourth quarter results

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In a news just [released](#) last week [H2O Innovation Inc.](#)'s (TSXV: HE0 | OTCQX: HE0FF) ('H₂O Innovation') subsidiary, Utility Partners, was awarded a new 3 year operation and maintenance ('O&M') contract in Florida and a 1 year renewal of an existing contract in New York State. Equally as significant is that these contracts, with a total value of C\$5.1m, bring the O&M backlog to C\$84.9m. That's a rather impressive sign of demand, especially relative to the size of H₂O Innovation, which achieved C\$133.6 million in FY 2020 revenue.

Utility Partners is US-based and specializes in the operation of water and wastewater plants operating more than 200 utilities in two Canadian provinces and twelve US states, for all of its municipal customers. H₂O Innovation acquired Utility Partners in 2016 for [C\\$22.5m](#). Over the years H₂O Innovation has delivered more than 15 membrane filtration projects to Florida, but this is the very first O&M contract. Utility Partners services include operations, maintenance, and management of public works, water, wastewater, and utility billing systems. On December 1, 2020, Utility Partners [will change name](#) to H₂O Innovation. Although the name of the operator will change, the organization and staff will remain the same.

VP of Operations Bill Douglass [said](#):

"We are very proud to have been awarded this major contract in Florida. In addition to entering a new territory, we will also

be able to take advantage of **cross-selling opportunities and synergies** with the projects carried out in this State, by H₂O Innovation, over the past few years.”

H₂O Innovation specializes in all types of water treatment with a focus on North America



[Source](#)

And who is [H2O Innovation Inc.](#)? H₂O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology. H₂O Innovation provides multiple water solutions in the areas of drinking water, wastewater, water reuse and recycling, desalination, and water solutions for the oil & gas industry.

H₂O Innovation’s financials and forecast financials



[Source](#)

As we all know water, food and air are our three most valuable commodities. Water in particular is in short supply in many countries and regions around the world. This means H₂O Innovation has plenty of runway for potential growth ahead.

The world has an ever growing demand for clean water



[Source](#)

The company’s [just released results](#) for fiscal 2020 (June 30 year-end) showed significant revenue growth, with “top-line

revenue of \$133.6 million was up more than \$15 million from \$118 million the previous fiscal year.” H₂O Innovation offers cleantech and technology driven investors exposure to the growing water treatment sector.