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.