

# ESG Investor Spotlight on Climate Change and Water

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 10<sup>th</sup>. If we ask why an investor should be optimistic, the answer is that since June 30<sup>th</sup> 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.

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**Closing**                      **new**                      **water**  
**infrastructure**                      **contracts**  
**rapidly**                      **H2O**                      **Innovation**

# continues winning streak

Water infrastructure is a huge business vital to our society. Clean drinking water, efficient treatment of wastewater, and water conservation and reuse are all key to our healthy survival. Understanding this President Biden's American Jobs & Infrastructure Plan (revamped as the \$1.2 trillion Bipartisan Infrastructure Framework) plans to allocate US\$111 billion for water infrastructure. The exact details are still to be finalized with a likely approval expected ("hoped for") before the Senate breaks up and leaves Washington from August 9 to September 10. This means there is a reasonable chance to see a large U.S. infrastructure package approved before August 9, 2021.

If approved one company set to be a potential beneficiary is H2O Innovation Inc. (TSXV: HEO | OTCQX: HEOFF). H2O Innovation is a complete water solutions company that provides water, wastewater, and water reuse & recycling, desalination solutions focused on design, build, service, and contract operations. H2O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology. H2O Innovation's customers include those from municipal, energy, and natural resource end users.

H2O Innovation has three divisions:

1. **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.
2. **Specialty Products (SP)** – Is a set of businesses that manufacture and supply a complete line of specialty chemicals (PWT™ and Genesys® were recently merged to form H<sub>2</sub>O Innovation Specialty Chemicals Group.), consumables and engineered products for the global water

treatment industry.

- 3. Operations & Maintenance (O&M)** – Provides contract operations and associated services for water and wastewater treatment systems.

## H2O Innovation's 3 business segments all targeting to create a better water infrastructure



Source: H2O Innovation company presentation

## H2O Innovation continues to win new contracts at a rapid pace

Announced on June 1, 2021, H2O Innovation signed C\$4.5 million of new contracts. The news release stated: “H2O Innovation...was awarded 10 new projects over the last months, including six industrial ones. These new contracts, totaling \$4.5 million, will bring the Corporation’s Water Technologies & Services (“WTS”) business pillar sales backlog to \$35.0 million.”

Announced on June 23, 2021, H2O Innovation signed a new contract worth C\$5.0 million. The news reported: “H<sub>2</sub>O

Innovation Inc.... is proud to announce it has recently been awarded the Operations and Maintenance ("O&M") contract for the Town of Warren, Rhode Island with a total value of \$5.0 million, bringing the Corporation's O&M sales backlog to \$71.3 million."

## **H2O Innovation's financials are forecast to improve each year**

H2O Innovation is targeting their niche areas with addressable markets of US\$4.5 billion out of the total water infrastructure addressable market of US\$837.5 billion.

Currently, H2O Innovations' revenue is forecast to reach C\$147 million (~US\$118 million) and a net income of C\$4 million in 2021. 2021 PE is forecast at 40.4. It is worth noting that H2O Innovation's US\$118 million in forecast revenue is just 2.6% of their US\$4.5 billion addressable market. 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 meet or exceed the above forecast.

In 2022, H2O Innovation's net income is forecast to grow to C\$5 million and then in 2023 to reach C\$7 million, equating to a forecast 2022 PE of 32.6 and a 2023 PE of 24.6.

Given the rate of growth of new contracts and the large back orders it is looking like H2O Innovation may exceed these forecasts. Also as it stands based on the current forecasts net income is set to almost double from C\$4 million in 2021 to C\$7 million in 2023.

## **Closing remarks**

H2O Innovation continues to win new water infrastructure contracts at a rapid pace. It certainly looks like H2O Innovation is set for some impressive growth in revenue and net profits the next 2-3 years and still has a huge potential runway of growth ahead, given they are currently only tapping

2.6% of their US\$4.5 billion addressable market. All this is before we factor in the potential from the proposed US\$111 billion for water infrastructure in the USA.

Trading on a 2021 PE of 40.4 (2023 PE of 24.6) and a market cap of C\$177 million it could still be very early days for the success story of H2O Innovation. H2O Innovation President and CEO Frédéric Dugré thinks so, as you watch on an InvestorIntel video interview here. This is developing into a strong story in what looks to be a booming sector the next few years. Stay tuned.

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

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. H<sub>2</sub>O 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<sub>2</sub>O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 75 countries. Finally, H<sub>2</sub>O 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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Any projections given are principally intended for use as objectives and are not intended, and should not be taken, as assurances that the projected results will be obtained by the Company. The assumptions used may not prove to be accurate and a potential decline in the Company's financial condition or results of operations may negatively impact the value of its securities. Prospective investors are urged to review the Company's profile on [www.Sedar.com](http://www.Sedar.com) and to carry out independent investigations in order to determine their interest in investing in the Company.

If you have any questions surrounding the content of this interview, please email [info@investorintel.com](mailto:info@investorintel.com).

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# **Innovation in the water treatment business is in their name.**

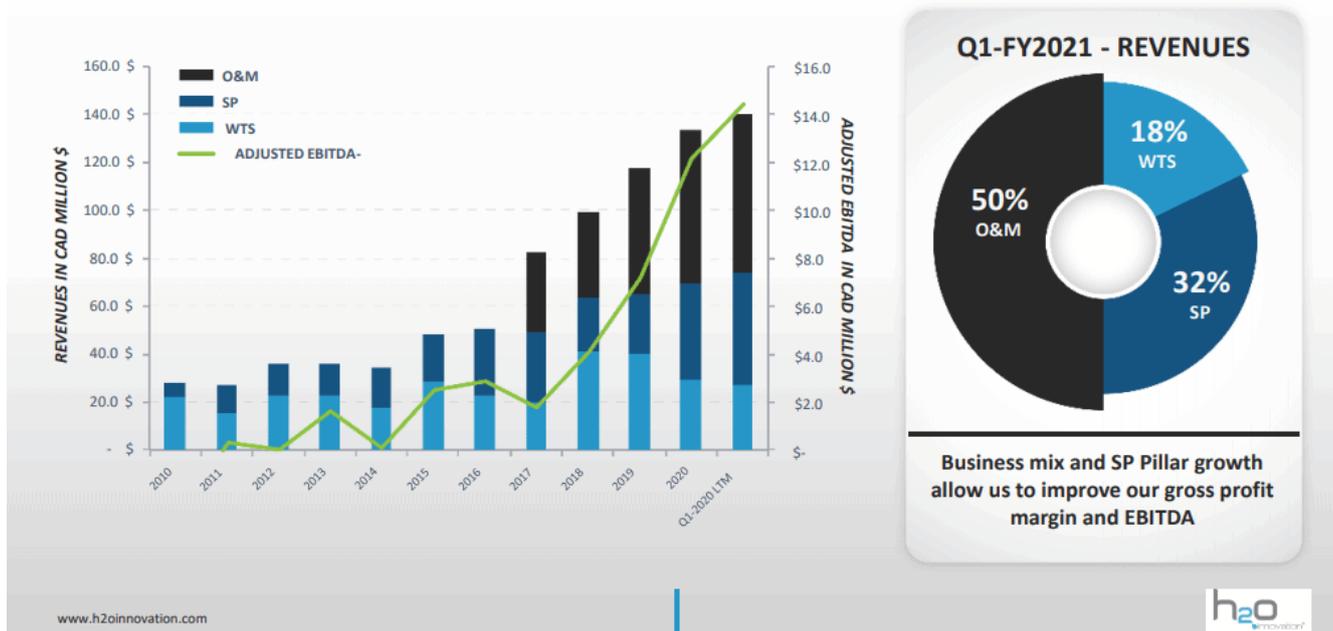
As the name states, H2O Innovation Inc. (TSXV: HEO | OTCQX: HEOFF) is an innovator in the water treatment business focused on membrane technology. For the last 20 years the company has designed and fabricated state-of-the-art, integrated water treatment solutions for municipal, energy and natural resource end users, specializing in applications for drinking water, water reuse, wastewater treatment and industrial process water. Developed in-house, their solutions are custom built to adapt to all types of applications.

The company further breaks down their activities into three operating segments: Water Technologies & Services (WTS) which designs and builds custom water, wastewater and water reuse systems, supporting the customer with both site and remote services, as well as digital solutions, to optimize performance and maximize life of the equipment; Specialty Products (SP) utilizes a global network of more than 100 distribution partners to manufacture and delivers specialty chemicals, components, and consumables to end-users with a focus on membrane applications; and Operations and Maintenance (O&M) for contract operations of water, wastewater, and water reuse treatment, collection, and distribution systems, pumping stations, and associated assets for customers throughout North America.

H2O Innovations certainly has positive momentum for itself as a company but also being in a business segment that is becoming a greater focus for the world in general but also the ESG investing community. In their most recent quarterly and year-end results, they posted their fourth consecutive year of revenue and adjusted EBITDA growth. Additionally, the company

has reported positive earnings for the last 3 quarters, which is very impressive for a growing company.

## REVENUES, BUSINESS MIX AND ADJUSTED EBITDA



When it comes to growth, one of H2O Innovation's Key Strategic Objectives is M&A. Most recently the company announced on February 1, 2021, that it had acquired Genesys Membrane Products, S.L. located in Madrid, Spain to boost its membrane chemicals capabilities. It positions the company to better access the Latin American membrane chemical market, in particular the mining industry. H2O Innovation has averaged just under one acquisition a year since 2013. There are over 1,200 privately owned businesses active in the water industry with revenues in excess of \$50M, but only one larger than \$10B. So there is a lot of opportunities to grow the business this way and so far H2O Innovation has had success finding the right fit and successfully integrating these acquisitions.

As for organic growth, the company is focusing on improving gross margins through increased sales, improved operational excellence and via product innovation. Another key is further reduction in SG&A likely to come from acquisition synergies.

By 2023, the stated goal is to increase revenue from \$134M (Actual FY 2020) to between \$175-250M including 2-4 strategic

acquisitions. With only 78M shares outstanding (90M fully diluted) and a paltry \$14.1M in debt there is some good upside for shareholders if the company can execute on its goals. Globally there is no shortage of potential acquisitions available to H2O Innovations and a clean balance sheet gives the company the option to fund these with debt or equity, whichever is more accretive.

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## **H2O Innovation's Frédéric Dugré on the \$800B+ water market they are 'tapping' into**

In a recent InvestorIntel interview, Tracy Weslosky speaks with Frédéric Dugré President and CEO of H2O Innovation Inc. (TSXV: HEO | OTCQX: HEOFF) about H2O Innovation's recent news about securing an engineering contract from the largest electric vehicle manufacturer in the US, a 90% reoccurring revenue model and rising interest from the market in water treatment technologies.

In this InvestorIntel interview, which may also be viewed on YouTube ([click here to subscribe to the InvestorIntel Channel](#)), Frédéric said, "It provides us the opportunity to design a new equipment that we are going to deliver them. This first purchase order is actually just for the engineering portion of the work." He continued, "A customer of this profile will lead us to additional opportunities..."

Frédéric also provided an update on the Company's 3-year strategic plan aligning its long-term vision with key

strategic objectives. “Not only we are going to grow the business, but we are going to move the EBITDA performance from a 9.4% to above 11% in the next few years,” Frédéric said. Speaking on the competitive advantages of H2O Innovation, Frédéric commented, “We are the only and the largest Canadian pure water play on the TSXV. We have built a business where we have 90% of our sales that are recurring in nature. Not only we are in the right space, but we also have the right business model.”

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

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

H<sub>2</sub>O 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 pillars which are i) water technologies and services; ii) specialty products, including a complete line of specialty chemicals, consumables and specialized products for the water treatment industry; and iii) operation and maintenance services for water and wastewater treatment systems.

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

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**Frédéric            Dugré            on            H2O**

# Innovation's Q1 results and winning the Water Company of the Year award

In a recent InvestorIntel interview, Peter Clausi speaks with Frédéric Dugré, President and CEO of H2O Innovation Inc. (TSXV: HEO | OTCQX: HEOFF), about H2O Innovation's First Quarter 2021 Results. "We started the year very strongly with showing revenue growth from previous year at 24%." Frédéric started. "We have now reached \$35 million in revenue for Q1."

In this InvestorIntel interview, which may also be viewed on YouTube (click here to subscribe to the InvestorIntel Channel), Frédéric went on to say that the company reported 90% of their revenue recurring in nature adding stability and predictability to their cash flow. Frédéric also commented on winning the Water Company of the Year award at the 2020 Global Water Awards. "We have won the best and the largest category and we were against pretty big competitors out there."

To watch the full interview, click here

## About H2O Innovation

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 water 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 70 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** – 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.

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## **H2O Innovation awarded more contracts on the heels of record FY2020 fourth quarter results**

In a news just released last week H2O Innovation Inc.'s (TSXV: HE0 | OTCQX: HE0FF) ('H<sub>2</sub>O 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 H<sub>2</sub>O 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. H<sub>2</sub>O Innovation acquired Utility Partners in 2016 for C\$22.5m. Over the years H<sub>2</sub>O 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 H<sub>2</sub>O 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 H<sub>2</sub>O Innovation, over the past few years.”

**H<sub>2</sub>O Innovation specializes in all types of water treatment with a focus on North America**



**DRINKING WATER**

Our drinking water processes stand out, in part, with the use of our innovative membrane technology. Our solutions include ultrafiltration, nanofiltration and reverse osmosis, among others.



**WASTEWATER**

H<sub>2</sub>O Innovation offers the latest in wastewater treatment technologies. Our patented technologies can minimize energy consumption and reduce plant footprints. They are also highly customizable and adapt to the specific needs of each client.



**WATER REUSE & RECYCLING**

Our ability to innovate and adapt to any scenario makes us capable of developing water reuse systems for small and large-scale installations.

Source

And who is H2O Innovation Inc.? H<sub>2</sub>O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology. H<sub>2</sub>O 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.

### H<sub>2</sub>O Innovation's financials and forecast financials



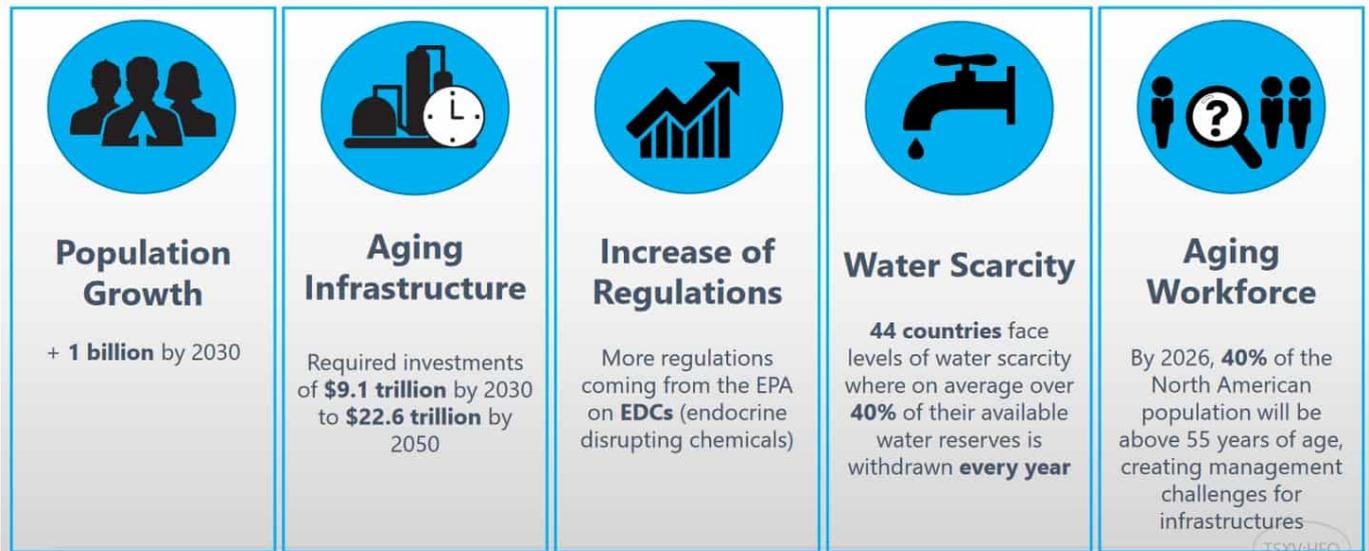
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As we all know water, food and air are our three most valuable commodities. Water in particular is in short supply in many countries and regions around the world. This means H<sub>2</sub>O Innovation has plenty of runway for potential growth ahead.

**The world has an ever growing demand for clean water**

# Water Investment Thesis

The United Nations estimates that water use is currently six times greater than it was in 1900 and that demand will increase an additional 20% to 30% by 2050.



## 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." H<sub>2</sub>O Innovation offers cleantech and technology driven investors exposure to the growing water treatment sector.