

# Corporate presentation

Marc Blanchet, CFO

October 2016

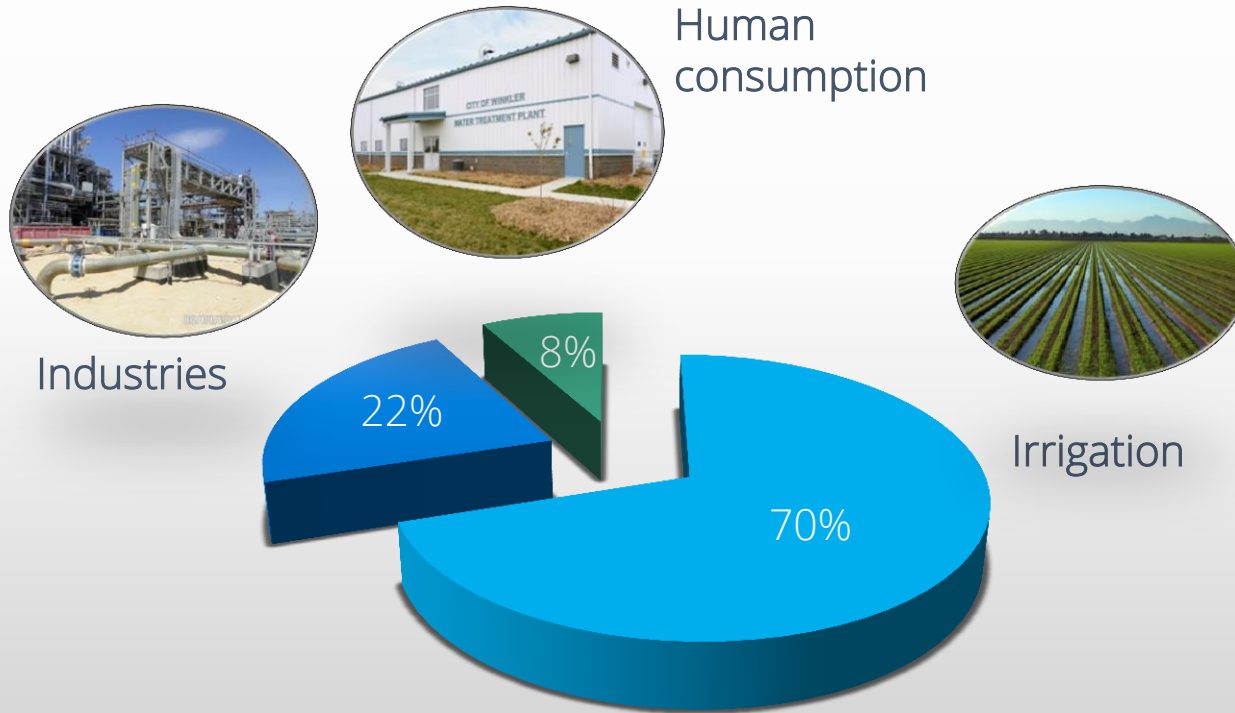


# Forward Looking Statement

- Certain statements in this presentation may constitute “forward-looking statements” that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of H<sub>2</sub>O Innovation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect management’s current expectations regarding future events and operating performance and speak only as of the date of this presentation. These forward-looking statements involve a number of risks and uncertainties. For details of these risks and uncertainties please refer to the Company’s Annual Information Form dated September 26, 2016 available on SEDAR ([www.sedar.com](http://www.sedar.com)). H<sub>2</sub>O Innovation rejects any obligation to revise or update the prospective disclosures contained in this presentation.*
- Cautionary Note Regarding United States Securities Laws

*This presentation does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction. The securities of H<sub>2</sub>O Innovation have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons,” as such term is defined in Regulation S under the U.S. Securities Act, unless an exemption from such registration is available.*

# What Water is Used for ?



## Transform, Purify, Reuse

The solution relies in water conservation and reuse. Fresh water is limited and becomes more unpredictable.

# Key Drivers Supporting Investment in the Water Sector

## Population growth

+2.5b people by 2050

- 70% will live in urban region putting pressure on existing infrastructures



## Climate change

Water is the visible change

- Rising sea levels
- Droughts
- Lost of productivity
- Urban mining concept to optimize consumption

## Stringent legislations

Improve water network infrastructure

- Adoption of new filtration technologies such as membrane filtration (UF/NF/RO/MBR/FO)



# Our Business DNA relies on three pillars



We promote customer's retention through every steps of our business offering

Water & Wastewater  
Projects

Specialty Products  
& Services (SP&S)

Operation &  
Maintenance

Flagship

Differentiator

Convergence

# 1<sup>st</sup> Business Pillar

## Projects and engineering solutions



- 100% North America, in 2016 – (industrial and municipal)
- Desal (RO), water reuse (UF), wastewater (sanitary and industrial)
- flexMBR™ & FiberFlex™: strong differentiator vs competitor: open source platforms, technology agnostic
- Bio-Wheel™ & Bio-Brane™: patented wastewater technologies
- Growing Pipeline/ Momentum in the wastewater market
- Current backlog: \$48.9 M (Oct.23, 2016)
- Distinction & awards in FY 2016
  - **Water Technology Company of the Year** prize – 2016 Global Water Awards, Abu Dhabi (against Danaher, GE, Suez);
  - Water/Wastewater Award of the Year – DBIA (Clifton Water District);
  - Equipment/Manufacturer of the Year – WaterReuse Association.

# 2<sup>nd</sup> Business Pillar

## Specialty products & services (SP&S)



- 30% North America & 70% Worldwide, in 2016
- Most of sales are recurrent in nature



### Chemicals

- Antiscalants: phosphate-free, super-concentrated and manufactured in California
- 27 distributors, covering 40 countries



### Products

- Specialty products: couplings & FRP cartridge filter housings
- Spare parts: membranes, filters, pumps replacement parts
- Work with large EPC clients (Middle East, Asia, South America)



### Softwares

- SCADA™, SPMCT™, Clearlogx® (patented technology)



### Maple & beverages

- Portfolio of innovative products: High Brix and other small RO systems, Smartrek™
- Fast growing business unit: above 30% growth/ year over last 8 years
- Expanding to juice & beer segment



# 3<sup>rd</sup> Business Pillar

## Operation & Maintenance (O&M)



Acquisition of Utility Partners, July 2016

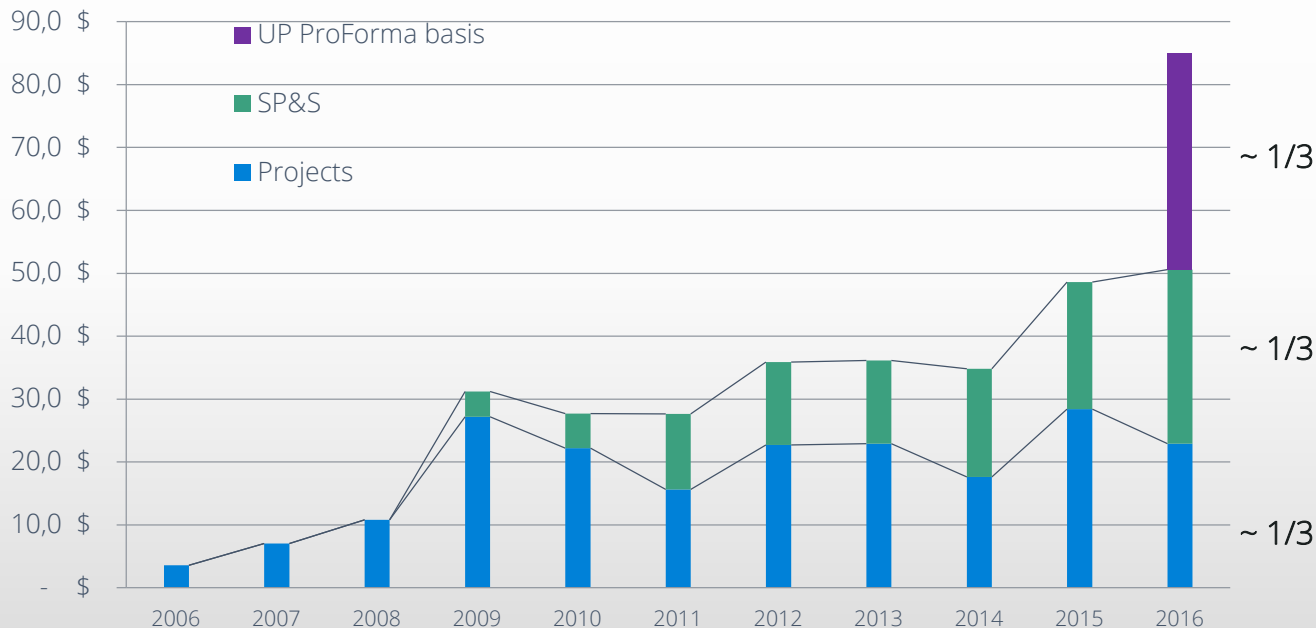
- 36 municipal plants in 6 states, USA: Southeast, Northeast, Gulfcoast & California;
- Recurring nature of revenues provides greater visibility on future revenues (backlog of \$56.2 M);
- Excellent track record of renewal rate
- Multiple cross-selling opportunities (projects & chemicals);
- Well positioned
  - to offer Operations & Maintenance services to project customers;
  - to address the growing market of Design-Build-Operate (DBO);
  - to expand into industrial market & to Canada.



# Business Mix : Projects vs SP&S vs O&M

## Revenue Breakdown

In US\$ millions

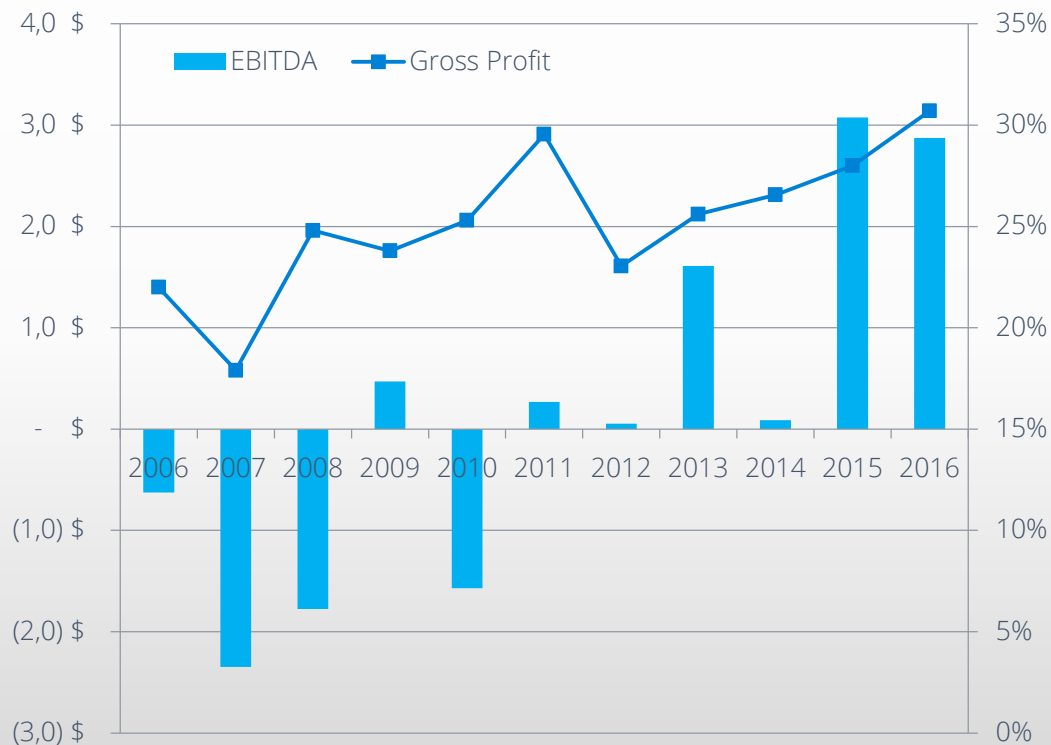


### Growth vehicle :

- ✓ Gain predictability in our business model;
- ✓ Secure long-term relationship with customers;
- ✓ Expanded sales platform;
- ✓ Acquire/develop technologies and products;
- ✓ Improve EBITDA margin;
- ✓ Generate higher operating cashflow.



# Gross Profit and EBITDA Performance



## Key drivers :

- ✓ Business mix
- ✓ Improved project execution
- ✓ Improved procurement
- ✓ Product innovation
- ✓ Sales network geographical expansion
- ✓ Cross-selling

# Our business formula works

## Business Mix

3 business pillars;  
Promote recurring revenues;  
Multiple sales channels;  
36 plants under O&M contract;  
Leverage 650 references;  
Cross-selling platforms.



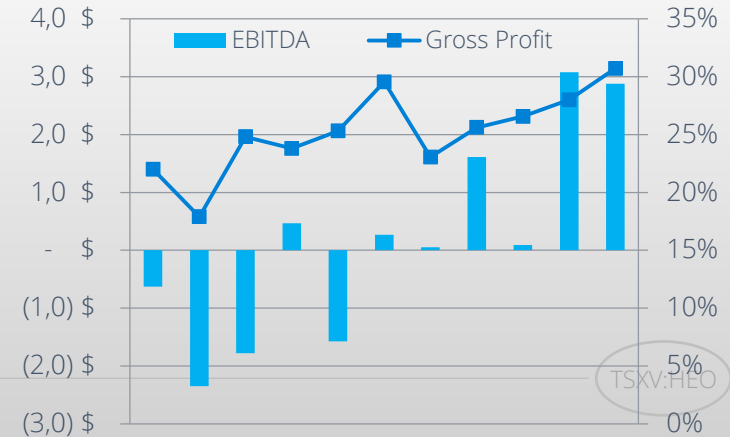
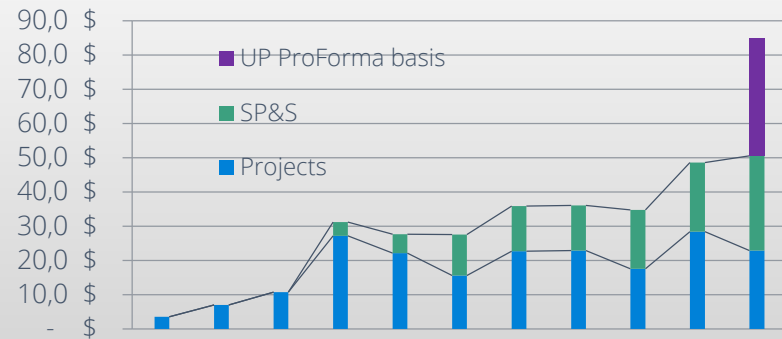
## Growth & Scalability

Combined backlog: ~\$100 M;  
Acquisition platform and discipline integrator;  
Growth of 26% / year over 15 years (with UP);  
Innovations: flexMBR™, FiberFlex™, Clearlogx®, SPMC™.



## Profitability

Gross profit improved through execution, innovations and sound business mix ;  
Continuous EBITDA.



TSXV:HEO

# Continuous growth

Close to our clients

Head quarter : Quebec City, QC

Manufacturing plants:

- Ham-Nord (QC) : 60,000 ft<sup>2</sup>
- Minneapolis (MN): 30,000 ft<sup>2</sup>
- Vista (CA) : 20,000 ft<sup>2</sup>

Engineering & sales offices:

- Burlington (ON)
- Calgary (AB)
- Bilbao (Spain) NEW

O&M contracts (USA):

- 36 plants

Franchise

- H<sub>2</sub>O Innovacion de Mexico

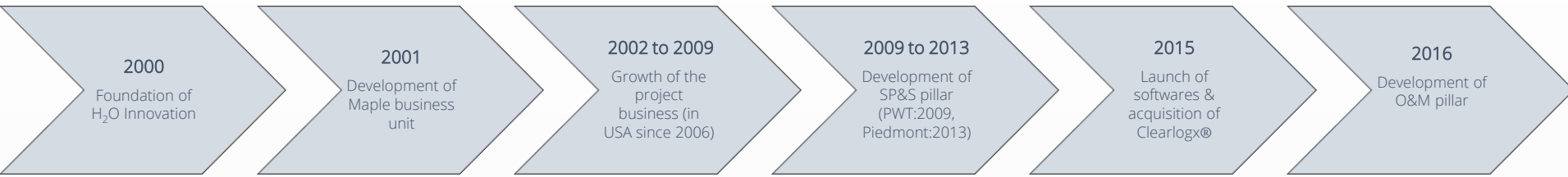
- 530 employees





Financial performance review & update in business

# ...a little bit of history





# Highlights on Financial Statements

	FY2016	% rev	FY2015	% rev
Revenues	\$50,667,691		\$48,699,860	
From projects	\$23.0 M	45.0%	\$28.5 M	66.0%
From SP&S	\$27.7 M	55.0%	\$20.2 M	34.0%
Gross profit	\$15,542,431	30.7%	\$13,566,370	27.9%
SG&A	\$12,590,071	24.8%	\$10,348,249	21.2%
Selling	\$6.3 M		\$4.5 M	
Operating	\$1.4 M		\$1.0 M	
Administrative	\$4.8 M		\$4.8 M	
Earnings before income taxes	\$888,259		\$698,273	
Net earnings	\$210,197		\$272,425	
Adjusted EBITDA	\$2,874,929	5.7%	\$3,076,741	6.3%

- ✓ Record high revenues;
- ✓ First time in history: higher proportion of revenues coming from the SP&S activities than the Projects activities;
- ✓ Improved gross profit margin of 30.7% driven by:
  - SP&S
  - Project execution
  - Sound procurement
  - Product innovation
- ✓ Investment in growth:
  - Expansion of sales platform (Clearlogx®, Spain)
  - Development of proprietary technologies (flexMBR™, SPMC™, High Brix concentration process)
- ✓ Increase of tax impact (250K) affected the net earnings.

# Financial Position

FY2016 Review

(in Canadian dollars, except for ratios)	Period ended June 30, 2016	Period ended June 30, 2015
Working capital	<b>\$8,342,714</b>	\$8,423,583
Working capital ratio	<b>1.55</b>	1.75
Net debt	<b>\$6,278,343</b>	\$4,141,826
Equity	<b>\$26,646,406</b>	\$26,007,486
Net debt to equity ratio	<b>0.24</b>	0.16

## Working capital ratio stands at 1.55:

- Inventories increased by \$0.4 M to \$4.4 M for maple activities;
- WIP increased by \$1.4 M to \$3.5 M due to project advancement (T&C, Schedule);
- Receivables increased by \$0.3 M due to higher level of invoicing for SP&S.

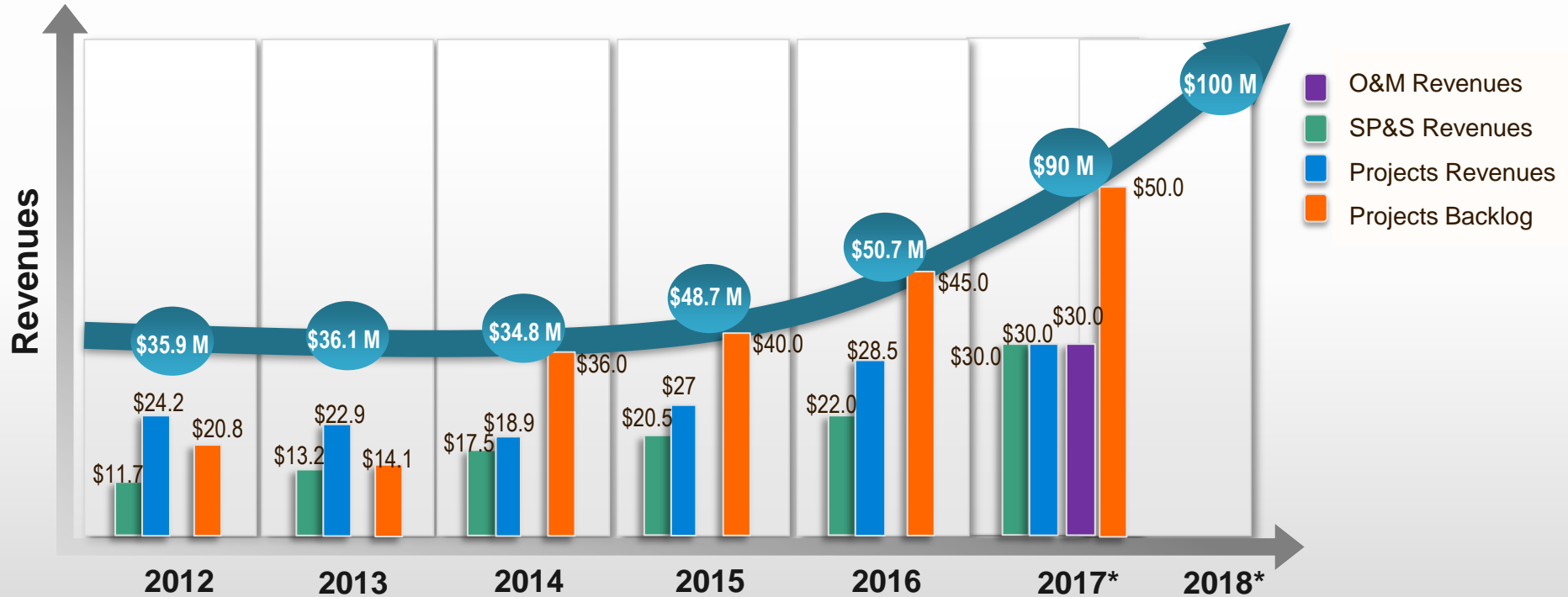
## Increased the net debt by \$2 M, mostly for an acquisition:

- Secured a \$2.7 M senior debt for the acquisition of Clearlogx®;

## Subsequent events:

- Acquisition of Utility Partners;
- Increase senior debt by \$10 M;
- Increase equity by \$22.5 M.

# Where we are now



\* As per analysts: Beacon Securities and Roth Capital

# Shareholders' Value



October 12, 2015  
EV : ~\$30 M  
SO : 20,926,595

Today (post UP acquisition)  
EV : ~\$90 M  
SO : 40,144,214

TSXV:HEO

# Corporate Information

TSX Venture : HEO / OTCQX : HEOFF

## Board of Directors :

Philippe Gervais, Chairman  
Vice President, Capital Hill

Frédéric Dugré, President & CEO  
Mechanical Engineer, Founder

Richard Hoel, Director  
Lawyer, Founding partner of Winthrop & Weinstine

Larry Gamst, Director  
CPA , Managing Director at DS&B CPA

Peter Dorrins, Director  
President & CEO, Junex

Élaine Phénix, Director & Chair of Audit Comm.  
Former VP Montreal Stock Exchange, financial consultant

Jean-Réal Poirier, Director  
Former VP Operations, Canam Group

Lisa Henthorne, Director  
CTO Water Standard, Former IDA Chairman

Pierre Côté, Director  
Former CTO, Zenon / GE

Shares outstanding : 40,144,214

2.5 million of options

Top management (Officers): 10%

Directors: 10%

Institutional: 50% (IQ: 18% / CDPQ: 13% / KBI: 9%)

Liquidity last 3 months average : 55,000/day

## Officers :

Frédéric Dugré, President & CEO

Marc Blanchet, CFO

Guillaume Clairet, COO

## Management :

Josée Riverin, V.P. - Finance

Greg Madden, V.P. - SP&S

Denis Guibert, V.P - Engineering & Projects

Rock Gaulin, V.P. - Manufacturing & Operations

Robert Monette, President - Utility Partners

Bill Douglass, V.P. - Utility Partners

Bobby Knesal, V.P. - Utility Partners

# Unique predictable business model

- \$105 M of combined backlog (project and O&M) to be recognized in the coming years
- 2/3 of the revenues are recurring by nature

## Growth platform



- Projects sales backlog: \$48.9 M
- Growing Pipeline
- Great momentum in wastewater
- Great momentum for our open-source platforms



- Product development
- Expanded sales network
- Recurrent revenues
- Mergers & acquisitions opportunities



- Backlog of \$56.2 M for operating and maintenance contracts
- Multiple cross selling opportunities between the three pillars
- Design-Build-Operate opportunities
- Mergers & acquisitions opportunities



“Large companies have tried and failed to bring together the roles of systems integrator and chemical supplier. H2O Innovation has used **smart technologies** to bridge the two disciplines, creating a virtuous circle based on **greater understanding of the customer experience.**”

GWI – Global Water Awards, Feb. 2016



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

Unique smart **water** player

Headquarters  
330 rue St-Vallier Est, suite 340  
Quebec City, QC  
G1K 9C5 Canada

1-418-688-0170  
[info@h2oinnovation.com](mailto:info@h2oinnovation.com)  
[www.h2oinnovation.com](http://www.h2oinnovation.com)