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H_2O Innovation Inc. - Performing and Positioning to Grow Through its 3 Business Pillars

Key highlights

- Revenues reached $118.0 M for fiscal year 2019, representing a $18.3 M growth, or 18.4%, compared to $99.7 M for the previous fiscal year;
- Recurring revenues[1] represented 75.9% of the Corporation's total revenues for fiscal year 2019;
- Consolidated backlog, combining Projects and O&M, stood at $127.9 M as of June 30, 2019, compared to $121.7 M for the period ended June 30, 2018;
- Adjusted EBITDA[2] reached $7.2 M, or 6.1% over revenues, for this fiscal year compared to $4.1 M, or 4.1% over revenues, for the previous fiscal year;
- Net loss stood at ($2.2 M) for this fiscal year, from a net loss of ($3.4 M) for the previous fiscal year;
- Adjusted net earnings[3] reached $1.1 M for this fiscal year, compared to an adjusted net earnings of $0.7 M for the previous fiscal year;
- Cash flows from operating activities generated $5.8 M in cash for the fiscal year ended June 30, 2019, compared to $2.2 M of cash used during the previous fiscal year;
- Net debt of $9.8 M as at June 30, 2019, from $17.5 M as at June 30, 2018.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, September 25, 2019 – (TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its results for the fourth quarter and fiscal year ended June 30, 2019.

"Not only are we presenting our best year-end results boosted by a strong fourth quarter, significant cash flows from operating activities and important debt reduction, but we are also showing that our business model continue to drive more recurring sales, multiple sales synergies and accountable customer-focus offering. Each of our three business pillars creates opportunities for the other ones. As our footprint continues to grow in the United States, notably through the acquisition of Hays in Texas, but also abroad through the expansion of our distribution sales networks and the addition of new products, H_2O Innovation is well positioned to address the growing and multiple needs of the water industry. With our unique business model combining water treatment system, Specialty Products, and O&M, the coming years will certainly be promising for H_2O Innovation as the municipalities will continue to face challenges related to their aging water infrastructures, constraints from new

[1] The Corporation defines recurring revenue as: recurring revenue by nature which 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 has a recurring sales pattern. The Corporation's recurring revenues are coming from the Aftermarket, Specialty Products and O&M business lines.

[2] 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, net loss on bank fraud, unrealized exchange (gains) / losses, change in fair value of contingent consideration and acquisition and integration costs. The reader can establish the link between adjusted EBITDA and net loss. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

[3] The definition of adjusted net earnings (loss) excludes acquisition-related costs and integration costs, impact of U.S. tax reform, amortization of intangibles assets from acquisition and stock-based compensation costs. The reader can establish the link between net loss and adjusted net earnings (loss) with the reconciliation items presented in this report. The definition of adjusted net earnings (loss) used by the Corporation may differ from those used by other companies. Adjusted net earnings (loss) is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision.

regulations and growing shortage of manpower. On a global basis, our Specialty Products lines such as PWT and Piedmont are also strategically positioned to capture more opportunities from the anticipated growth in desalination capacity within the next five years", **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

(in thousands of Canadian dollars, except per share data)	**Three-month periods ended June 30,**		**Twelve-month periods ended June 30,**	
	2019	2018	**2019**	2018
	$	$	**$**	$
Revenues	**31,884**	24,536	**117,958**	99,668
Gross profit before depreciation and amortization	**7,823**	5,645	**27,118**	22,107
Gross profit margin before depreciation and amortization (%)	**24.5%**	23.0%	**23.0%**	22.2%
General operating expenses	**1,444**	1,020	**5,693**	4,004
Selling expenses	**2,183**	2,126	**7,743**	8,073
Administrative expenses	**2,015**	1,695	**6,989**	6,518
Total SG&A	**5,642**	4,841	**20,425**	18,595
% SG&A over revenues	**17.7%**	19.7%	**17.3%**	18.6%
Net loss	**(1,177)**	(1,007)	**(2,180)**	(3,449)
Basic and diluted net loss per share	**(0.021)**	(0.025)	**(0.044)**	(0.086)
Adjusted net earnings (loss) [(a)]	**105**	(138)	**1,086**	688
Basic and diluted adjusted net earnings (loss) per share	**0.002**	(0.003)	**0.022**	0.017
EBITDA [(a)]	**1,689**	635	**5,638**	2,911
Adjusted EBITDA[(a)]	**2,375**	1,099	**7,213**	4,125
Adjusted EBITDA over revenues (%)	**7.4%**	4.5%	**6.1%**	4.1%

(a) Non-IFRS financial measurement reconciled below.

Consolidated revenues from the Corporation's three business pillars for fiscal year ended on June 30, 2019 increased by $18.3 M, or 18.4%, to reach $118.0 M compared to $99.7 M for the previous fiscal year. This increase is partially fueled by the acquisition of Hays Utility South Corporation ("Hays"), adding $12.3 M of revenues, as well as the organic growth from the Specialty Products and O&M business pillars.

The Specialty Products business pillar is showing an increase of revenues of $2.1 M, or 9.6%, for fiscal year 2019 compared to the previous fiscal year, despite the fact that maple sales decreased. The increase in revenues of this business pillar is fueled by Piedmont's operations, with the bookings of couplings and filter housings reaching a new high at the end of the fiscal year. PWT, the Corporation's specialty chemicals product line, also supported the growth as it increased its in-house manufacturing capacity of liquid cleaners and added an automated-filling line in its facility. These manufacturing improvements, along with the addition of new distributors in strategic territories, enabled the increase of the Corporation's revenues and gross profit margin before depreciation and amortization. The financial results of the Specialty Products business pillar were also impacted by a general slowdown in the maple industry, due to adverse weather conditions during the 2018 maple syrup season. As a result, maple syrup producers have experienced a challenging year resulting in a lower production, thus lowering the investments spent in new capital equipment purchase. Such slowdown affected sales of the Maple products by 16.7% this year, compared to the previous fiscal year. The Maple business line had to scale-down its expenses to adjust its cost structure according to a lower sales volume. While this business line is dealing with a slowdown, the Corporation's continues to push for product innovation and gross profit margin improvements through manufacturing process and sourcing optimization. Overall, the Specialty Products revenues stood at $24.9 M, compared to $22.8 M in the previous fiscal year. The financial results of this business pillar reflect the ongoing effort to expand its distribution networks and to launch new products, to complete its extensive product offering. Despite the decrease seen in the Maple industry, the EBAC[4] of this business pillar increased from $4.5 M for fiscal year 2018 to reach $4.6 M for fiscal year 2019. The gross profit increased from $9.8 M for fiscal year 2018 to reach $10.2 M for fiscal year 2019 due to of Piedmont's business line growth. The decrease in % for the gross profit margin and the EBAC is explained by the business mix within the business pillar.

The O&M business pillar is showing a sustained organic growth combined with an external growth from the acquisition of Hays. Hence, for fiscal year 2019, the O&M revenues increased by $16.9 M or 47.0%, compared to the previous fiscal year. The recurring revenues coming from the O&M business pillar stood at $52.8 M for fiscal year 2019, compared to $35.9 M for fiscal year 2018. This significant revenue growth is explained by the Hays acquisition and by a sustained organic growth mostly driven by new projects won in Texas, by the renewal of existing projects and scope expansions, as well as by annual consumer price index adjustments. The acquisition of Hays added $12.3 M of revenues to this business pillar for fiscal year 2019. The gross profit margin stood at $9.6 M for fiscal year 2019, compared to $6.1 M for fiscal year 2018, representing an increase of $3.5 M, to which Hays contributed $2.3 M. The EBAC of this business pillar also shows an increase of $1.7 M this fiscal year, with Hays contributing by $1.6 M to this increase. The remaining performance obligation ("backlog") coming from O&M contracts stood at $82.7 M as at June 30, 2019, representing an increase of 21.4% compared to the $68.1 M backlog as at June 30, 2018, and consists of long-term contracts, mainly with municipalities, comprising multi-year renewal options.

The Projects & Aftermarket business pillar is showing a decrease of $0.7 M or 1.9%, while having a healthier backlog with better projects' diversification. The focus for this business pillar is to improve the gross profit margin prior to focusing on growing the volume of revenues. Therefore, to reach that goal, H2O Innovation is executing more industrial and wastewater projects and is observing positive upside in the gross profit margins being recorded. The Corporation developed a more diversified backlog portfolio between water and wastewater projects, with 29.8% of the projects being in the field of wastewater as of June 30, 2019, compared to 25.0% as of June 30, 2018. Diversification is also seen between industrial and municipal projects, with 38.3% of the projects being for industrial customers as of June 30, 2019, compared to 31.0% as of June 30, 2018. Both wastewater and industrial projects are characterized by better gross profit margins, while reducing the risk related to focusing on a single market. Consequently, the gross profit margin of this business pillar increased by $1.2 M and stood at $7.3 M for fiscal year 2019, compared with $6.1 M for the previous fiscal year. Furthermore, the improvement in the gross profit margin and the reduction of the SG&A expenses over revenues impacted positively the EBAC as at June 30, 2019, which reached $3.3 M compared with $1.4 M for the previous fiscal year. The current Projects' pipeline remains very rich in opportunities and, as of June 30, 2019, the backlog stood at $45.2 M, compared to $53.6 M for fiscal year 2018.

The net loss stood at ($2.2 M), from a net loss of ($3.4 M) for the previous fiscal year, representing a reduction of $1.2 M. This reduction is mostly due to an improved gross profit margin and a reduction of the SG&A expenses over revenues.

[4] The definition of earnings before administrative costs (''EBAC'') means the gross profit before depreciation and amortization reduced by the general operating and selling expenses. EBAC is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decisions.

The gross profit margin before depreciation and amortization improved to $27.1 M, or 23.0%, for fiscal year 2019, compared to $22.1 M, or 22.2%, for the previous fiscal year, while revenues increased by 18.4% over the same period. This increase of gross profit margin before depreciation and amortization contributed to reduce the net loss. Indeed, this year was particularly strong with increased gross profit margin in % coming from Projects & Aftermarket and O&M business pillars.

The Corporation's SG&A reached $20.4 M during fiscal year 2019, compared to $18.6 M for the previous fiscal year, representing an increase of $1.8 M, or 9.7%, while the revenues of the Corporation increased by 18.4%. The increase of SG&A in dollars is mainly due to the acquisition of Hays, contributing $1.1 M of this increase. Accordingly, the SG&A over revenues in % decreased to 17.3%, compared to 18.6% for the previous fiscal year.

The Corporation's adjusted EBITDA increased to $7.2 M for fiscal year 2019, from $4.1 M for the previous fiscal year, representing an increase of $3.1 M, or 74.9%. The adjusted EBITDA in % reached 6.1% for fiscal year 2019, compared to 4.1% for the previous fiscal year. The increase of the adjusted EBITDA in % is due to the improvement of the gross profit margin from Projects & Aftermarket and O&M business pillars as well as a higher level of the Corporation's revenues. The adjusted EBITDA improvement is also due to the acquisition of Hays as of December 1, 2018.

Cash flows from operating activities generated $5.8 M for the fiscal year ended June 30, 2019, compared to $2.2 M of cash flows used in operating activities during the previous fiscal year. This variation of the cash flows from operating activities reflects a healthier management of the Corporation's working capital items and the advancement of major contracts, with significant invoicing milestones reached during the fiscal year.

Financial results for the fourth quarter of fiscal year 2019

Revenues for the fourth quarter were up by 29.9%, or $7.3 M, to $31.9 M from $24.5 M for the same period of the previous fiscal year. This increase is partially fueled by the acquisition of Hays, adding $5.9 M of revenues, as well as the sustained organic growth from the Specialty Products and O&M business pillars, while revenues coming from the business pillar Projects & Aftermarket decreased.

For the quarter ended June 30, 2019, the gross profit margin before depreciation and amortization increased to 24.5%, from 23.0% for the same quarter of the previous fiscal year. This increase is due to the improvement of the gross profit margin from Projects & Aftermarket and O&M business pillars as well as a higher level of the Corporation's revenues. During this fourth quarter, adjusted EBITDA reached $2.4 M, or 7.4% over revenues, compared to $1.1 M, or 4.5% over revenues for the same period last year.

Reconciliation of net loss to adjusted net earnings (loss)

(in thousands of Canadian dollars)	Three-month periods ended June 30, 2019	2018	Twelve-month periods ended June 30, 2019	2018
	$	$	**$**	$
Net earnings (loss)	**(1,177)**	(1,007)	**(2,180)**	(3,448)
Impact of U.S. tax reform	**-**	-	**-**	1,061
Acquisition-related costs, integration costs and other costs Canada (net of tax 0%)[5]	**91**	-	**97**	81
Acquisition-related costs, integration costs and other costs USA (net of tax 23.71%)	**107**	303	**534**	303
Net loss on bank fraud Canada (net of tax 0%)[5]	**-**	-	**-**	443
Amortization of intangible assets from acquisition Canada (net of tax 0%)[5]	**72**	39	**191**	158
Amortization of intangible assets from acquisition USA (net of tax 23.71%)	**727**	420	**2,136**	1,652
Stock based compensation expenses Canada (net of tax 0%)[5]	**75**	106	**308**	438
Adjusted net earnings (loss)	**105**	(138)	**1,086**	688

Reconciliation of net loss to EBITDA and to adjusted EBITDA

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.

(in thousands of Canadian dollars)	Three-month periods ended June 30, 2019	2018	Twelve-month periods ended June 30, 2019	2018
	$	$	**$**	$
Net loss for the period	**(1,177)**	(1,007)	**(2,180)**	(3,448)
Finance costs – net	**219**	364	**2,071**	1,264
Income taxes	**652**	231	**422**	1,146
Depreciation of property, plant and equipment	**482**	331	**1,349**	1,139
Amortization of intangible assets	**1,513**	716	**3,976**	2,811
EBITDA	**1,689**	635	**5,638**	2,911
Unrealized exchange (gains) losses	**131**	72	**222**	(36)
Stock-based compensation costs	**75**	106	**308**	438
Net loss on bank fraud	**-**	-	**-**	443
Acquisition-related costs, integration costs and other costs	**232**	398	**797**	479
Change in fair value of contingent consideration – net of related costs	**248**	(112)	**248**	(111)
Adjusted EBITDA	**2,375**	1,099	**7,213**	4,124

[5] For Canada the tax rate is 0% since the Corporation does not recognise the deferred tax asset.

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 fourth quarter and full fiscal year 2019 financial results in further details at 10:00 a.m. Eastern Time on Wednesday, September 25, 2019.

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 annual financial report is available on www.h2oinnovation.com and on the NYSE Euronext Alternext website. 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 H2O 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 24, 2019 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 pillars which are i) water and wastewater projects and services; ii) specialty products, which include a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water treatment industry; and iii) operation and maintenance services for water and wastewater treatment systems and utilities. 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 Venture Exchange) nor the Alternext Exchange accepts responsibility for the adequacy or accuracy of this release.

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