Investor Presentation Q4-FY2019

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September 25, 2019

Forward Looking Statement

- *Certain statements set forth in this presentation regarding the operations and activities of H_2O 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, notably regarding certain assumptions as to the success of a venture. 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 MD&A or in other communications as a result of new information, future events and other changes.*

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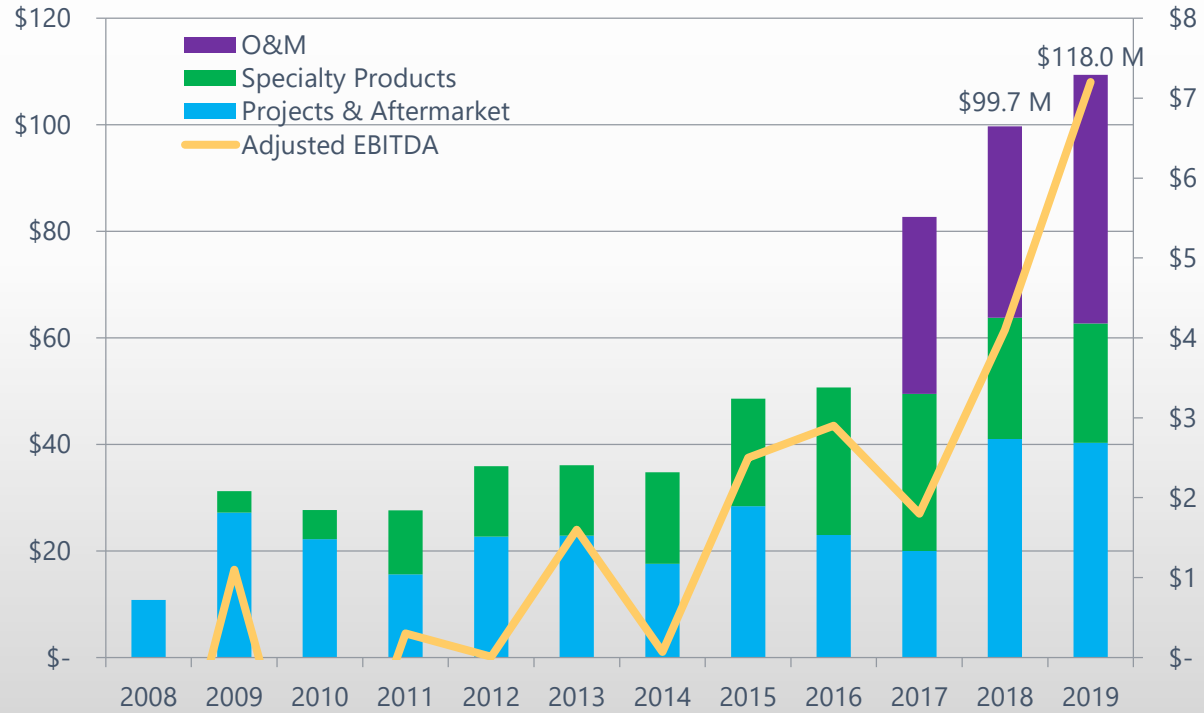
Non-IFRS Financial Measurement

- In this presentation, the Corporation's management uses measurements that are not in accordance with IFRS. The measurements "Adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA)", "Net debt" and "Adjusted net earnings (loss)" are not defined by IFRS and cannot be formally presented in consolidated financial statements. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report.
- The definition of adjusted EBITDA does not take into account the Corporation's net loss on bank fraud, as it is non-recurring in nature and management believes that it allows a better comparison of the Corporation's historical data as well as comparison with the information presented by competitors. The adjusted EBITDA also excludes other expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gains) losses and the stock-based compensation costs. These items are non-cash items and do not have an impact on the operating and financial performance of the Corporation. Management has also elected to exclude the acquisition costs, integration costs and other costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net loss based on the reconciliation presented below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies. Even though adjusted EBITDA is a non-IFRS measure, 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 management, and to better understand the financial performance, notwithstanding the impact of GAAP measures.
- The definition of Earnings before administrative expenses (''EBAC'') means the gross profit before operating costs, depreciation and amortization reduced by the operating and selling expenses. EBAC is a non-IFRS measure and it is used by management to make operational and strategic decisions.
- Recurring revenue by nature is a non-IFRS measure and is defined by the 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. Corporation's recurring revenues are coming from the following business lines: Aftermarket, Specialty Products and O&M.

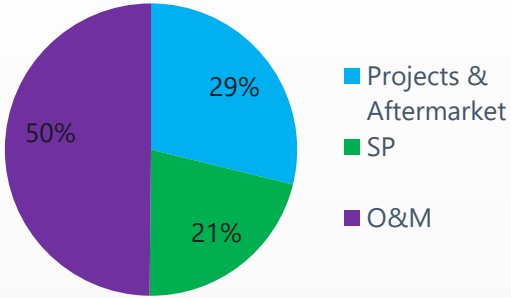
Revenue & Business Mix

Revenue & Adjusted EBITDA

In CAD million $



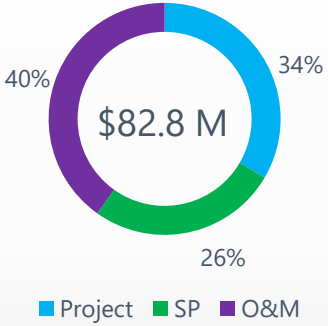
Q4-FY2019 Revenues



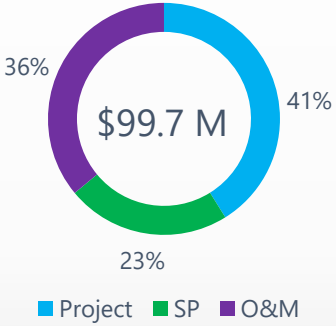
- Gain predictability in our business model with **75.9%** of recurrent revenues.

Scaling up the Business

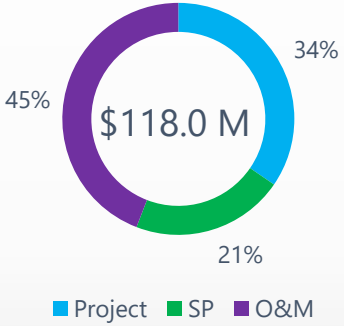
FY2017 Revenues



FY2018 Revenues



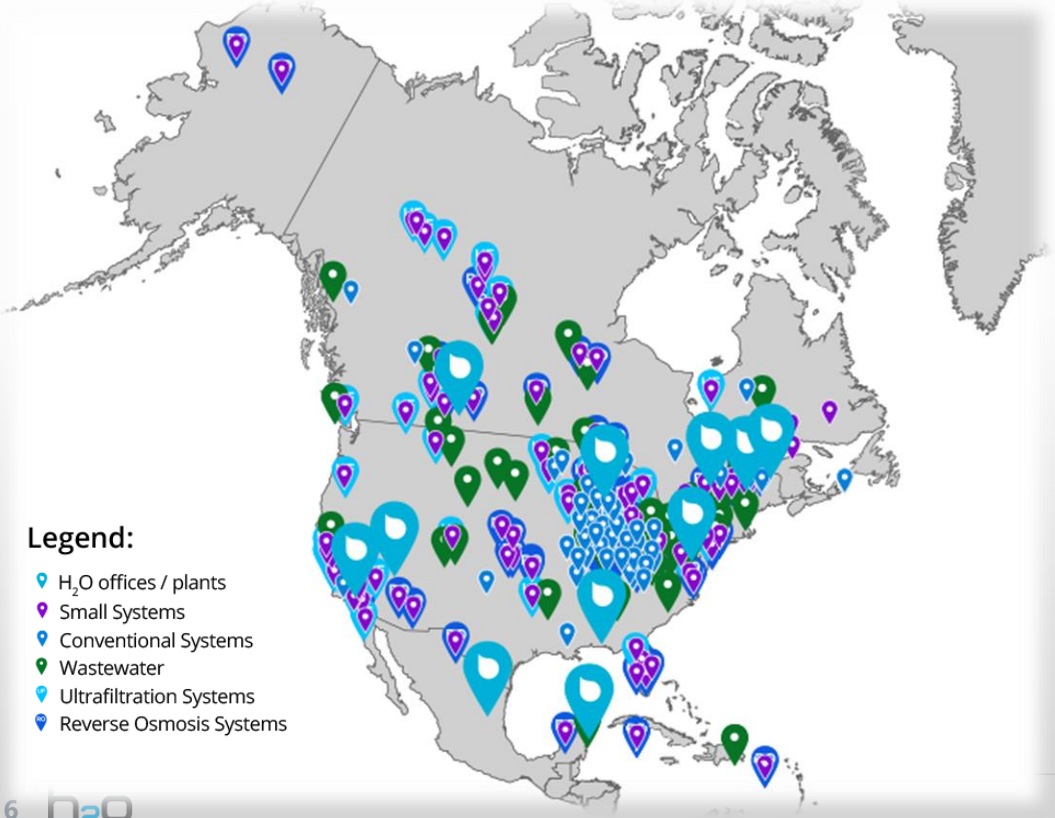
FY2019 Revenues



	FY2017	FY2018	FY2019
Recurrent Revenues	75.7%	70.0%	75.9%
EBITDA	$1.8 M (2.2%)	$4.1 M (4.1%)	$7.2 M (6.1%)
Employees	527	562	630
Rev / employee	$157.1 k	$177.4 k	$187.3 k
EBITDA / employee	$3.4 k	$7.3 k	$11.4 k

1st Business Pillar

Water & Wastewater Projects, and Services (Projects & Aftermarket)

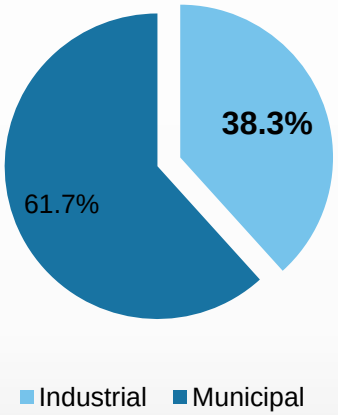


H_2O Innovation's FY2019 Highlights

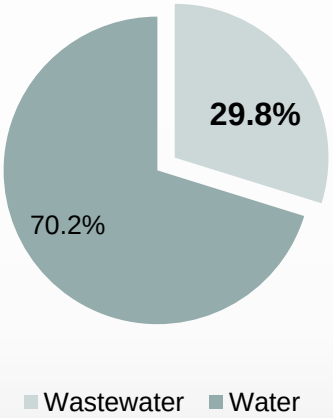
- Worked on **82** projects, **37** of which have been completed or close to completion. These projects will fuel sales for the Aftermarket, Speciality Products, and potentially the O&M business lines.
- Delivered **Decatur, AK – 4.6 MGD**: system upgrade & expansion now using the flexMBR™ technology.
- Increased number of **wastewater** and **industrial** projects: diversification of awarded contracts.
- Developed a partnership with **Sustainable Water**: **6** projects are now under progress and part of our backlog.

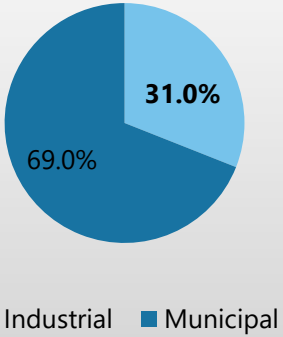
1st Business Pillar - Backlog Diversification

Water & Wastewater Projects, and Services (Projects & Aftermarket)

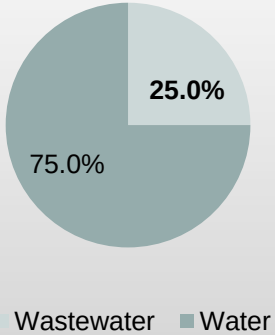


FY2019



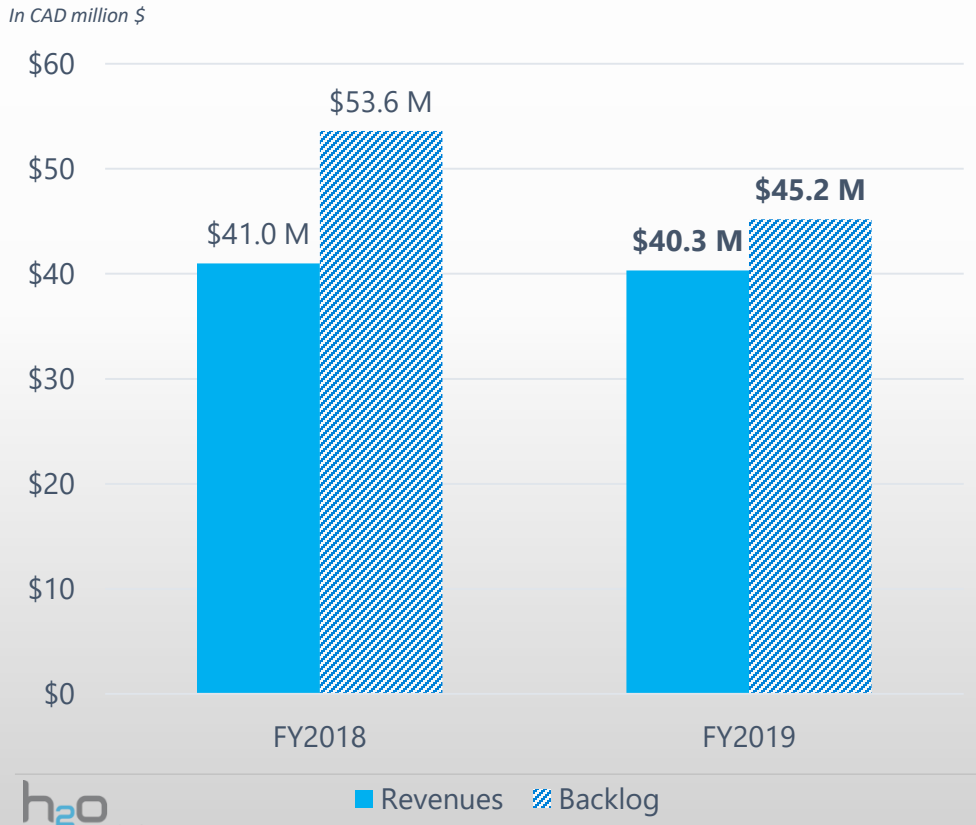


FY2018



1st Business Pillar

Water & Wastewater Projects, and Services (Projects & Aftermarket)

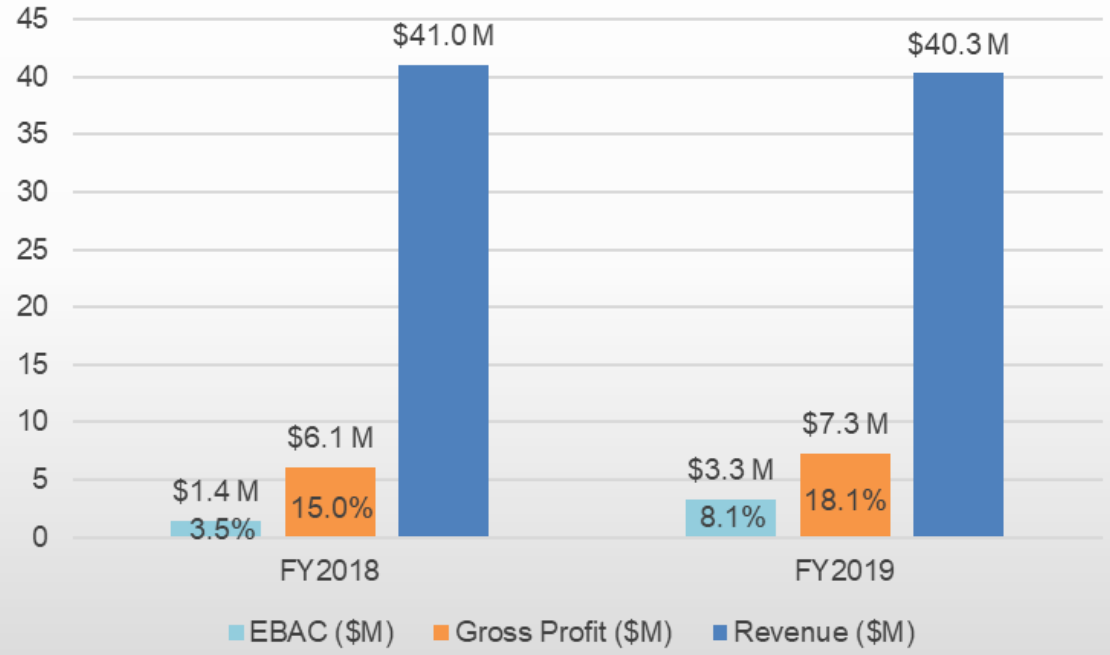


- Projects & Aftermarket revenues stood at $40.3 M for FY2019, compared with $41.0 M for FY2018, representing a $0.7 M, or 1.9% decrease;
- Current Projects' pipeline remains very rich in opportunities and the backlog stood at $45.2 M, as of June 30, 2019, compared to $53.6 M for FY2018;
- Thanks to our diversification of applications and to a rigid selection process from the sales team, our backlog is very healthy and carries projects at higher average gross profit margin.

1st Business Pillar – EBAC & GPM

Water & Wastewater Projects, and Services (Projects & Aftermarket)

In CAD million $



- A well-balanced backlog:
  - The wastewater and the industrial projects are usually characterized by better gross profit margins, while reducing the risk related to focusing on a single market;
  - Consequently, the GPM increased by $1.2 M and stood at $7.3 M for FY2019, compared with $6.1 M for the last fiscal year.
- The improvement in the GPM 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 FY2018;
- <u>Strategy:</u>
  - ➢ Continue to focus on wastewater and industrial opportunities;
  - ➢ Grow our sales reps' network.

2nd Business Pillar

Specialty Products

PWT's FY2019 Highlights

- Added **10** new distributors/point-of-sale since last year;
- Delivered its largest single order in China: **2088 5-gallon pails** and **216 1-gallon jugs** of 11x concentrated antiscalant;
- Added **new filling station** at PWT's manufacturing plant in Vista, CA, to improve its production capacity and gain efficiency in the packaging of its manufactured products.

2nd Business Pillar

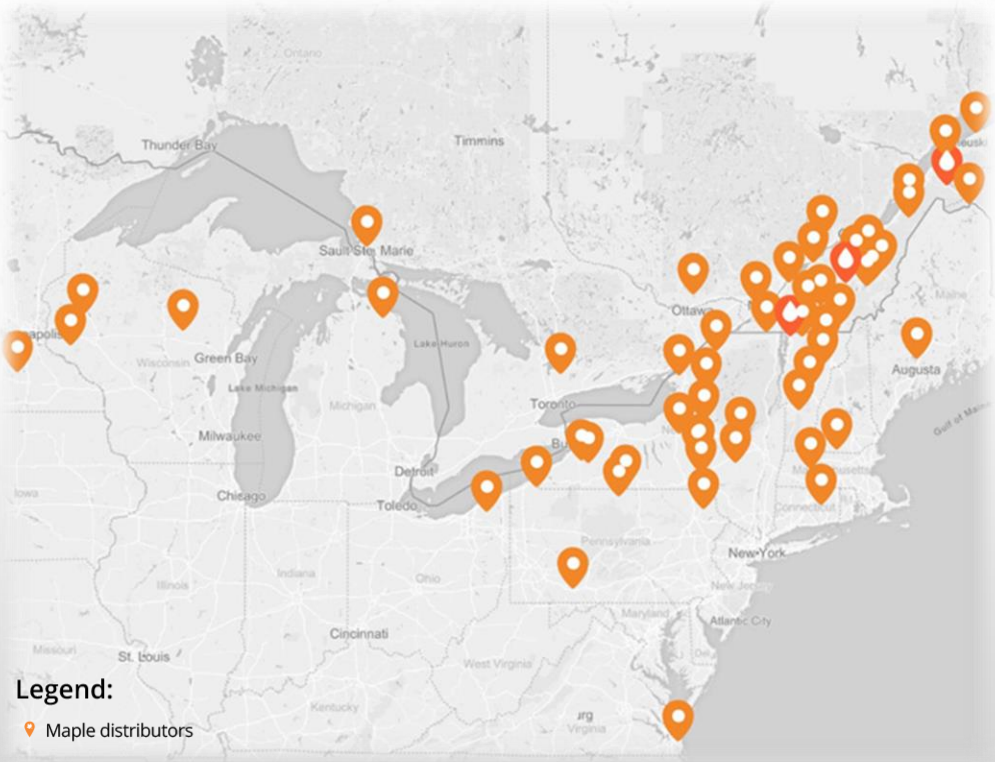
Specialty Products

Piedmont's FY2019 Highlights

- Launched new automatic **self-cleaning disc** and **screen** filters product line;
- Secured **75** FRP filter housing bookings, compared to 48 in FY2018, which represents an increase of **56.0%**;
- Delivered Piedmont's **largest** FRP filter housings, in Middle East: diameter of **1600 mm** (with 410 cartridge elements of **50" length**).

2nd Business Pillar

Specialty Products



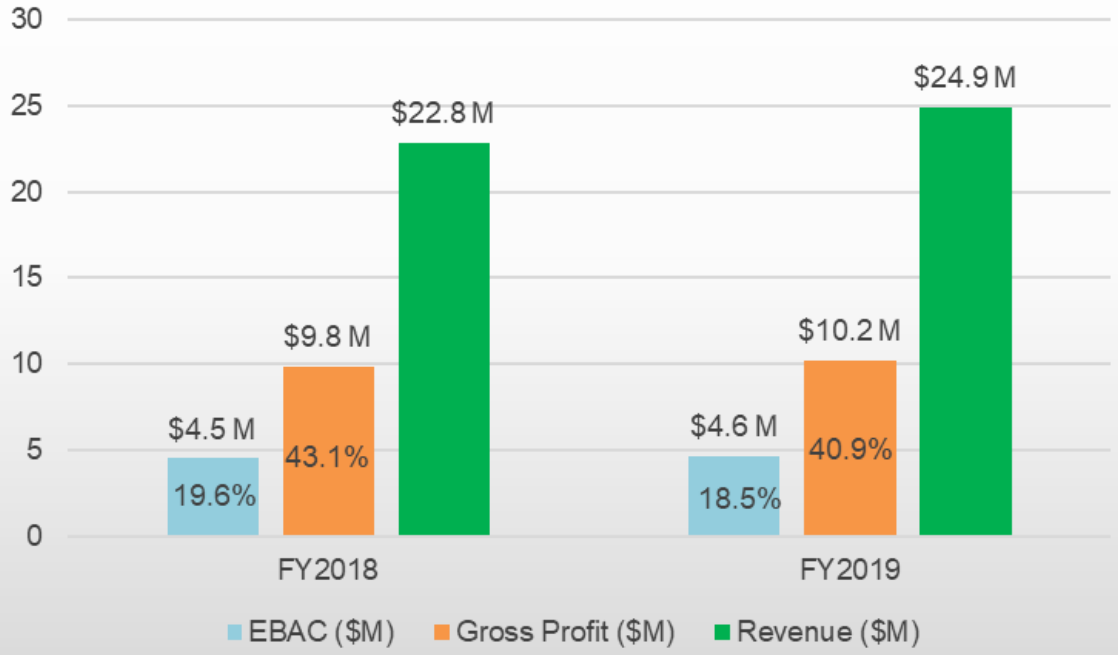
Maple's FY2019 Highlights

- Our distribution network remain stable (**55** distributors);
- Broadened product offering: new **ultrafiltration** machine for maple sap and concentrate clarification;
- Product upgrade facing strong demand in the market, such as **20-inch** syrup filter press and Smartrek™ vacuum sensor – **triple port**.

2nd Business Pillar

Specialty Products

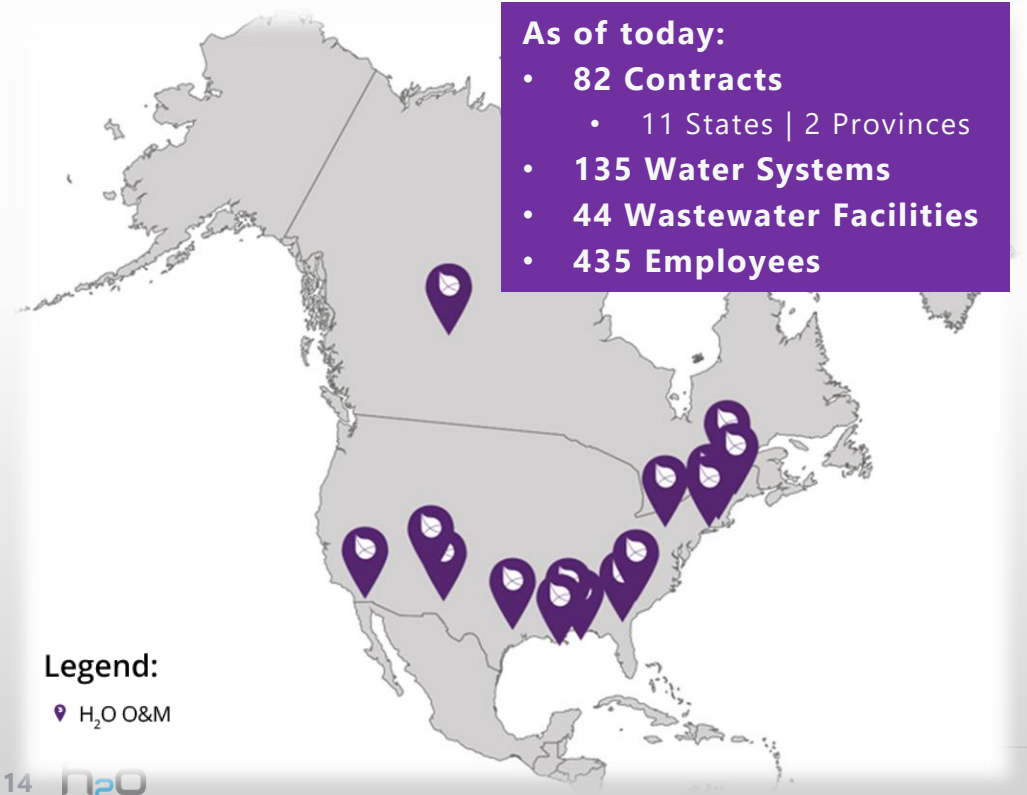
In CAD million $



- Specialty product revenues increase by 9.6% for FY2019 compared to the previous year.
- Despite the decrease seen in the Maple industry, the EBAC increased from $4.5 M for FY2018 to reach $4.6 M for FY2019, and the GPM increased from $9.8 M for FY2018 to reach $10.2 M for FY2019 because of Piedmont's business line growth.
- The decrease in % for the GPM and the EBAC is explained by the business mix within the business pillar;
- <u>Strategy:</u>
  - Continue sales network expansion with the addition of new distributors;
  - Develop and introduce new specialty products;
  - Grow through acquisitions.

3rd Business Pillar

Operation & Maintenance (O&M)



As of today:

- **82 Contracts**
  - 11 States | 2 Provinces
- **135 Water Systems**
- **44 Wastewater Facilities**
- **435 Employees**

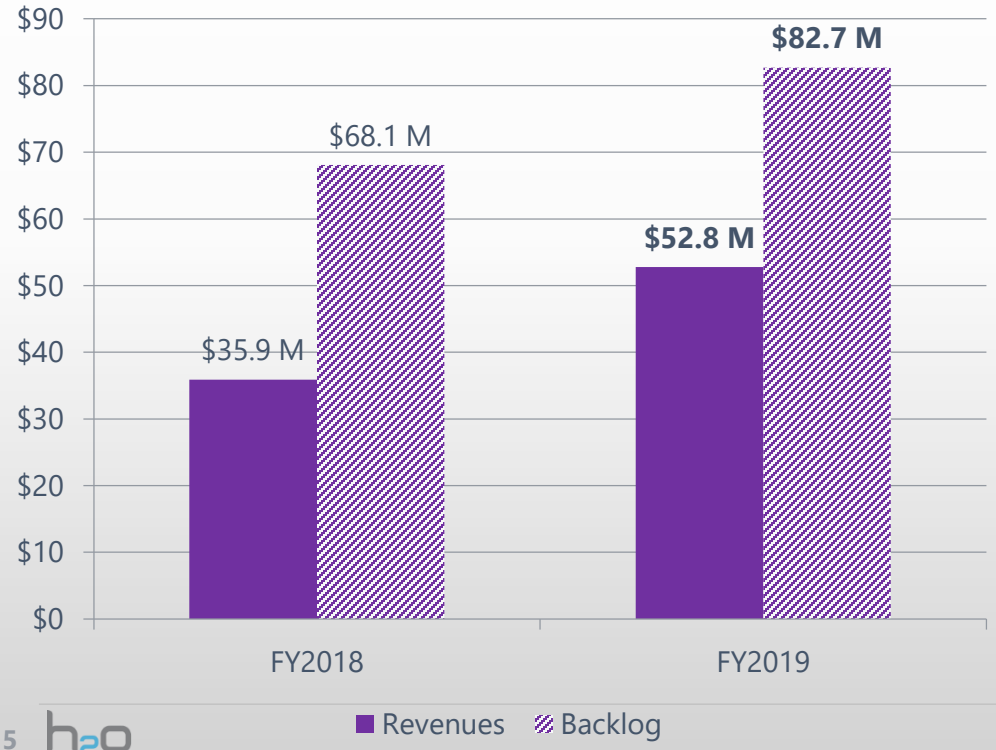
O&M's FY2019 Highlights

- Acquired **Hays South Utility Corporation** in Spring, TX (+70 employees) on December 1st, 2018.
- Captured first **sales synergies** between Hays and existing customers in Texas.
- Awarded new O&M contracts in **2** new states: Virginia & Oregon.
- Started O&M contract on a **DB industrial project** delivered by H_2O Innovation's Projects team.

3rd Business Pillar

Operation & Maintenance (O&M)

In CAD million $

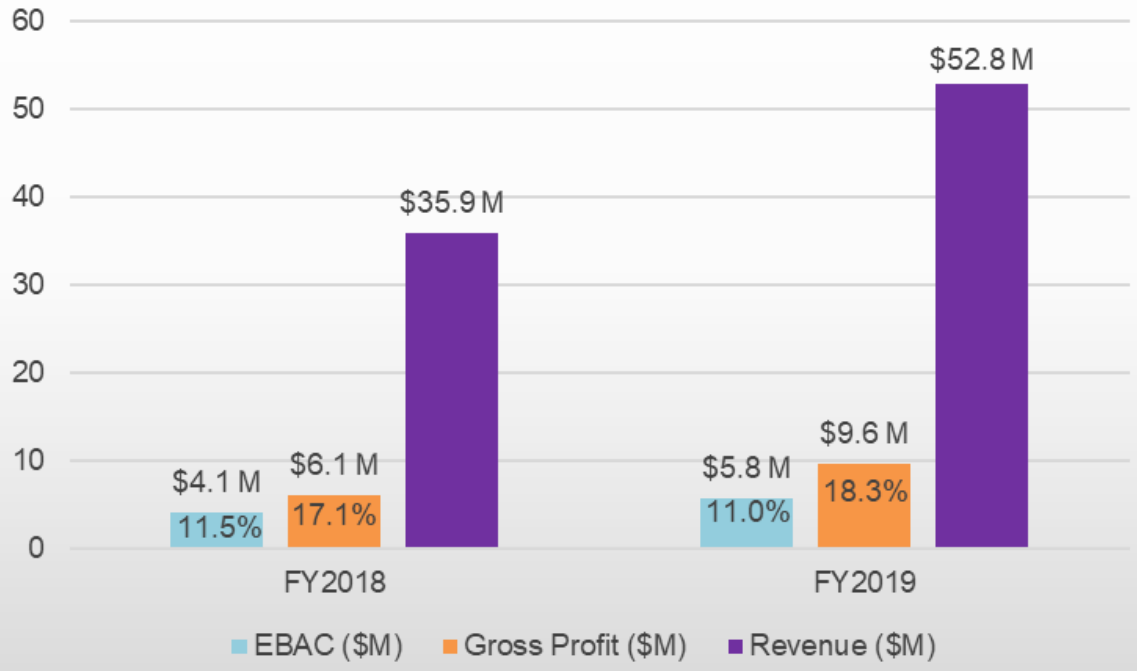


- O&M recurring revenues stood at $52.8 M for FY2019, compared with revenues of $35.9 M for FY2018, representing an increase of $16.9 M, or 47.0%;
- The 12.8% organic growth for FY2019 is explained by:
  - New O&M projects won in Texas;
  - Renewal of projects and scope expansion on other existing projects;
  - Annual consumer price index ("CPI") adjustments on existing projects;
- The O&M backlog 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;
- The integration of Hays is going according to plan. After seven months, all customers and employees have been retained and sales synergies have already been captured.

3rd Business Pillar – EBAC & GPM

Operation & Maintenance (O&M)

In CAD million $



- The GPM stood at $9.6 M for FY2019, compared to $6.1 M for FY2018, representing an increase of $3.5 M. The acquisition of Hays contributed $2.3 M of this increase;
- The EBAC stood at $5.8 M for FY2019, compared to $4.1 M for FY2018;
- The EBAC of this business pillar also show an increase of $1.7 M this fiscal year. Hays contributed $1.6 M of this increase;
- <u>Strategy:</u>
  - Focus on renewal existing O&M contracts;
  - Look for scope expansion and synergies with other business pillars;
  - Win O&M projects in new regions;
  - Grow through acquisitions.

Financial Overview – FY2019

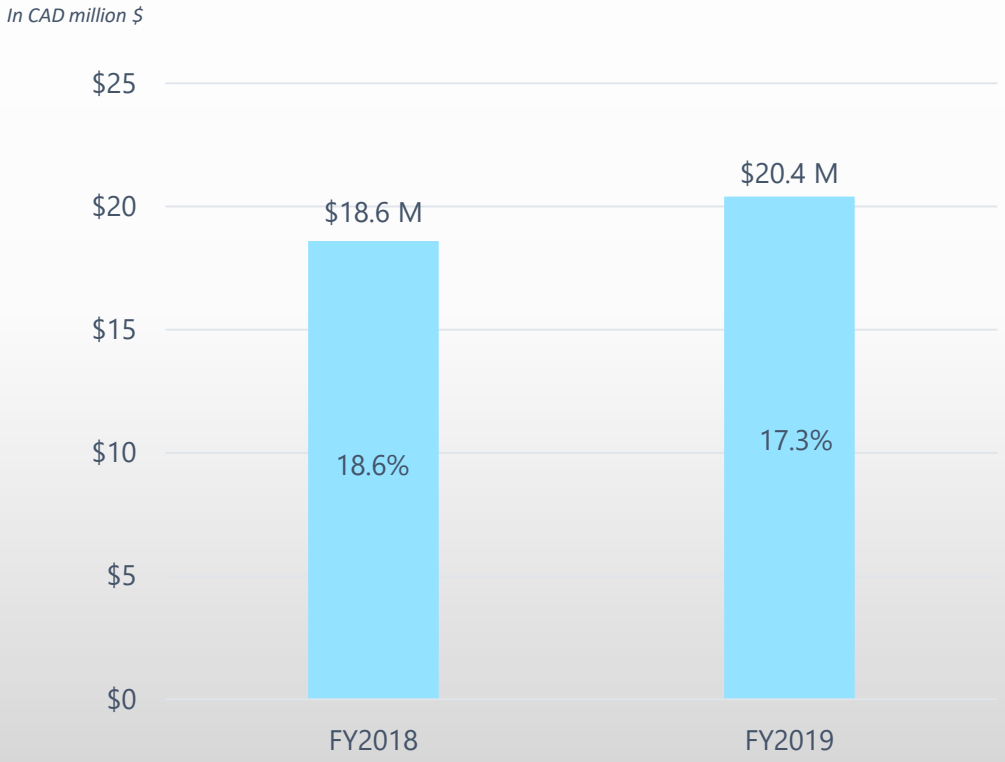
Financial Highlights

FY2019

	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2019	2018	**2019**	2018
Revenues	**$31.9 M**	$24.5 M	$118.0 M	$99.7 M
Projects & Aftermarket	**$9.2 M**	$10.5 M	$40.3 M	$41.0 M
Revenues	**$6.8 M**	$4.3 M	$24.9 M	$22.8 M
Revenues	**$15.9 M**	$9.8 M	$52.8 M	$35.9 M
Gross profit before depreciation and amortization (%)	**24.5%**	23.0%	23.0%	22.2%
SG&A	**$5.6 M**	$4.8 M	$20.4 M	$18.6 M
% SG&A	**17.7%**	19.7%	$17.3%	18.6%
Net loss	**($1.2 M)**	($1.0 M)	($2.2 M)	($3.4 M)
Adjusted net earnings (loss)	**$0.1 M**	($0.1 M)	$1.1 M	$0.7 M
Adjusted EBITDA	**$2.4 M**	$1.1 M	$7.2 M	$4.1 M
Adjusted EBITDA over revenues (%)	**7.4%**	4.5%	6.1%	4.1%

- Revenues $118.0 M: increased of 18.4% compared to $99.7 M last year;
- This increase is partially fueled by the acquisition of Hays, adding $12.3 M of revenues, as well as the organic growth from the Specialty Products and O&M business pillars;
- GPM: increased from 22.2% to 23.0% due to:
  - the increased GPM in % is coming from Projects & Aftermarket and O&M business pillars.
- SG&A : **17.3**% down from **18.6**% for FY2019;
  - This decrease is explained by a reduction of SG&A expenses over revenues, while revenues grow over the same period.

SG&A Expenses



- This increase of SG&A is explained by the Hays acquisition, adding $1.1 M in SG&A expenses this year;
- The decrease in % is explained by a reduction SG&A expenses over revenues, while revenues grew by 18.4%, SG&A increased by 9.7%.

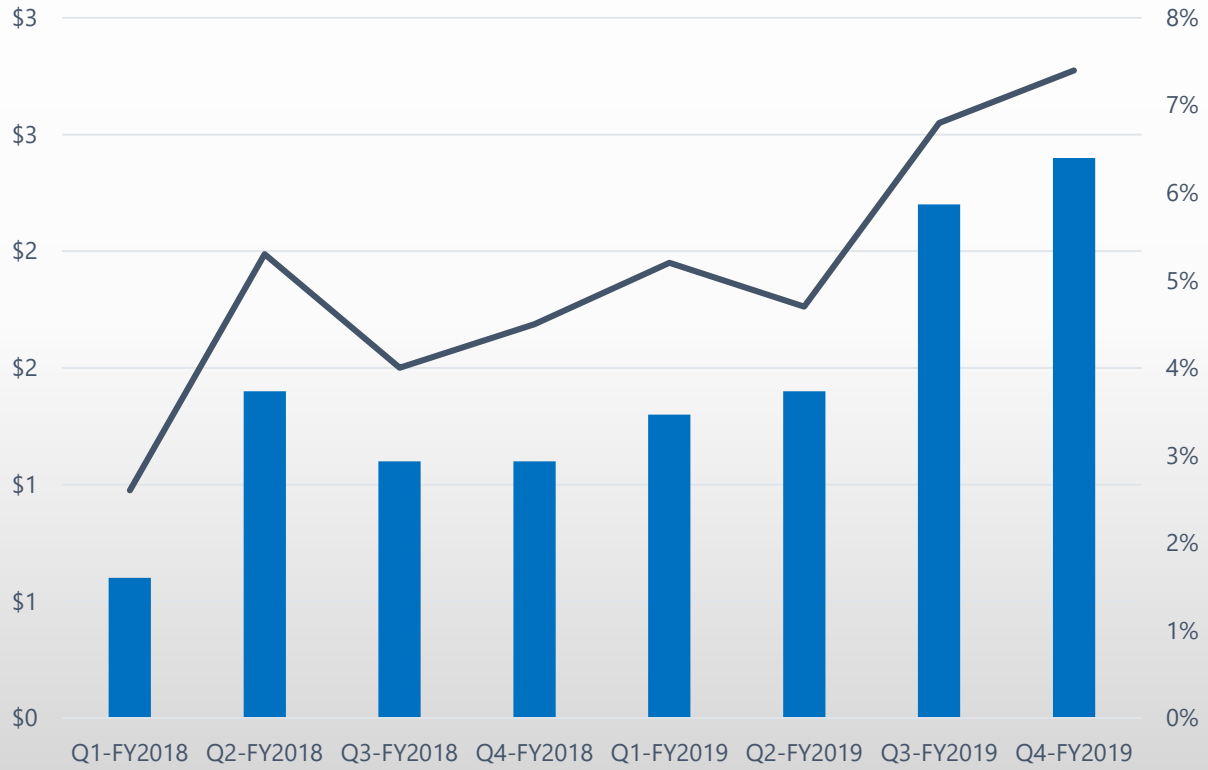
Adjusted EBITDA

	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2019	2018	**2019**	2018
Net earnings (loss) for the period	**($1.2 M)**	($1.0 M)	**($2.2 M)**	($3.4 M)
Finance costs – net	**$0.2 M**	$0.4 M	**$2.1 M**	$1.3 M
Income taxes	**$0.7 M**	$0.2 M	**$0.4 M**	$1.1 M
Depreciation of property, plant and equipment	**$0.5 M**	$0.3 M	**$1.3 M**	$1.1 M
Amortization of intangible assets	**$1.5 M**	$0.7 M	**$4.0 M**	$2.8 M
EBITDA	**$1.7 M**	$0.6 M	**$5.6 M**	$2.9 M
Unrealized exchange (gains) losses	**$0.1 M**	$0.07 M	**$0.2 M**	($0.04 M)
Stock-based compensation costs	**$0.1 M**	$0.1 M	**$0.3 M**	$0.4 M
Net loss on bank fraud	**-**	-	**-**	$0.4 M
Acquisition-related costs, integration costs and other costs	**$0.2 M**	$0.4 M	**$0.8 M**	$0.5 M
Change in fair value of contingent consideration – net of related costs	**$0.3 M**	($0.1 M)	**$0.3 M**	($0.1 M)
Adjusted EBITDA	**$2.4 M**	$1.1 M	**$7.2 M**	$4.1 M

- Adjusted EBITDA increased to $7.2 M for FY2019, from $4.1 M for the previous fiscal year, representing an increase of $3.1 M, or 74.9%;
- Our adjusted EBITDA in % increased to 6.1% for the year ended June 30, 2019, compared to 4.1% for FY2018;
- The increase of the adjusted EBITDA in % was due to:
  - The increase of GPM in % coming from Projects and O&M;
  - The decrease of the SG&A expenses in % of revenues.
- The significant EBITDA improvement is also due to the acquisition of Hays as of December 1, 2018.

Adjusted EBITDA Evolution

In CAD million $



- Improvement of adjusted EBITDA explained by:
  - Increase of GPM in % coming from Projects and O&M;
  - Good management of SG&A expenses and leverage our sales organization.

Financial Position

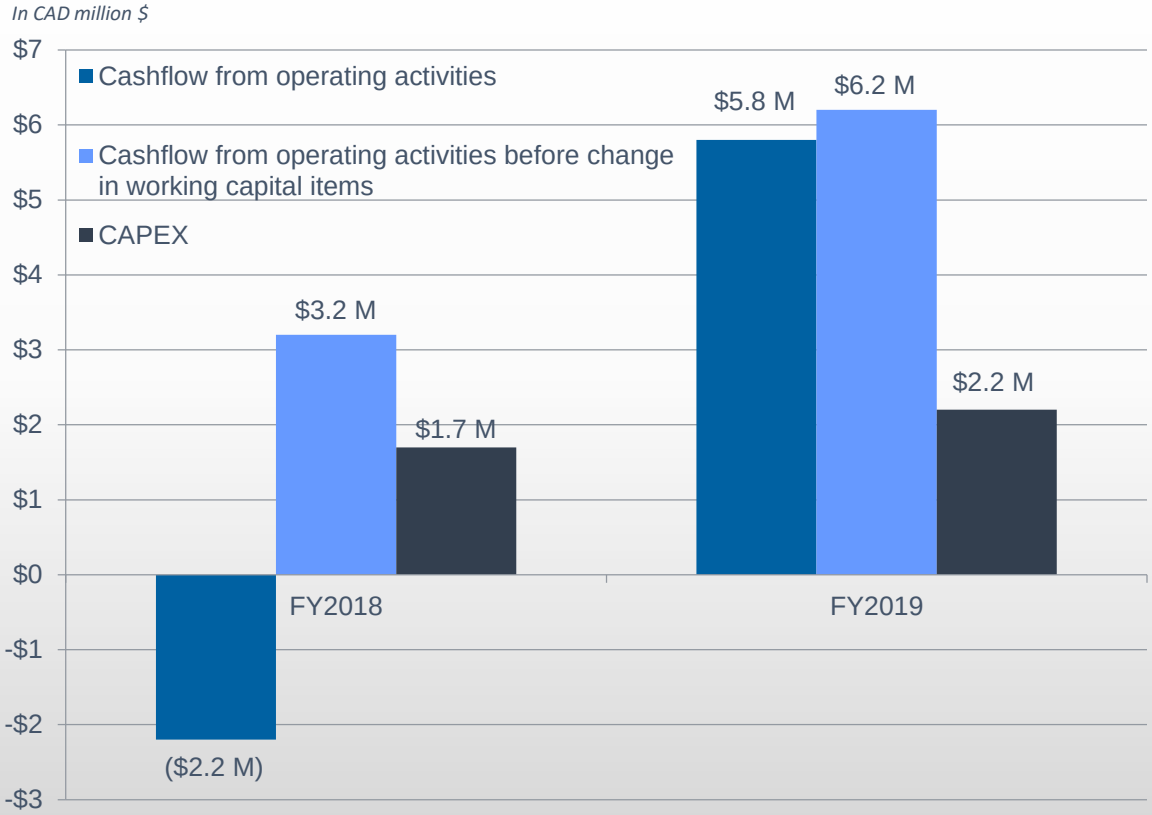
Working capital

Increased from $7.2 M to $12.8 M:

Financial Position	Period ended June 30, 2018	Period ended June 30, 2019
Cash and Guaranteed Deposit Certificate	$2.3 M	**$6.2 M**
Receivables	$17.8 M	**$19.4 M**
Inventories	$7.0 M	**$6.7 M**
WIP - net	$4.3 M	**$2.8 M**
Payables	$13.4 M	**$12.3 M**
Bank loans and Bank overdraft	$9.5 M	**$7.5 M**
Long-term debt	$10.1 M	**$8.4 M**

- **Receivables**: increased by $1.6 M, or 9.0%, mostly attributable to:
  - Increase of revenues in our O&M business pillar, with scope of work expansions in our existing projects leading to increased invoicing;
  - Increase in the Specialty Products business pillar;
  - Invoicing milestones reached in significant water treatment projects before the end of the quarter.
- **Inventories**: decreased by $0.3 M, or 3.7%, due to:
  - The acquisition of Hays contributed to $0.1 M of inventories as at June 30, 2019.
- **Payables**: decreased by $1.1 M, or 8.3%.
  - Mainly due to the timing of projects for the period ended June 30, 2019 and to payment of suppliers given the cash flows from operating activities generated.
- **Net Debt**: decreased by $7.7 M, or 44.3%:
  - This decrease is mainly attributable to the equity financing for the Hays acquisition, creating additional working capital capacities and to the cash flows from operating activities of $5.8 M for FY2019.

Cash Flows from Operating Activities



- Operating activities generated $5.8 M for FY2019, compared to use of $2.2 M during FY2018;
- This variation of the cash flows from operating activities reflects the advancement of major projects, with significant invoicing milestones reached during the fiscal year, impacting the change in working capital items.
- The improvement of the change in working capital items also shows a healthier management of the Corporation's working capital items.

Key Highlights

- **Revenue growth of 18.4%**;
- **Adjusted EBITDA** reached $7.2 M;
- Balance sheet continue to improve with the cash generated from operations and debt reduction;
- Finished the year with a strong Q4 : $31.9 M in revenues , $2.4 M in adjusted EBITDA or 7.4%
- Combined backlog of **$127.9 M** (Projects and O&M), as of June 30, 2019, remains strong and diversified;
  - $45.2 M in Projects backlog;
  - $82.7 M in O&M backlog.
- **75.9 %** of the revenues are recurrent by nature (Aftermarket, Specialty Products and O&M);
- Our business model captures many **sales synergies** among three business pillars;
- Accelerate growth through acquisitions in the 2nd and 3rd business pillar.

H_2O Innovation

Unique smart water player

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