



PRESS RELEASE
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H₂O Innovation's 2020 First Quarter Results: Growth Fueled by Acquisition and Specialty Products

Key financial highlights

- Revenue growth of 15.8 % over the same period of the previous fiscal year, reaching \$28.2 M for the first quarter of fiscal year 2020;
- Recurring revenues¹ represented 80.2 % of the Corporation's total revenues for the first quarter of fiscal year 2020;
- Gross profit margin before depreciation and amortization expenses represented 23.8 % of the Corporation's total revenues for the first quarter of fiscal year 2020, compared to 22.6 % for the first quarter of previous fiscal year;
- Consolidated backlog, combining Projects and O&M, stood at \$153.3 M as of September 30, 2019, compared to \$139.9 M for the period ended September 30, 2018;
- Adjusted EBITDA² reached \$1.6 M, or 5.8 % of revenues, for the first quarter of fiscal year 2020 compared to \$1.3 M, or 5.2 % of revenues, for the comparable quarter of previous fiscal year;
- Net loss amounted to (\$1.0 M) for the first quarter of fiscal year 2020, compared to a net loss of (\$0.3 M) for the comparable quarter of previous fiscal year;
- Cash flows from operating activities reached \$2.2 M for the first quarter of fiscal year 2020, compared to \$0.7 M reached during the comparable quarter of previous fiscal year;
- Net debt of \$8.2 M as at September 30, 2019, from \$9.8 M as at June 30, 2019.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, November 13, 2019 – (TSXV: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its financial results for the first quarter ended September 30, 2019.

“The first quarter of this new fiscal year was impacted positively by the acquisition of Hays completed last fiscal year and by the organic growth of our specialty products sales. In the last couple of quarters, H₂O Innovation has been pursuing its growth through strategic acquisitions, enabling greater customers' retention and more cross-selling between our various business lines. Our focus to grow organically and with acquisitions in the Specialty Products and Operation & Maintenance business pillars has allowed us to increase our recurring revenues at 80% and to improve our gross profit margin simultaneously to 23.8%. Moreover, the acquisition of Genesys, announced earlier in November, should also allow us to further improve our margins and diversify our Specialty Products sales,” **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

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. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other.

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, 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 by looking at the reconciliation presented at the end of this document. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019		2018	
	\$	% ^(b)	\$	% ^(b)
Revenues per business pillar				
Projects & Aftermarket	8,205	29.1	10,272	42.1
Specialty products	5,192	18.4	4,206	17.3
O&M	14,826	52.5	9,893	40.6
Total revenues	28,223	100.0	24,371	100.0
Recurring revenues ^(a)	22,639	80.2	16,667	68.5
Cost of goods sold	21,516	76.2	18,865	77.4
Gross profit margin before depreciation and amortization	6,707	23.8	5,506	22.6
General operating expenses	1,388	4.9	1,328	5.4
Selling expenses	1,865	6.6	1,647	6.8
Administrative expenses	1,799	6.4	1,401	5.7
Total SG&A	5,052	17.9	4,376	18.0
Net loss for the period	(1,033)	(3.7)	(323)	(1.3)
EBITDA ^(a)	1,065	3.8	1,095	4.5
Adjusted EBITDA ^(a)	1,625	5.8	1,266	5.2

(a) Non-IFRS financial measurement reconciled below.

(b) % over revenues.

First Quarter Results

Consolidated revenues from our three business pillars, for the three-month period ended on September 30, 2019, increased by \$3.8 M, or 15.8 %, to reach \$28.2 M compared to \$24.4 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Hays during the second quarter of fiscal year 2019, which contributed \$5.1 M in revenues during this quarter, and by the increase of \$1.0 M coming from Specialty Products, partly offset by the decrease in revenues of \$2.1 M from the Projects & Aftermarket.

The net loss amounted to (\$1.0 M) or (\$0.019) per share for the first quarter of fiscal year 2020 compared to a net loss of (\$0.3 M) or (\$0.008) per share for the comparable quarter of fiscal year 2019. The net loss variation is mostly due to the adjusted EBITDA improvement, partly offset by the acquisition, integration and other related costs in the amount of \$0.5 M and due to the increased level of depreciation and amortization. The increased level of depreciation and amortization is mainly coming from the increased level of intangible assets acquired through Hays during the second quarter of the previous fiscal year.

The Corporation's gross profit margin before depreciation and amortization stood at \$6.7 M, or 23.8 %, during the first quarter of fiscal year 2020, compared to \$5.5 M, or 22.6 % for the previous fiscal year, representing an increase of \$1.2 M or 21.8 %. The increase in consolidated gross profit margin is coming from the O&M and the Projects and Aftermarket business pillars, while the Specialty Products showed a slight decrease in its gross profit margin compared to the same quarter of the previous fiscal year. The adoption of IFRS 16 – Leases resulted in a decrease of the COGS expenses of \$0.1 M for the first quarter of fiscal year 2020.

The Corporation's SG&A reached \$5.1 M during the first quarter of fiscal year 2020, compared to \$4.4 M for the previous fiscal year, representing an increase of \$0.7 M, or 15.4 %, while the revenues of the Corporation increased by 15.8 %. SG&A for the first quarter of fiscal year 2020 were impacted by the



adoption of IFRS 16 – *Leases*, as lease expenses were reclassified to depreciation and amortization. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of \$0.2 M for the first quarter of fiscal year 2020.

The Corporation's adjusted EBITDA increased by \$0.3 M, or 28.4 %, to reach \$1.6 M during the first quarter of fiscal year 2020, from \$1.3 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 5.8 % for the three-month period ended September 30, 2019, compared to 5.2 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues, as well as an increase of the gross profit margin before depreciation and amortization, partly offset by an increase of the SG&A. Furthermore, the adoption on July 1, 2019 of IFRS 16 - *Leases* contributed to reduce by \$0.3 M the operating lease expenses for the quarter. Excluding the adjustment from IFRS 16 - *Leases*, the adjusted EBITDA would have been 4.6 %.

Cash flows from operating activities generated \$2.2 M for the quarter ended September 30, 2019, compared to \$0.7 M of cash flows generated from 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.

Projects & Aftermarket

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019	2018	Variation	
	\$	\$	\$	%
Revenues from Projects & Aftermarket	8,205	10,272	(2,067)	(20.1)
Cost of goods sold	6,540	8,228	(1,688)	(20.5)
Gross profit margins before depreciation and amortization	1,665	2,044	(379)	(18.5)
Gross profit margins before depreciation and amortization (%)	20.3 %	19.9 %	-	-
General operating expenses	202	208	(6)	(2.9)
Selling expenses	814	736	78	10.6
EBAC ³ from Projects & Aftermarket	649	1,100	(451)	(41.0)
EBAC ³ over revenues from Projects & Aftermarket	7.9 %	10.7 %	-	-

Projects & Aftermarket revenues stood at \$8.2 M during the first quarter of fiscal year 2020, compared to \$10.3 M for the same quarter of last fiscal year, representing a decrease of \$2.1 M, or 20.1 %. This variation is mainly due to the timing of Projects' contracts, which contracts will be recognized in subsequent quarters.

The gross profit margins before depreciation and amortization stood at \$1.7 M, or 20.3 % for the first quarter of fiscal year 2020, compared with \$2.0 M, or 19.9 % for the same quarter of last fiscal year, representing a decrease of \$0.3 M, or 18.5 %, but an improvement in terms of % over revenues. The general operating expenses and selling expenses stood at \$1.0 M during the first quarter of fiscal year 2020, compared to \$0.9 M, for the same quarter of last fiscal year, representing an increase of \$0.1 M. This increase in the expenses is driven by the addition of salesman and process engineer to support the growth of the wastewater activity. Projects & Aftermarket's EBAC stood at \$0.6 M during the first quarter of fiscal year 2020, compared to \$1.1 M for the same quarter of last fiscal year, representing a decrease of \$0.5 M, or 41.0 %. The decrease is due to the lower level of revenues recognized during the quarter, compared to the same quarter of the previous fiscal year.

³ 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.

Specialty Products

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019	2018	Variation	
	\$	\$	\$	%
Revenues from Specialty Products	5,192	4,206	986	23.4
Cost of goods sold	2,976	2,316	660	28.5
Gross profit margins before depreciation and amortization	2,216	1,890	326	17.2
Gross profit margins before depreciation and amortization (%)	42.7 %	44.9 %	-	-
General operating expenses	594	664	(70)	(10.5)
Selling expenses	670	579	91	15.7
EBAC ³ from Specialty Products	952	647	305	47.1
EBAC ³ over revenues from Specialty Products	18.3 %	15.4 %	-	-

Specialty Products revenues, including revenues coming from the sale of maple equipment and products, specialty chemicals, consumables, and specialized components for the water treatment industry, are recurring by nature. They stood at \$5.2 M during the first quarter of fiscal year 2020, compared to \$4.2 M for the same quarter of last fiscal year, representing an increase of \$1.0 M, or 23.4 %. This increase in revenues for this business pillar is supported by significant orders delivered during this quarter in Piedmont's business line. Sales coming from the Maple business line also contributed to this increase, as maple producers are preparing for the upcoming maple season. Maple syrup producers have experienced a healthier year resulting in a higher production, thus increasing the investments they can spend in new capital equipment purchase.

The gross profit margins before depreciation and amortization stood at \$2.2 M, or 42.7 % for the first quarter of fiscal year 2020, compared with \$1.9 M, or 44.9 % for the same quarter of last fiscal year, representing an increase of \$0.3 M in dollar, but a decrease of the gross profit margin in %. This variation is mainly due to the business mix within this business pillar, with a lower level of revenues coming from PWT, characterized with higher gross profit margins. The general operating expenses and selling expenses remained fairly stable at \$1.3 M during the first quarter of fiscal year 2020, compared to \$1.2 M, for the same quarter of last fiscal year. Specialty Products EBAC stood at \$1.0 M during the first quarter of fiscal year 2020, compared to \$0.6 M for the same quarter of last fiscal year, representing an increase of \$0.4 M, or 47.1 %.

O&M

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2019	2018	Variation	
	\$	\$	\$	%
Revenues from O&M	14,826	9,893	4,933	49.9
Cost of goods sold	12,000	8,321	3,679	44.2
Gross profit margins before depreciation and amortization	2,826	1,572	1,254	79.8
Gross profit margins before depreciation and amortization (%)	19.1 %	15.9 %	-	-
General operating expenses	592	456	136	29.8
Selling expenses	381	332	49	14.8
EBAC ³ from O&M	1,853	784	1,069	136.4
EBAC ³ over revenues from O&M	12.5 %	7.9 %	-	-

O&M revenues stood at \$14.8 M during the first quarter of fiscal year 2020, compared to \$9.9 M for the same quarter of last fiscal year, representing an increase of \$4.9 M, or 49.9 %. Hays, which was acquired



during the second quarter of the previous fiscal year, contributed \$5.1 M to the revenues of this business pillar during the quarter. However, compared to the same quarter of last fiscal year, the Corporation lost two contracts for which the customers decided to take back the operation and maintenance of their water treatment system in-house, representing revenues of approximately 0.3 M \$.

The gross profit margins before depreciation and amortization stood at \$2.8 M, or 19.1 % for the first quarter of fiscal year 2020, compared with \$1.6 M, or 15.9 % for the same quarter of last fiscal year, representing an increase of \$1.2 M, or 79.8 %. This variation is mainly due to two projects that were in the start-up phase during the first quarter of last fiscal year, impacting negatively the gross profit margin temporarily. The general operating expenses and selling expenses stood at \$1.0 M during the first quarter of fiscal year 2020, compared to \$0.8 M, for the same quarter of last fiscal year, representing an increase of \$0.2 M. This increase is linked to the increase of revenues and to the addition of Hays' expenses, which contributed \$0.1 M in general operating expenses and selling expenses during this quarter. O&M EBAC stood at \$1.9 M during the first quarter of fiscal year 2020, compared to \$0.8 M for the same quarter of last fiscal year, representing an increase of \$1.1 M, or 136.4 %.

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.

Three-month periods ended September 30, (In thousands of Canadian dollars)	2019	2018
	\$	\$
Net loss for the period	(1,033)	(323)
Finance costs – net	453	531
Income taxes	(9)	(91)
Depreciation of property, plant and equipment	689	279
Amortization of intangible assets	965	699
EBITDA	1,065	1,095
Unrealized exchange (gain) loss	(103)	55
Stock-based compensation costs	60	83
Changes in fair value of the contingent consideration	114	-
Acquisition-related costs, integration costs and other costs	489	33
Adjusted EBITDA	1,625	1,266



H₂O 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 first quarter financial results in further details at 10:00 a.m. Eastern Time on Wednesday, November 13, 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 first quarter financial report is available on www.h2oinnovation.com and on the NYSE Euronext Growth Paris 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, H₂O 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 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 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.

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