# Investor Presentation Q1-FY2020

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TSXV: HEO

# 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.*

- 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 $H_20$ 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.*

# 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”, “Recurring revenue” and “Earnings before administrative expenses” 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.
- EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes expenses otherwise considered in net earnings (loss) according to Generally Accepted Accounting Principles (“GAAP”), namely the unrealized exchange (gains) losses, the change in fair value of contingent consideration 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 net debt consists of bank loans and long-term debt less cash. The definition of net debt used by the Corporation may differ from those used by other companies.
- 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.
- 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.

# Evolution of Our Business Model

## Water Utilities

### Water & Wastewater Projects, and Services

- h2o innovation
- intelogx
- clearlogx

### Specialty Products

- h2o innovation
- PWT
- GENESYS INTERNATIONAL
- Piedmont

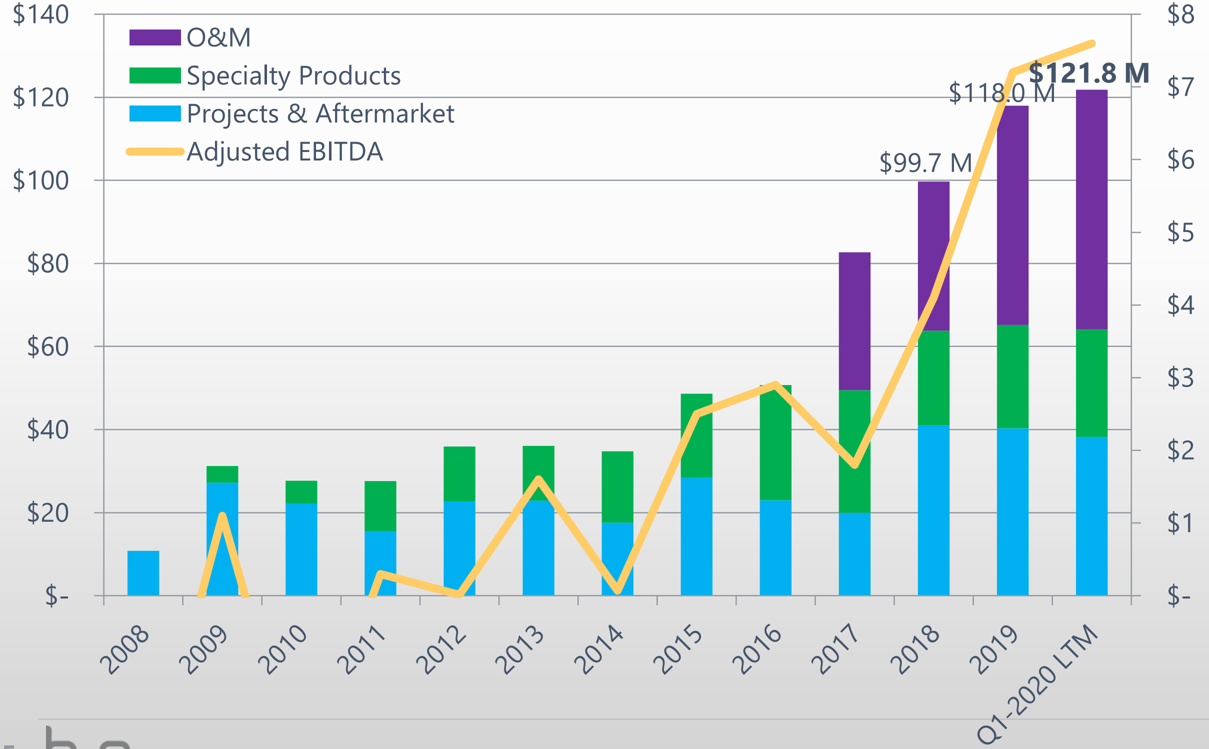
### Operation & Maintenance

- UTILITY PARTNERS
- Hays Utility South Corporation — Serving You Since 1970

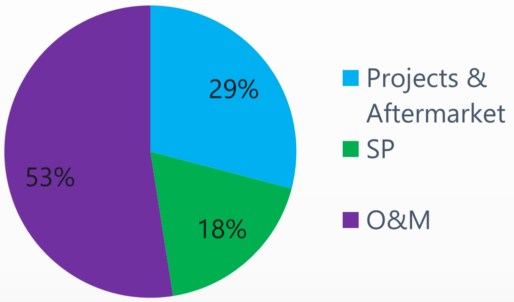
# Revenue & Business Mix

## Revenue & Adjusted EBITDA

*In CAD million $*



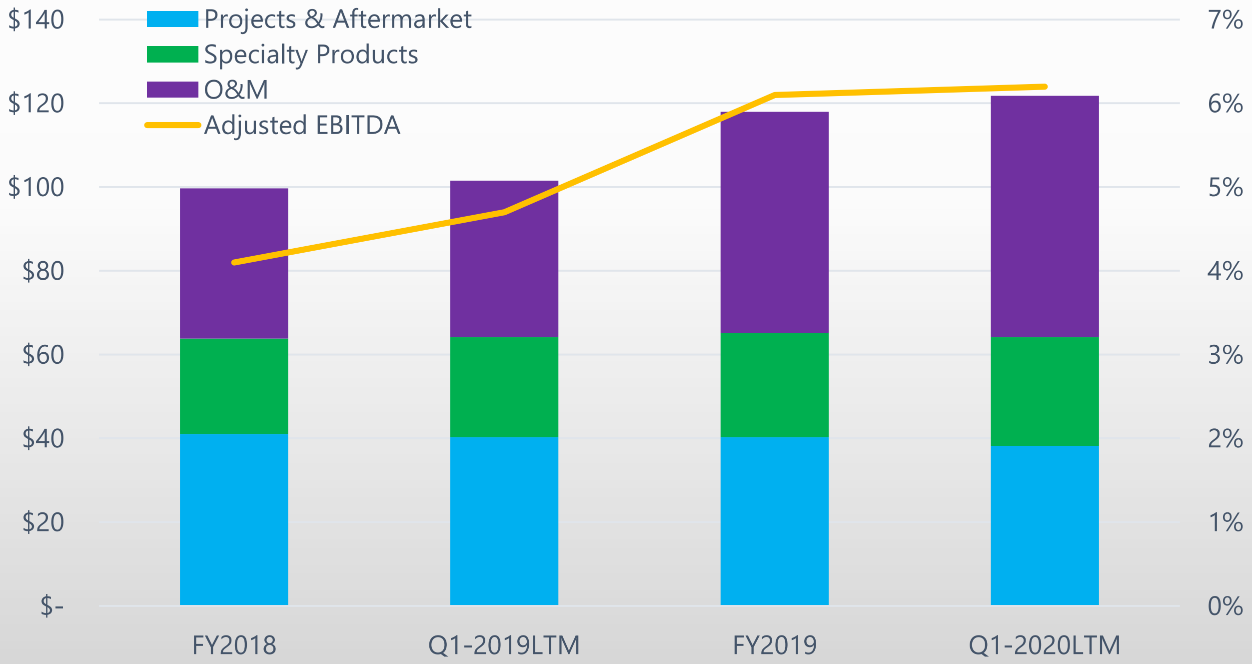

### Q1-FY2020 Revenues




- Gain predictability in our business model with **80.2%** of recurrent revenues.

# Revenue Mix & Adjusted EBITDA

*In CAD million $*



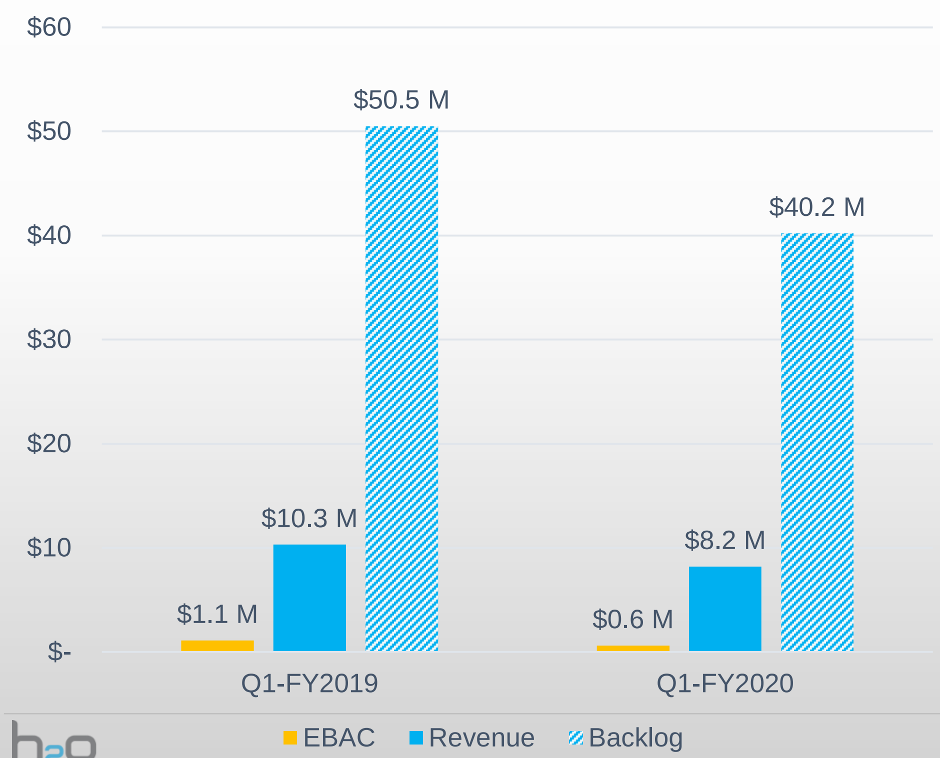

- Revenues for the last twelve months show an increase of 20.1 % compared to the previous 12-month period, evidenced of the organic and acquisition growth.
- Adjusted EBITDA evolved from $4.8 M, or 4.7 % of revenues to $7.6 M, or 6.2 % in the last twelve months, representing a 58.3 % improvement over a 12-month period.


# Financial Overview Q1-FY2020

# 1st Business Pillar

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

*In CAD million $*

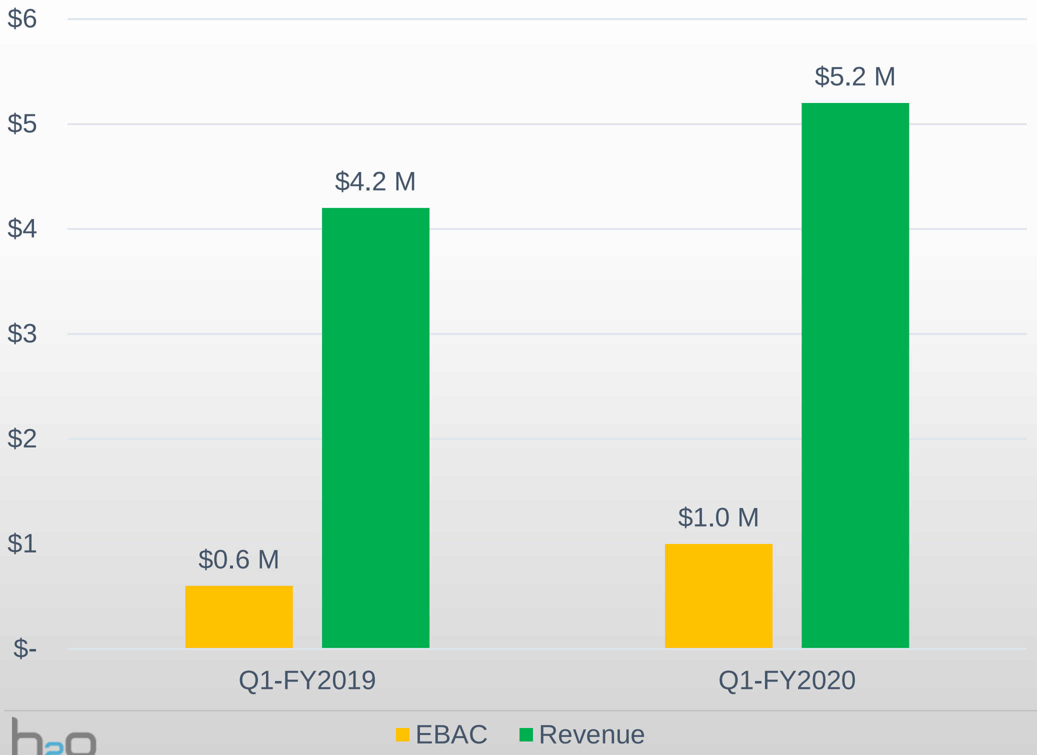



- Projects revenues stood at $8.2 M during , Q1-FY2020 compared to $10.3 M for Q1-FY2019, representing a decrease of $2.1 M, or 20.1 %.
    - ➢ This variation is mainly due to the timing of Projects' contracts, which contracts will be recognized in subsequent quarters.
- Projects' EBAC stood at $0.6 M, or 7.9% during Q1-2020 compared to $1.1 M, or 10.7% for Q1-2019, representing a decrease of $0.5 M. The decrease is due to:
    - ➢ the lower level of revenues recognized during the quarter, compared to the same quarter of the previous fiscal year;
    - ➢ Increase of selling expenses by $0.1 M – addition of salesman & process engineer to support the growth of the wastewater activity.
- Projects' backlog stood at $40.2 as at September 30, 2019, compared to $50.5M last year, representing a decrease of 20.3%. Focus is on quality of revenues instead of volume.

# 2nd Business Pillar

## Specialty Products

*In CAD million $*

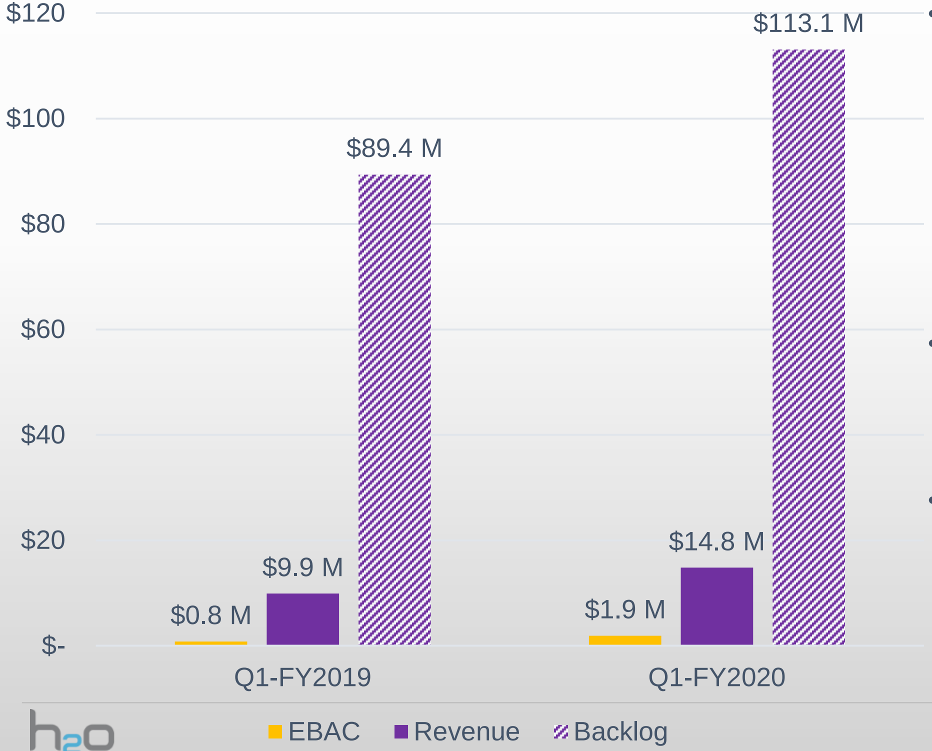



- Specialty Products revenues stood at $5.2 M during Q1-FY2020, compared to $4.2 M for the same quarter of last fiscal year, representing an increase of $1.0 M, or 23.4 %.
  - This increase is supported by significant orders delivered during this quarter for our Piedmont's business line.
  - Sales coming from the Maple business line also contributed to this increase, as Maple producers are preparing for the upcoming maple season.
- Specialty Products' EBAC stood at $1.0 M or 18.3% during Q1 2020, compared to $0.6 M or 15.4% for Q1 2019, representing an increase of $0.4 M, or 47.1 %. This increase is due to revenue volume.

# 3rd Business Pillar

## Operation & Maintenance (O&M)

*In CAD million $*




- O&M revenues stood at $14.8 M during Q1-FY2020, compared to $9.9 M for Q1-FY2019, 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, the Corporation lost two contracts for which the customers decided to take back the operation and maintenance of their water treatment system in-house.
- O&M EBAC stood at $1.9 M or 12.5% during Q1-FY2020, compared to $0.8 M or 7.9% for Q1-FY2019, representing an increase of $1.1 M, or 136.4 %. This variation is due to two projects that were in the start-up phase last year.
- O&M backlog stood at $113.1 M, representing a 26.5% increase, boosted by the renewals and addition of contracts.

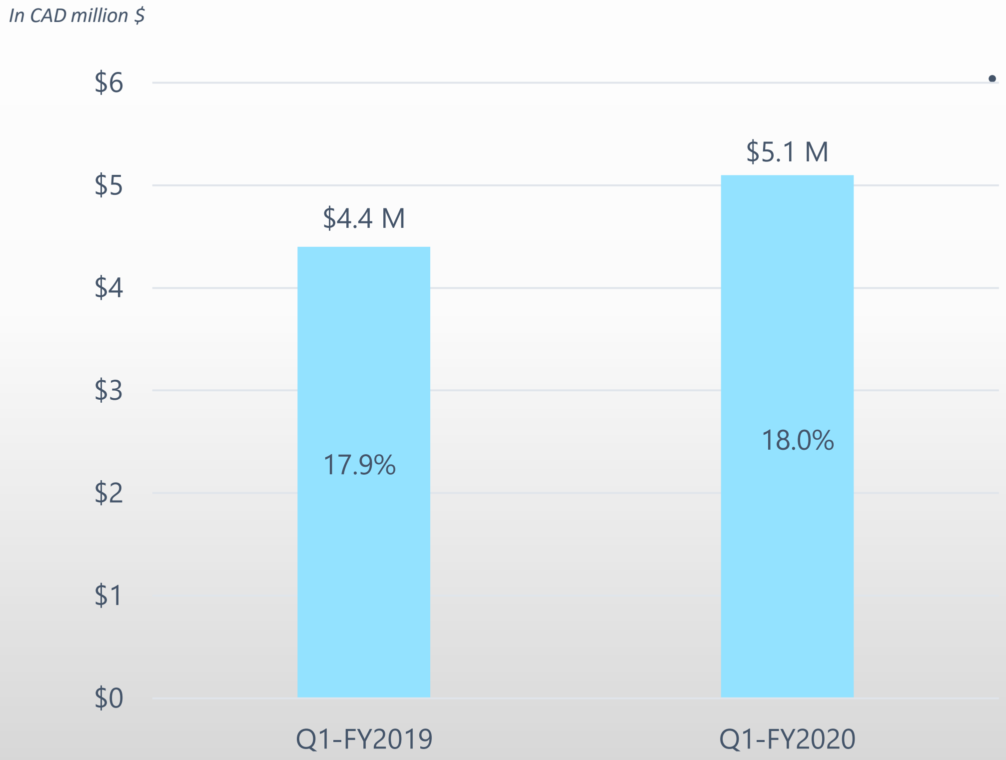
# Financial Highlights

## Q1-FY2020 vs Q1-FY2019

| | Three-month periods ended September 30, | |
|---|---|---|
| | **2019** | 2018 |
| **Revenues** | **$28.2 M** | $24.4 M |
| **Projects & Aftermarket** | **$8.2 M** | $10.3 M |
| **Specialty Products** | **$5.2 M** | $4.2 M |
| **Operation & Maintenance** | **$14.8 M** | $9.9 M |
| **Gross profit before depreciation and amortization (%)** | **23.8%** | 22.6% |
| **SG&A** | **$5.1 M** | $4.4 M |
| **% SG&A** | **17.9%** | 18.0% |
| **Net loss** | **($1.0 M)** | ($0.3 M) |
| **Adjusted EBITDA** | **$1.6 M** | $1.3 M |
| **Adjusted EBITDA over revenues (%)** | **5.8%** | 5.2% |

- Revenues 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 mostly fueled by the acquisition of Hays during the second quarter of fiscal year 2019, which contributed $5.1 M in revenues during this quarter.
  - ➢ While revenues from SP increased by $1.0 M, the Projects' revenues decreased by $2.1 M.
- GPM: increased from 22.6% to 23.8% due to:
  - ➢ The increased GPM in % is coming from Projects & Aftermarket and O&M business pillars.

# SG&A Expenses




- SG&A reached $5.1 M during Q1-FY2020, 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 %.
  - The administrative expenses reached $1.8 M during Q1-FY2020, compared to $1.4 M for the previous fiscal year, representing an increase of $0.4 M, or 28.4 %.
  - The acquisition of Hays on December 1, 2018 contributed $0.1 M of this increase, as well as hiring in the administrative team to support the growth.
  - Additional non- recurring professional fees of $0.2 M were engaged this quarter to support the new accounting standard adoption and the change in segment information.
  - The adoption of IFRS 16 – Leases resulted in a decrease of the administrative expenses of $0.03 M for the first quarter of fiscal year 2020.

# Adjusted EBITDA

| | Three-month periods ended September 30, | |
|---|---|---|
| | **2019** | 2018 |
| Net loss for the period | **($1.0 M)** | ($0.3 M) |
| Finance costs – net | **$0.5 M** | $0.5 M |
| Income taxes | **-** | ($0.09 M) |
| Depreciation of property, plant and equipment | **$0.7 M** | $0.3 M |
| Amortization of intangible assets | **$1.0 M** | $0.7 M |
| **EBITDA** | **$1.1 M** | $1.1 M |
| | | |
| Unrealized exchange (gain) loss | **($0.1 M)** | $0.06 M |
| Stock-based compensation costs | **$0.06 M** | $0.08 M |
| Change in fair value of contingent consideration | **$0.1 M** | - |
| Acquisition-related costs, integration costs and other costs | **$0.5 M** | $0.03 M |
| **Adjusted EBITDA** | **$1.6 M** | $1.3 M |

- The adjusted EBITDA increased by $0.3 M, or 28.4 %, to reach $1.6 M during Q1-FY2020, from $1.3 M for Q1 2019.
- The adjusted EBITDA % improved and reached 5.8 % for Q1-FY2020, compared to 5.2 % for Q1 2019.
- Improvement of the adjusted EBITDA was driven by:
  - the increase in our consolidated revenues;
  - the increase of the gross profit margin before depreciation and amortization;
  - the adoption on July 1, 2019 of IFRS 16 - Leases contributed to reduce by $0.3 M the operating lease expenses for the quarter.

# Financial Position

## Working capital

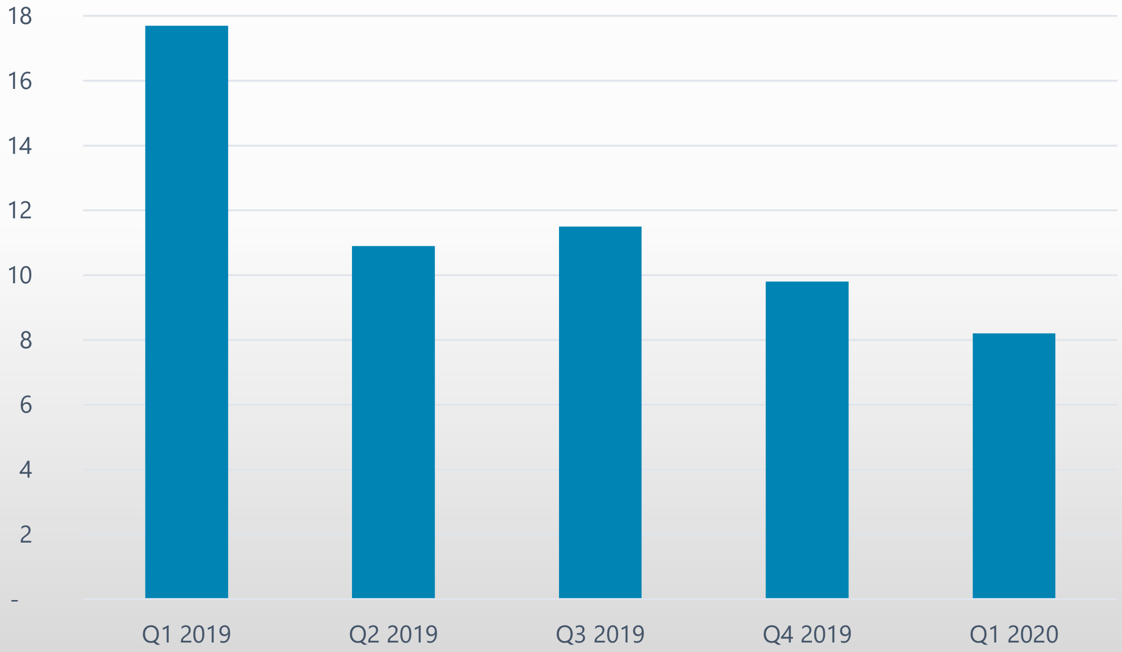
Decreased from $12.8 M to $11.6 M:

| Financial Position | Period ended September 30, 2019 | Period ended June 30, 2019 |
|---|---|---|
| Cash and Guaranteed Deposit Certificate | $6.8 M | **$6.2 M** |
| Receivables | $18.6 M | **$19.4 M** |
| Inventories | $7.0 M | **$6.7 M** |
| Contract assets | $7.8 M | **$5.9 M** |
| Payables | $14.3 M | **$12.3 M** |
| Bank loans | $7.5 M | **$7.5 M** |
| Long-term debt | $7.5 M | **$8.4 M** |
| Contract liabilities | $3.3 M | **$3.1 M** |

- **Receivables**: decreased by $0.8 M, or 4.4%, mostly attributable to:
  - ➢ The decrease is mostly attributable to the timing between invoicing and collection.
- **Inventories**: increased by $0.2 M, or 3.3%, due to:
  - ➢ This increase is due to sales increase, to support the growing demand for the Specialty Products business pillar, especially the Maple business line, for which inventories often need to be on hand and available.
- **Payables**: increased by $2.0 M, or 16.3%:
  - ➢ The increase is mainly due to the timing of the projects for the period ended September 30, 2019.
- **Contract assets:** increased by $1.9 M, or 33.2%:
  - ➢ The increase is generated by the difference between project advancement and project invoicing schedules, from one project to the other.

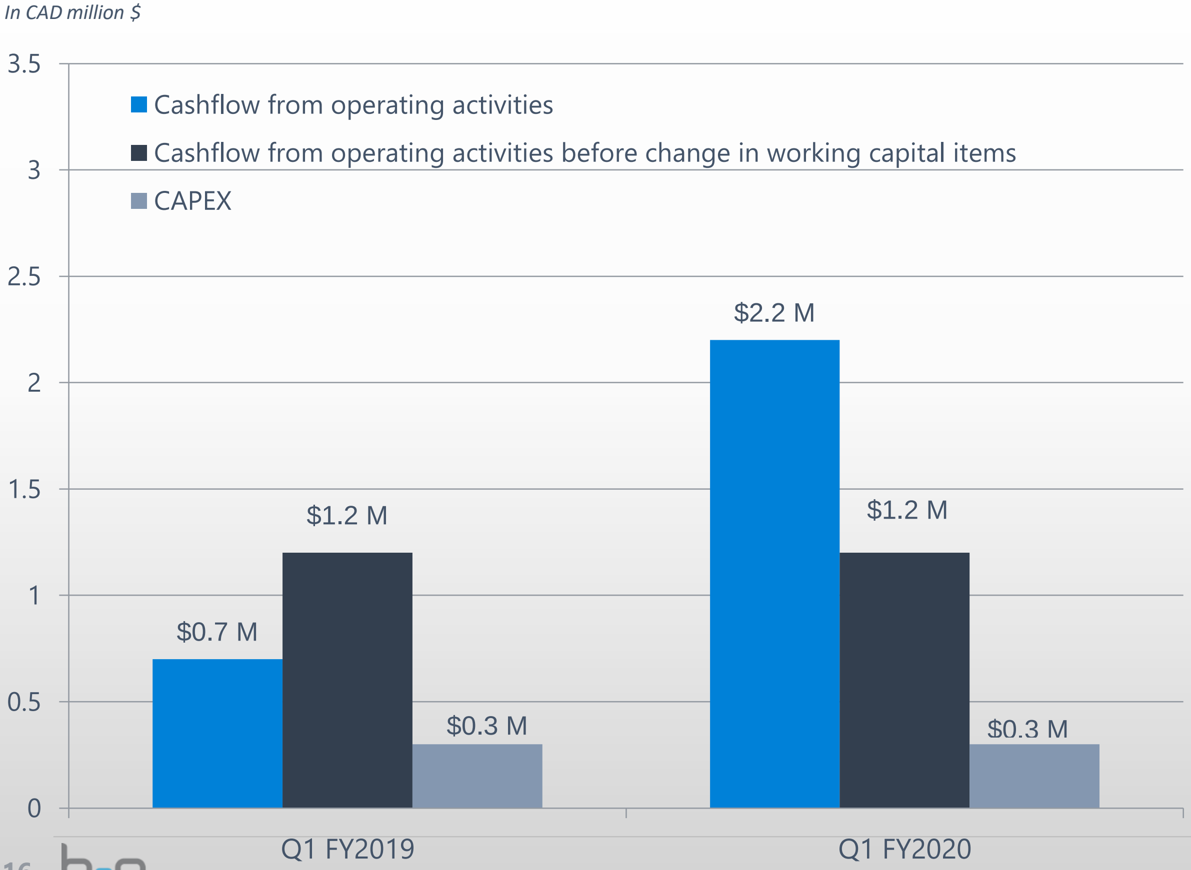
# Net Debt

*In CAD million $*




- The net debt decreased by $1.6 M, or 16.3% on September 30, 2019 from $9.8 M on June 30, 2019 :
  - ➢ This decrease is mainly due to long-term debt repayment schedules, while cash increased of $0.6 M.
  - ➢ The adoption of IFRS 16 also contributed to reduce the net debt by $0.5 M since obligations under finance lease has been reclassified to the lease liabilities on the balance sheet.
- The net debt decreased from $17.7 M to $8.2 M, in the last twelve months.

# Cash Flows from Operating Activities




- Cash flows from operating activities generated $2.2 M for Q1-FY2020, 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.

# Genesys' Acquisition

*Create a new major supplier of specialty chemicals for membrane treatment plants with one of the **largest distribution networks** in the industry and **global manufacturing capabilities***

**1. Strong Combined Product Line**
*With strengths of both phosphonate & dendrimer chemistry*

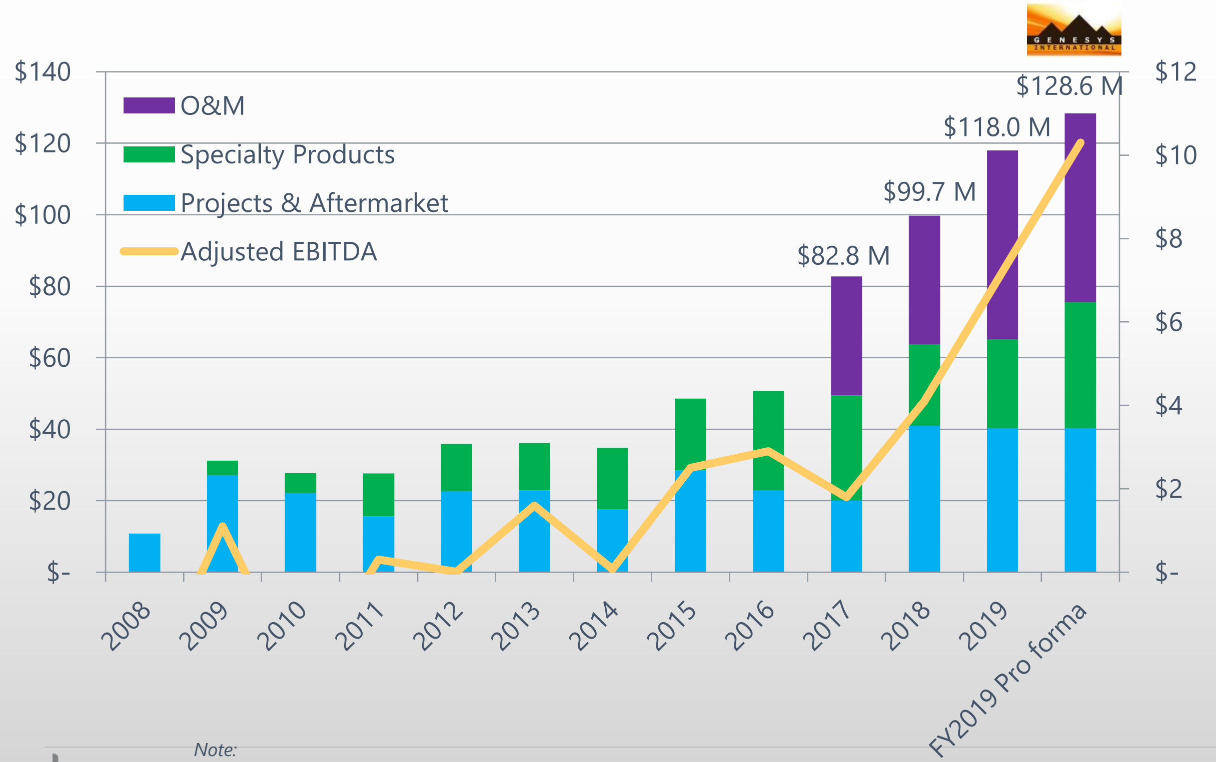
**2. One of the Largest Distribution Networks**
*Supported by an experienced team with regional presence*

**3. Global Manufacturing Capabilities**
*Reduce freight costs, delivery time, and tariffs*

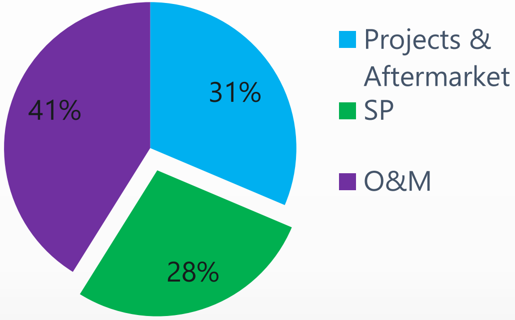
# $H_2O$ Innovation's Revenue & Business Mix

## Revenue & Adjusted EBITDA

*In CAD million $*




## FY2019 Pro forma[1] Revenues with Genesys




- Gain predictability in our business model with **77.8%** of recurring revenues.

*Note:*
*(1)* Pro forma FY2019 revenues and adjusted EBITDA are based on the Corporation's results for the year ended June 30, 2019 and Genesys' results for the last twelve months ended June 30, 2019. See also "Non-IFRS Financial Measurements".

# Key Highlights

- **Revenue growth of 15.8%**;
- **Adjusted EBITDA** reached $1.6 M;
- Combined backlog of **$153.3 M** (Projects and O&M), as of September 30, 2019, remains strong and diversified;
    - $40.2 M in Projects backlog;
    - $113.1 M in O&M backlog.
- Net debt stands at $8.2 M, reduced by $1.6 M from June 30, 2019;
- Cashflow from operations increased to $2.2 M from $0.7 M in Q1 FY2019
- **80.2 %** of the revenues are recurrent by nature (Aftermarket, Specialty Products and O&M);
- Our business model captures many **sales synergies** among three business pillars.

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