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H_2O Innovation Executes its Business Plan: Delivering Sustained Financial Improvement and Making a Strategic Acquisition

Key Financial Highlights

- Successful completion of the acquisition of Genesys Holdings Limited and its subsidiaries, Genesys Manufacturing Limited, Genesys International Limited and Genesys North America, LLC (collectively, “Genesys”), a group of privately-owned companies based in the United Kingdom;
- Revenue growth of 13.5 % over the same period of the previous fiscal year, reaching $33.3 M for the second quarter of fiscal year 2020;
- Gross profit margin before depreciation and amortization expenses represented 24.8 % of the Corporation’s total revenues for the second quarter of fiscal year 2020, compared to 21.3 % for the second quarter of previous fiscal year;
- Adjusted EBITDA[1] reached $2.3 M, or 6.9 % of revenues, for the second quarter of fiscal year 2020 compared to $1.4 M, or 4.7 % of revenues, for the comparable quarter of previous fiscal year;
- Net loss amounted to ($0.9 M) for the second quarter of fiscal year 2020, compared to a net loss of ($1.2 M) for the comparable quarter of previous fiscal year;
- Net debt[1] of $18.0 M as at December 31, 2019, from $9.8 M as at June 30, 2019.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, February 12, 2020 – (TSXV: HEO) – H_2O Innovation Inc. (“H_2O Innovation” or the “Corporation”) announces its financial results for the second quarter of fiscal year 2020 ended December 31, 2019.

“We keep executing our business plan focused on growing predominantly our specialty products offering and O&M service footprint. Through our unique business model, we are promoting high customer retention, thus high recurring sales allowing us to significantly de-risk the business. These efforts, on a twelve-month period, have resulted in revenue growth of 13.5 % while the adjusted EBITDA has increased by 68.0% over the same period. On a last twelve months basis, we have clearly shown the scalability of our business model as our revenues have increased by 19.8 %, punctuated by the acquisitions of Hays and Genesys. During the same last twelve months basis, the adjusted EBITDA has progressed significantly from $4.8 M to $8.5 M, showing an improvement of 76.5 %. Our strategy is working and our customers benefit today from a more complete and diversified offering of products and services allowing them to grow their business as a distributor or to benefit from an integrated and accountable customer care,” **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

[1] These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this report. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release to give the reader a better understanding of the indicators used by management.

(In thousands of Canadian dollars)	Three-month periods ended December 31, **2019**		2018 (b)		Six-month periods ended December 31, **2019**		2018 (b)	
	$	**%** (a)	$	% (a)	**$**	**%** (a)	$	% (a)
Revenues per business pillar								
Projects & Aftermarket	**7,384**	**22.2**	11,866	40.4	**15,589**	**25.3**	22,138	41.2
Specialty products	**10,375**	**31.1**	5,872	20.0	**15,567**	**25.3**	10,078	18.8
O&M	**15,575**	**46.7**	11,640	39.6	**30,401**	**49.4**	21,533	40.1
Total revenues	**33,334**	**100.0**	29,378	100.0	**61,557**	**100.0**	53,749	100.0
Gross profit margin before depreciation and amortization	**8,283**	**24.8**	6,244	21.3	**14,974**	**24.3**	11,750	21.9
SG&A expenses(c)	**5,896**	**17.7**	4,907	16.7	**10,955**	**17.8**	9,283	17.3
Net loss for the period	**(909)**	**(2.7)**	(1,212)	(4.1)	**(1,945)**	**(3.2)**	(1,535)	(2.9)
EBITDA[1]	**1,113**	**3.3**	910	3.1	**2,154**	**3.5**	2,005	3.7
Adjusted EBITDA[1]	**2,313**	**6.9**	1,377	4.7	**3,916**	**6.4**	2,643	4.9
Recurring revenues[1]	**28,033**	**84.1**	20,808	70.8	**50,672**	**82.3**	37,475	69.7

(a) % over revenues.
(b) Comparative figures have not been adjusted to reflect the adoption of IFRS 16 – *Leases* as set out in the accounting policy.
(c) Selling, general operating and administrative expenses (SG&A).

Second Quarter Results

Consolidated revenues from our three business pillars, for the three-month period ended on December 31, 2019, increased by $3.9 M, or 13.5 %, to reach $33.3 M compared to $29.4 M for the comparable quarter of previous fiscal year. This overall increase is fueled by the acquisition of Genesys during the second quarter of fiscal year 2020, which contributed $1.6 M in revenues during this quarter. The growth is also explained by the increase of $2.9 M coming from Specialty Products and $4.0 M coming from O&M, partly offset by the decrease in revenues of $4.5 M from the Projects & Aftermarket. Hays, which was acquired on December 1st, 2018, contributed $5.3 M to the revenues of the second quarter of fiscal year 2020, compared to $1.5 M for the same quarter of fiscal year 2019. The increase is in line with our business plan to grow first the Specialty Products and O&M, as well as prioritize projects with higher gross profit margins, fueling opportunities for other business pillars.

The net loss amounted to ($0.9 M) or ($0.014) per share for the second quarter of fiscal year 2020 compared to a net loss of ($1.2 M) or ($0.027) per share for the comparable quarter of fiscal year 2019. The net loss variation was impacted by the higher level of revenues coming from Specialty Products, having a high gross profit margin before depreciation and amortization. The net loss is mainly due to the acquisition, integration and other related costs of $1.3 M related to the acquisition of Genesys.

The Corporation's gross profit margin before depreciation and amortization stood at $8.3 M, or 24.8 %, during the second quarter of fiscal year 2020, compared to $6.2 M, or 21.3 % for the previous fiscal year, representing an increase of $2.1 M, or 32.7 %. The increase in consolidated gross profit margin is explained by the increase in revenues coming from Specialty Products business pillar, characterized with higher gross profit margins. These higher-margin sales, positively affected by the acquisition of Genesys and the strong growth in Piedmont business line, contributed significantly to increase the gross profit margin before depreciation and amortization in the second quarter of fiscal year 2020. The gross profit margin was also positively impacted by the improvement of the gross profit margins coming from the Projects & Aftermarket business line. The adoption of IFRS 16 – *Leases* resulted in a decrease of the COGS expenses of $0.1 M for the second quarter of fiscal year 2020.

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The Corporation's SG&A reached $5.9 M during the second quarter of fiscal year 2020, compared to $4.9 M for the same period of the previous fiscal year, representing an increase of $1.0 M, or 20.2 %, while the revenues of the Corporation increased by 13.5 %. The acquisition of Genesys contributed $0.3 M of this increase while the acquisition of Hays on December 1st, 2018 contributed to $0.3 M of the SG&A for the second quarter of fiscal year 2020, compared to $0.2 M for the same period of the previous fiscal year. The increase is also due to new hires to support the significant growth of Piedmont business line and to the increased level of revenues, which increased the level of commissions recorded. The adoption of IFRS 16 – *Leases* resulted in a decrease of the SG&A expenses of $0.2 M for the second quarter of fiscal year 2020, as lease expenses were reclassified to depreciation and amortization.

The Corporation's adjusted EBITDA increased by $0.9 M, or 68.0 %, to reach $2.3 M during the second quarter of fiscal year 2020, from $1.4 M for the comparable period of fiscal year 2019. The adjusted EBITDA % improved and reached 6.9 % for the second quarter of fiscal year 2020, compared to 4.7 % for the same quarter of last fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation's consolidated revenues and by the improvement in gross profit margins, partly offset by the increase in 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 6.0 %.

Cash flows from operating activities used ($0.4 M) for the quarter ended December 31, 2019, compared to $2.1 M of cash flows generated from operating activities during the same period of previous fiscal year. The decrease in the cash flows from operating activities is coming from the change in working capital items.

Reconciliation of Net Loss to EBITDA and to Adjusted EBITDA

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 below. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

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 December 31, 2019**	2018	**Six-month periods ended December 31, 2019**	2018
	$	$	**$**	$
Net loss for the period	**(909)**	(1,212)	**(1,945)**	(1,535)
Finance costs – net	**610**	969	**1,039**	1,500
Income taxes	**(297)**	72	**(304)**	(19)
Depreciation of property, plant and equipment	**691**	288	**1,380**	567
Amortization of intangible assets	**1,018**	793	**1,984**	1,492
EBITDA	**1,113**	910	**2,154**	2,005
Unrealized exchange (gain) loss	**(241)**	(11)	**(344)**	44
Stock-based compensation costs	**54**	75	**114**	158
Changes in fair value of the contingent consideration	**96**	-	**211**	-
Acquisition-related costs, integration costs and other costs	**1,291**	403	**1,781**	436
Adjusted EBITDA	**2,313**	1,377	**3,916**	2,643

Net Debt
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.

(In thousands of Canadian dollars)	**December 31, 2019**	June 30, 2019	Variation	
	$	$	$	%
Bank loans	**6,236**	7,545	(1,309)	(17.3)
Current portion of long-term debt	**3,171**	1,863	1,308	70.2
Long-term debt	**15,078**	6,578	8,500	129.2
Less: Cash	**(6,467)**	(6,206)	(261)	(4.2)
Net debt	**18,018**	9,780	8,238	84.2

Recurring Revenues
The Corporation defines recurring revenues 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. However, there is no guarantee that recurring revenues will last indefinitely. 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.

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 second quarter financial results in further details at 10:00 a.m. Eastern Time on Wednesday, February 12, 2020.

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 second 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 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. 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 main pillars. The first one is ***Water & Wastewater Projects, and Aftermarket Services*** and includes all types of projects as well as digital solutions (Intelogx™ and Clearlogx®) to monitor and optimize water treatment plants. H_2O Innovation's second pillar, ***Specialty Products***, includes a complete line of maple equipment and products, specialty chemicals, consumables and specialized products for the water industry, through H_2O Innovation Maple, PWT, Genesys and Piedmont. The Corporation is now exporting his specialty products in more than 80 countries. Finally, H_2O Innovation operates, maintains, and repairs water and wastewater treatment systems, distribution equipment and associated assets for all of its clients and ensures that water quality meets regulatory requirements, through the third pillar – ***Operation and Maintenance*** – under the Utility Partners and Hays Utility South Corporation brands. Together, they employ 435 employees for the operation of more than 175 utilities in two Canadian provinces and eleven US states, mainly on the US Gulf coast, Southeast, Northeast (New England) and the West Coast. 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 NYSE Euronext Growth Paris accepts responsibility for the adequacy or accuracy of this release.

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