

# Investor Presentation

Acquisition of Gulf Utility Service, Inc. ("GUS") in Texas

Presented by:

Frédéric Dugré, President & CEO

Marc Blanchet, CFO

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TSXV: HEO



# Caution Regarding Forward Looking Statements

Certain statements contained in this presentation may constitute “forward-looking” statements and forward-looking information (collectively, “**forward-looking statements**”) which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any anticipated or future results, performance or achievements expressed or implied by such forward-looking statements. When used in this presentation, such statements reflect current expectations regarding future events and operating performance and speak only as of the date of this presentation. Forward-looking statements may use such words as “will”, “may”, “could”, “intends”, “potential”, “plans”, “believes”, “expects”, “projects”, “estimates”, “anticipates”, “continue”, “potential”, “predicts” or “should” and other similar terminology. Such forward-looking statements may also include observations concerning the Corporation’s or Gulf Utility Service, Inc.’s anticipated or future financial results and business outlooks and the economies in which they operate. In particular, this presentation contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results.

This presentation may contain forward-looking statements within the meaning of Canadian securities laws. Such statements include, but are not limited to:

- the anticipated benefits of the Acquisition for H<sub>2</sub>O Innovation, including the attractiveness of the Acquisition from a financial perspective through a variety of financial metrics, and H<sub>2</sub>O Innovation’s ability to successfully integrate GUS’ business;
- H<sub>2</sub>O Innovation’s and GUS’ expected financial performance;
- the realization and timing of any potential cost synergies;
- the expectation that the Acquisition would be immediately accretive to H<sub>2</sub>O Innovation on Adjusted EBITDA, net earnings before acquisition costs;
- the level of estimated expenses to be incurred for the Acquisition.

# Caution Regarding Forward Looking Statements

The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Corporation's current views with respect to future events based on certain material facts and assumptions and are subject to certain risks and uncertainties, including without limitation: (i) competitive environment; (ii) operating risks; (iii) reported performance obligations; (iv) fixed price contracts renewal; (v) key personnel and health & safety; (vi) acquisition and expansion; (vii) indebtedness; (viii) impairment; (ix) international operations, global geopolitical climate and foreign exchange risks; (x) liquidity; (xi) capacity to secure performance guarantees; (xii) implementation of a strategic plan; (xiii) current global financial conditions; (xiv) cybersecurity and cyber threats; (xv) litigation; (xvi) intellectual property infringement; (xvii) dependence on third parties; (xviii) credit risk; (xix) market liquidity; (xx) capital investment; (xxi) development of new products; (xxii) additional financing and dilution; (xxiii) interest rate risk; (xxiv) insurance coverage risk; (xxv) technological changes; (xxvi) reputation and regulatory risk; and (xxvii) transfer pricing. Information about the risk factors to which the Corporation is exposed is provided in the Corporation's annual information form dated September 24, 2019 available on SEDAR ([www.sedar.com](http://www.sedar.com)).

The forward-looking statements are based on certain key expectations and assumptions made by the Corporation, including expectations and assumptions concerning availability of capital resources, performance of operating facilities, financial performance of H<sub>2</sub>O Innovation and all its business pillars, strength of market conditions, customer demand, satisfaction of all conditions of closing of the acquisition, obtaining consents required under agreements with third parties, and the timing and receipt of regulatory approvals with respect to the offering. Although the Corporation believes that the expectations and assumptions on which such forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that these expectations and assumptions will prove to be correct.

Should one or more of these risks or uncertainties materialize, or should the assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this presentation and the Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law. There is no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Purchasers are cautioned that forward-looking statements are not guarantees of future performance and accordingly purchasers are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. New factors emerge from time to time, and it is not possible for management of the Corporation to predict all of these factors or to assess in advance the impact of each such factor on the Corporation's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

Certain of the forward-looking statements included in this presentation may be considered "financial outlook" for purposes of applicable Canadian provincial and territorial securities laws. Financial outlook information contained in this presentation about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information available as of the date of this presentation, which management believes has been presented on a reasonable basis. Readers are cautioned that such financial outlook information contained in this presentation should not be used for the purposes other than for which it is disclosed herein or therein, as the case may be.

The forward-looking statements contained in this presentation are expressly qualified by the foregoing cautionary statements and are made as of the date of this presentation. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by applicable securities laws.

# Non-IFRS Financial Measurements

The Corporation uses both International Financial Reporting Standards ("IFRS") and certain non-IFRS measures to assess performance. Non-IFRS measures do not have any standardized meaning prescribed by IFRS and are unlikely to be comparable to any similar measures presented by other companies. Non-IFRS measurements, as presented herein, include adjusted earnings before interest, tax, depreciation and amortization ("Adjusted EBITDA"), net debt, and recurring revenue. The Corporation refers the reader to the *"Non-IFRS Financial Measurement"* section of the Annual MD&A, which is available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com), for the definition, historical reconciliation to the most comparable IFRS measure, where such a measure exists, and a description of the usefulness of each measure as it relates to the Corporation's business.

The information contained in this presentation and related to Gulf Utility Service, Inc. ("GUS") includes the following non-IFRS measure:

- GUS' adjusted EBITDA is defined as earnings before finance costs - net, income taxes, depreciation and amortization.

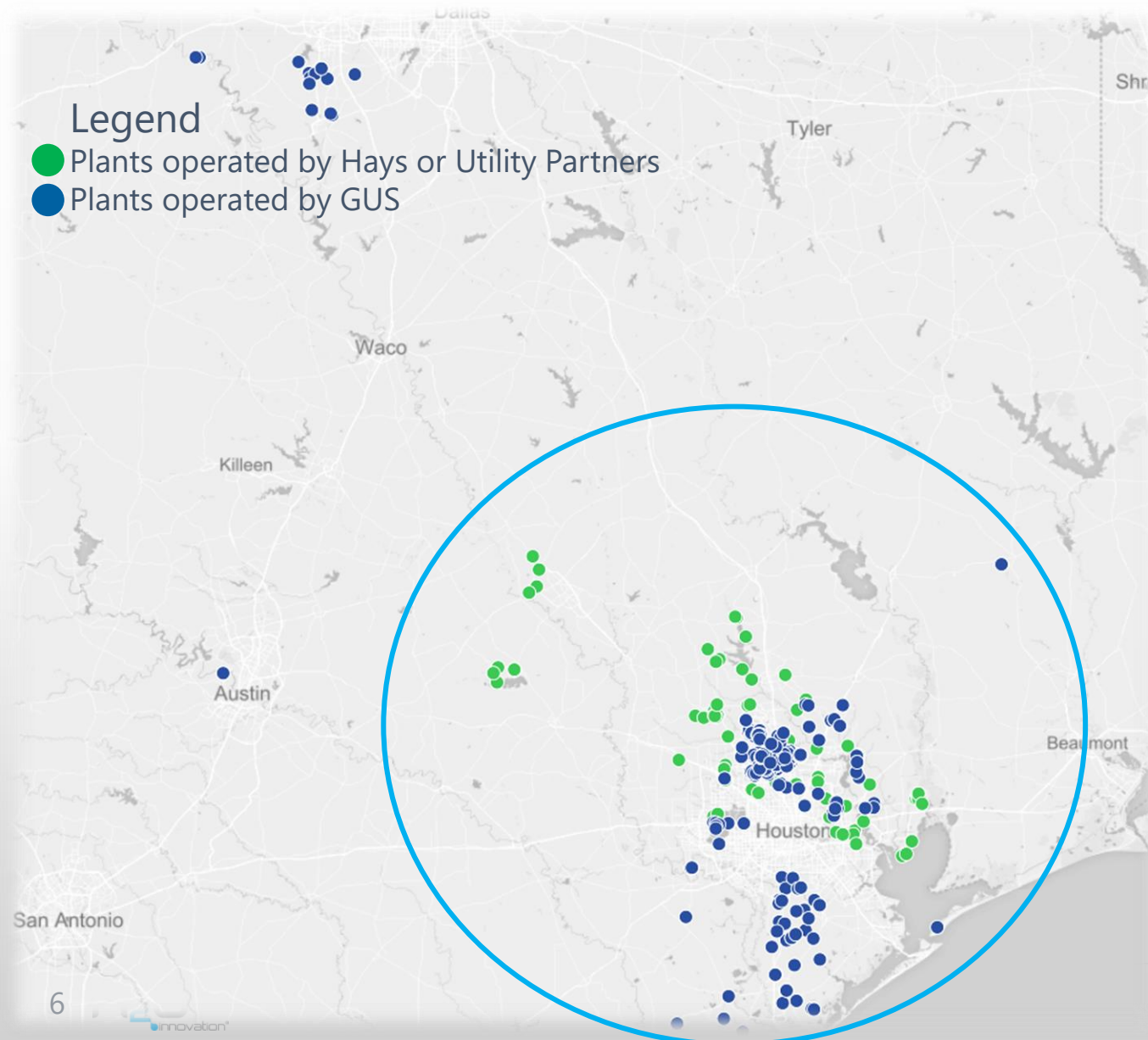
# Gulf Utility Service, Inc. (GUS) Overview

Founded	1997
Industry	Municipal and commercial water & wastewater utilities located in Metro Houston, Texas
Services	<ul style="list-style-type: none"> <li>• Water and Wastewater Operations</li> <li>• Billing and Collection Services</li> <li>• Repair and Maintenance</li> <li>• Misc. Construction Services</li> </ul>
Clients	<ul style="list-style-type: none"> <li>• ≈ <b>38 contracted customers</b></li> <li>• Municipal Utility Districts (MUD) and Commercial Private Utilities, located in the Metro Houston Area. Company has served its customer base for more than 20 years.</li> <li>• Sustained client retention (&gt;95 %) over the last 5 years;</li> </ul>
Business Model	O&M evergreen contracts with MUDs (non-expiring). Highly recurrent with 95% rate of repeat business.
Personnel	<b>30 employees</b> , highly-trained, industry certified, and experienced.
Financials	In FY2019 : <b>Revenues of US\$5.0 M</b> with an <b>EBITDA of US\$0.6 M</b>
Location	Houston Metropolitan (Harris County), Texas





# Expand O&M Business Platform in Texas



- Tuck-in acquisition allowing H<sub>2</sub>O Innovation to enhance its presence in the Houston market with multiple **cross-selling opportunities** and operational synergies;
- Within the next 18 months, operational integration & consolidation of our multiple O&M companies will allow us to:
  - Capture cost synergies of ≈ **CA\$150 k**;
  - Implement new business processes in order to improve operational efficiency, resulting in ≈ **CA\$300 k** savings.
- On a combined basis (Hays, Utility Partners & GUS), we will serve **85** customers around Houston.



# Acquisition Rationale



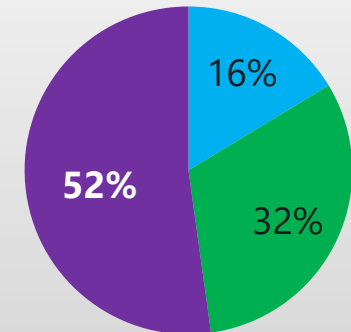
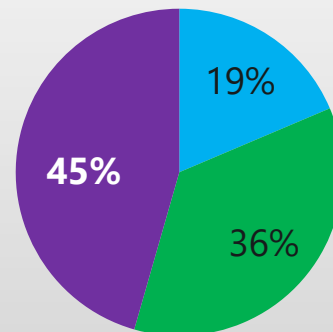
- Enhance our O&M presence and revenues in Texas Municipal market (approx. CA\$25.0 M / yr , including GUS);
- Consolidated recurring revenue combining O&M, Aftermarket and Specialty Products will account for 88.0% of the business;
- Support one of our key customer, Undine, a utility owner based in Houston;
- GUS combined to Utility Partners and Hays will represent a consolidated O&M revenue line of CA\$70.7 M / yr;
- GUS trailing 12-month revenues showed a continuous revenue growth of 12.4%;
- As of December 31, 2019 :
  - GUS annual revenues stood at CA\$6.8 M ;
  - GUS annual EBITDA stood at CA\$0.7 M ;

# Pro forma

In CAD millions unless otherwise noted	FY2020 Pro forma		
	H <sub>2</sub> O Innovation (March 31, 2020 LTM)	GUS (December 31, 2019 LTM)	Pro forma
Revenues	129.5	6.8	136.3
EBITDA	7.8	0.7	8.5
Adjusted EBITDA	10.1	0.7	10.8

## Business Mix on Revenues

- Projects & Aftermarket
- Specialty Products
- Operation & Maintenance





# Summary of the Transaction

As of July 1<sup>st</sup> 2020 :

- H<sub>2</sub>O Innovation acquired 100% of GUS for **US\$2.75 M**, representing **5.0 x** annual **Adjusted EBITDA** as of December 31, 2019 (which amount is CA\$0.7 M);
  - Previous comparable O&M transactions:
    - 5.6x adjusted EBITDA for Hays (2018)
    - 7.6x adjusted EBITDA for Utility Partners (2016).
- Purchase price of **US\$2.75 M** is paid:
  - US\$1.875 M - Cash at closing;
  - US\$0.875 M – Contingent consideration payable on January 1<sup>st</sup>, 2022.
- Financing of the transaction:
  - CA\$2.1 M in long-term debt (5-year term);
  - Remaining portion is financed from working capital.



## Takeaways



Grow our **O&M** business pillar to **\$70.7 M in revenues**, accounting for **52%** of the consolidated revenues.

GUS only :

- Addition of US\$5.0 M in revenues;
- Addition of US\$0.6 M in adjusted EBITDA.



Consolidate our Texas customer base, totaling 85 clients;  
(and **275 utilities** in North America)

Unique platform for future cross-selling opportunities.



Capture **operational synergies** through integration process:

- Targeted cost synergies of CA\$150 k;
- Implement new business processes, resulting in CA\$300 k savings (after 18 months).

- M&A transaction completed without dilution for the shareholders;
- Incremental increase in senior debt of \$2.1 M - not over-leveraged;
- Used the working capital to fund the remaining of the transaction.



## **H<sub>2</sub>O Innovation**

Unique smart **water** player

### Headquarters

330 rue St-Vallier Est, suite 340  
Quebec City, QC  
G1K 9C5 Canada

1-418-688-0170

[info@h2oinnovation.com](mailto:info@h2oinnovation.com)

[www.h2oinnovation.com](http://www.h2oinnovation.com)