# Investor Presentation Q3-FY2021

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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 23, 2020 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 and integration. 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 management as the portion of the Corporation's revenue coming from customers with whom the Corporation has established a long-term relationship and/or coming from a business with a recurring customer sales pattern. However, there is no guarantee that recurring revenues will last indefinitely. The Corporation's recurring revenues are coming from the Specialty Products and O&M business pillars as well as the service activities of the WTS business pillar. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other.
- The definition of EBAC means the earnings before depreciation and amortization reduced by the selling and general expenses. EBAC is a non-IFRS measure and it is used by management to monitor financial performance and to make strategic decision.

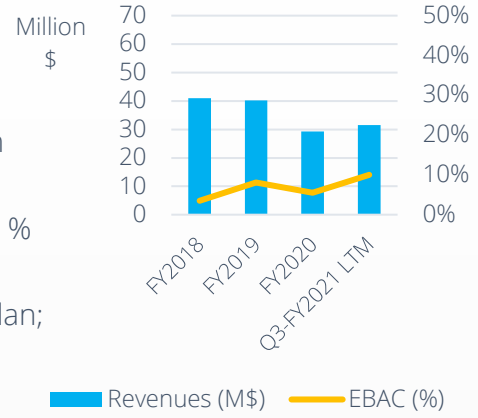
# Q3-FY2021 Highlights

- Completed the **accretive acquisition of GMP to expand our specialty chemicals** capabilities and sales coverage in Latin America;
- Revenue growth of 8.6 %, reaching $39.2 M for quarter;
  Revenue growth of 11.8 %, reaching $109.1 M for the 9-month period;
- Gross Profit and adjusted EBITDA margins continue to expand and reach 28.3 % and 11.5 % respectively;
- **Net earnings** and **adjusted net earnings** are strong and sustained for a 4 quarters in a row;
- **Recurring revenues** remain high at 87 % on an LTM basis, supported by our unique business model;
- Balance sheet is strong and **not overleveraged**, enhanced by $10.2 M of cash generated from operating activities during the 3rd quarter only.

# Q3-FY2021 Highlights

## Water Technologies and Services (WTS)

- Revenues stood at $10.1 M, representing a 50.1 % increased while EBAC increased by 1811 % from Q3-FY2020;
- Well diversified backlog of $35.0 M with an increased proportion of industrial-related projects (34.2 % compared to 30.8 % in Q3-FY2020);
- Position favorably to capture opportunities coming from the $30.0 B water-related infrastructure plan;
- Service & Aftermarket team expanded our ethanol customer base and gained 10 new accounts;
- Delivered the SILO technology for a first industrial client.




| Engineering | Fabrication | Commissioning | Piloting |
|---|---|---|---|
| 32 ↑10 | 8 ↓2 | 11 ↓2 | 4 ↓1 |

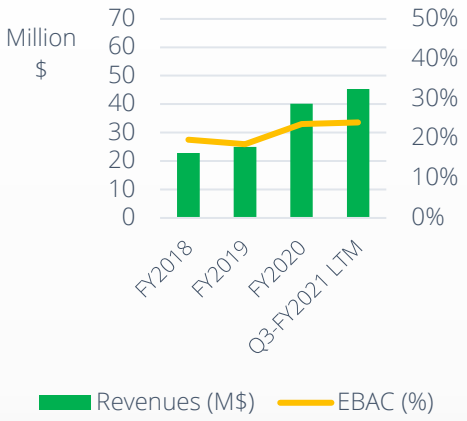

Las Virgenes (CA) – UF/RO


Baker's Bay (Bahamas) – SWRO

New SILO technology

# Q3-FY2021 Highlights

## Specialty Products (SP)




- Revenues stood at $11.8 M while EBAC slightly decreased by 8.8 % due to products mix and lower volume coming from Piedmont;
- Completed the acquisition of Genesys Membrane Products S.L. (“GMP”) on Feb. 1, 2021, boosting membrane chemicals capabilities and expanding our geographical coverage in Latin America;
- Genesys obtained 2 new ISO certifications: Occupational Health and Safety Management Systems & Business Continuity Management Systems;
- Hired new resource to focus on water reuse in North America and increase our presence in Latin America;
- Piedmont signed a new distributor in Brazil;
- Maple had a superb season and increased its manufacturing capacity in Ham-Nord by 40 %, to better meet future needs of WTS & Maple business lines.


Ham-Nord facility in Ham-Nord (QC)



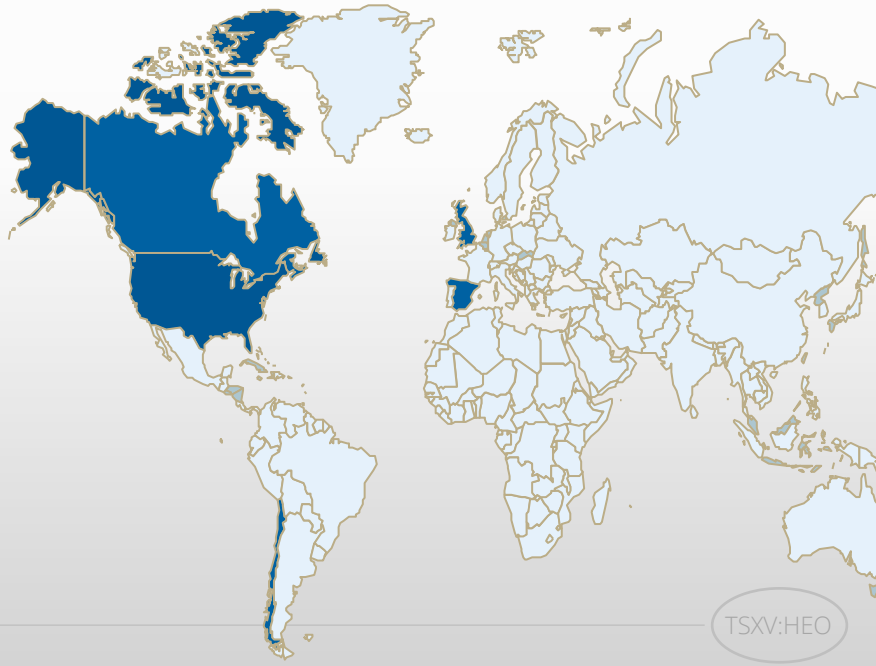
GMP laboratory (Spain)

# GMP Acquisition

Expand our capabilities in membrane chemistry

The acquisition of GMP is the next logical step in our **goal of developing the world's largest membrane specialty chemicals and associated services supplier** sold through distribution.

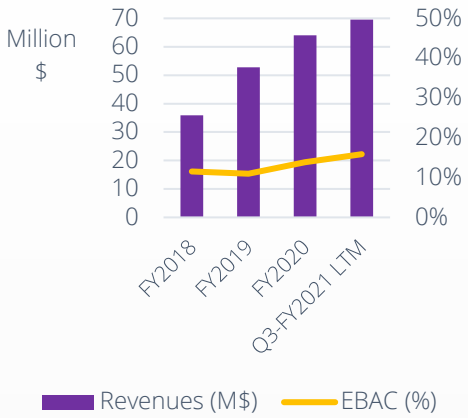
- Add laboratory capabilities beyond what we have in Vista (USA) and Cheshire (UK);
- Support more effectively distributors (PWT & Genesys) and end-users in a geography that is expecting sustained growth in the coming 3-5 years ;
- Grow sales in the mining industry by leveraging the Genmine™ specialty chemical platform with local technical & commercial expertise in Chile.



# Q3-FY2021 Highlights

## Operation & Maintenance (O&M)

Trusted Utility Partners




- Revenues stood at $17.3 M, representing a 4.9 % increase while EBAC improved by 27.7 % during the same period;
- Secured 2 new O&M contracts (Texas & Alberta) and renewed 4 O&M contracts in Vermont;
- Faced an unprecedent weather crisis & worked 24/7 to restore water service while providing outstanding customer service.


# Recurring Revenues

Service activities coming from WTS, Specialty Products and O&M

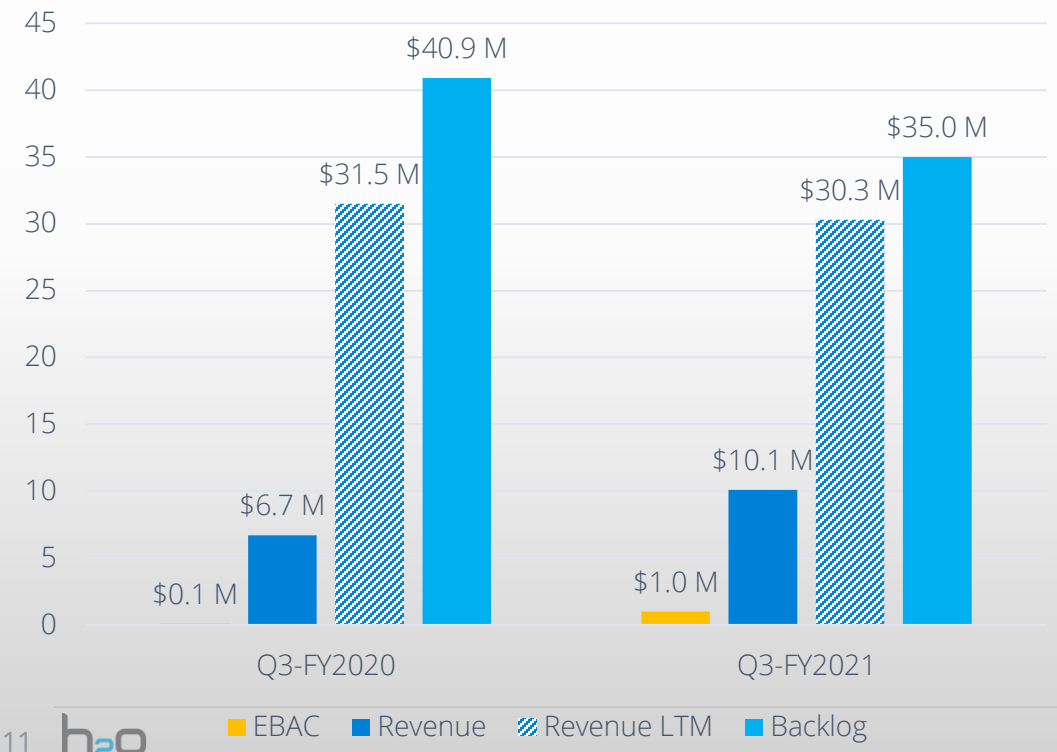

Our focus to grow recurring revenues promotes **strong customer retention,** encourages **business synergies** and ensures **financial predictability** during the Pandemic.


# Financial Overview Q3-FY2021

# 1st Business Pillar

## Water Technologies and Services (WTS)

*In CAD million $*

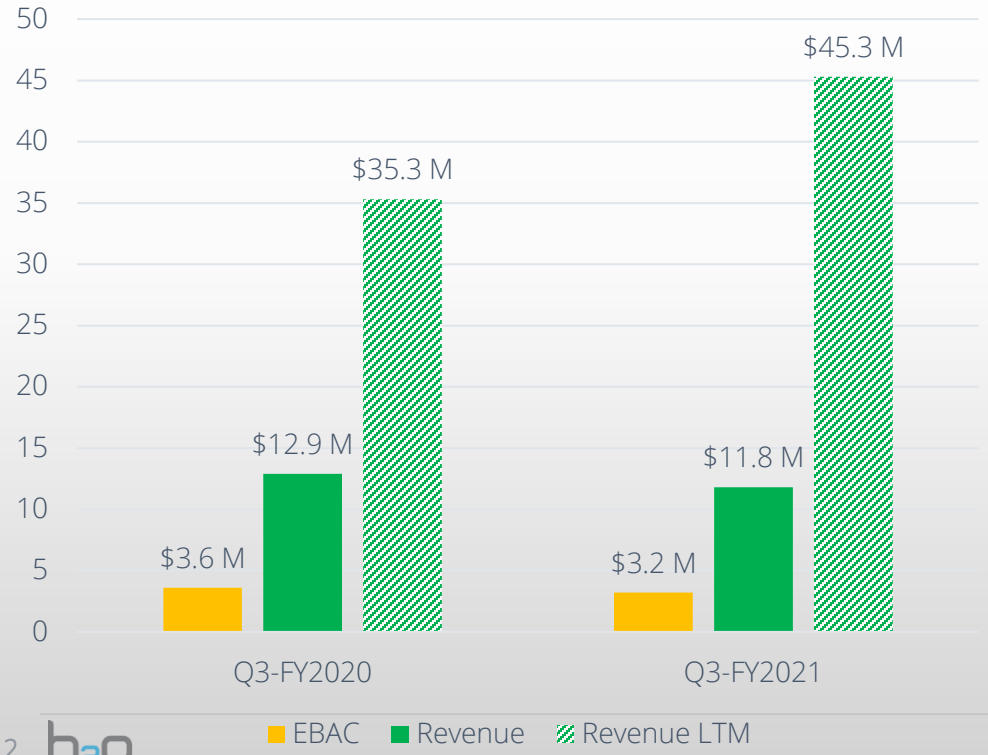



- Q3-FY2021 Revenues: $10.1 M, compared to $6.7 M for Q3-FY2020,
  - The recent wave of projects captured;
  - The resumption of work following the delays caused by the COVID-19 pandemic.
- Q3-FY2021 EBAC: $1.0 M, compared to $0.1 M for Q3-FY2020, representing an increase of $0.9 M, due to:
  - The improvement of the gross profit margin in %;
  - The reduction of the cost structure.

# 2nd Business Pillar

## Specialty Products (SP)

*In CAD million $*

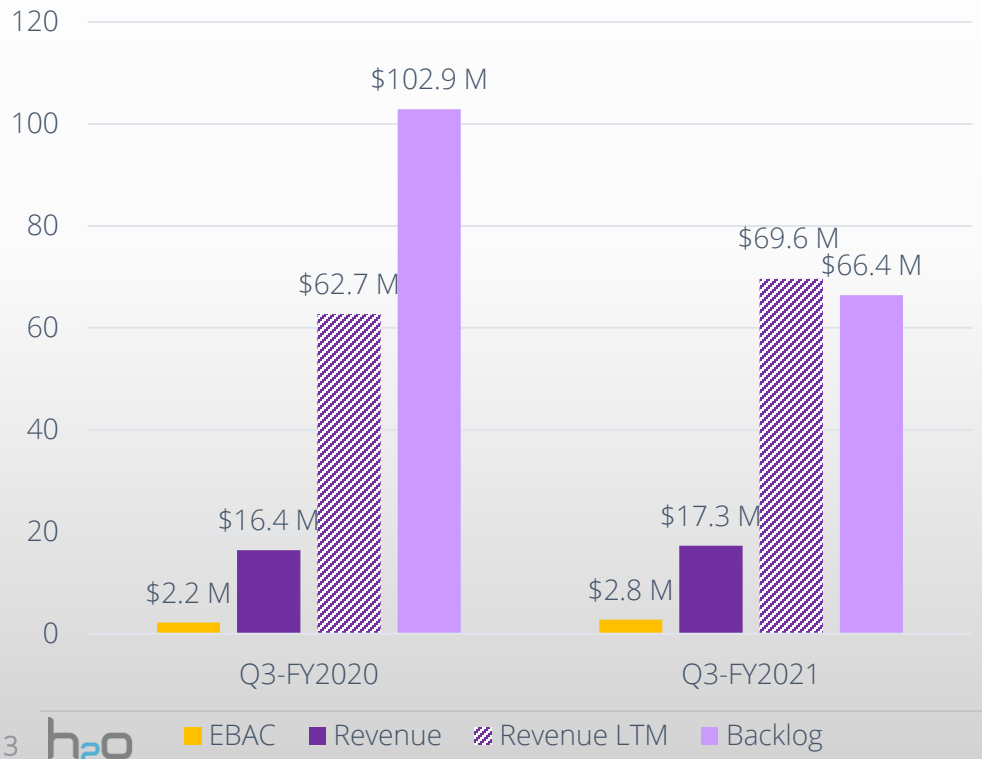



- Q3-FY2021 Revenues: $11.8 M, compared to $12.9 M for Q3-FY2020,
  - The reduction in Piedmont's business line compare to last year exceptional third and forth quarter;
  - Organic growth in maple;
  - 2 months of GMP.
- Q3-FY2021 EBAC: $3.2 M, compared to $3.6 M for Q3-FY2020, decrease of $0.4 M, due to:
  - The lower level of Piedmont's revenues with similar cost structure.

# 3rd Business Pillar

## Operation & Maintenance (O&M)

*In CAD million $*




- Q3-FY2021 Revenues: $17.3 M, compared to $16.4 M for Q3-FY2020,
  - Unfavorable US$ exchange rate : negative impact of $1.0 M;
  - The acquisition of GUS on July 1, 2020, contributed $1.3 M;
  - The organic growth of $0.5 M.
- Q3-FY2021 EBAC: $2.8 M, compared to $2.2 M for Q3-FY2020, increase of $0.6 M, due to:
  - The acquisition of GUS;
  - Cost synergies.

# Financial Highlights

## Q3-FY2021 vs Q3-FY2020

| | Three-month periods ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Revenues | $39.2 M | $36.1 M |
| WTS | $10.1 M | $6.7 M |
| Specialty Products | $11.8 M | $12.9 M |
| O&M | $17.3 M | $16.4 M |
| Gross profit before depreciation and amortization (%) | 28.3 % | 28.7 % |
| SG&A | $6.5 M | $6.8 M |
| % SG&A | 16.6 % | 18.8 % |
| Net earnings (loss) | $2.1 M | ($3.1 M) |
| Adjusted EBITDA | $4.5 M | $3.8 M |
| Adjusted EBITDA over revenues (%) | 11.5 % | 10.5 % |

- Revenues increased by $3.1 M, or 8.6 %, due to:
  - The acquisition of GUS on July 1, 2020, which contributed $1.3 M;
  - The acquisition of GMP on Feb 1, 2021, which contributed $1.5 M; and
  - The strong performance of WTS business pillar.
- Net earnings for Q3-FY2021 : $2.1 M compared to a net loss of $3.1 M for Q3-FY2020;
- FX impact : $1.3 M revenue variation between Q3-FY2021 and Q3-FY2020.

# Adjusted EBITDA

| | Three-month periods ended March 31, | |
|---|---|---|
| | 2021 | 2020 |
| Net earnings (loss) for the period | $2.1 M | ($3.1 M) |
| Finance costs – net | $0.9 M | $0.5 M |
| Income taxes | $0.6 M | ($0.6 M) |
| Depreciation of property, plant and equipment and right-of-use assets | $0.8 M | $0.7 M |
| Amortization of intangible assets | $1.0 M | $1.1 M |
| Impairment of intangible assets and goodwill | - | $5.3 M |
| EBITDA | $5.3 M | $3.9 M |
| | | |
| Unrealized exchange (gain) loss | - | ($0.3 M) |
| Stock-based compensation costs | $0.04 M | $0.06 M |
| Change in fair value of contingent considerations | $0.6 M | $0.06 M |
| Acquisition and integration costs | $0.2 M | $0.05 M |
| Fair value gain on step acquisition | ($2.3 M) | - |
| Litigation provision | $0.7 M | - |
| Adjusted EBITDA | $4.5 M | $3.8 M |

- Q3-FY2021 adjusted EBITDA: $4.5 M;
- Increased by $0.7 M, or 19.5 %, compared to $3.8 M for Q3-FY2020;
- Improvement driven by increase of revenues and the decrease of SG&A ratio.;
- Q3-FY2021 adjusted EBITDA %: 11.5 %, compared to 10.5 % for Q3-FY2020.

# Financial Position

## Working capital

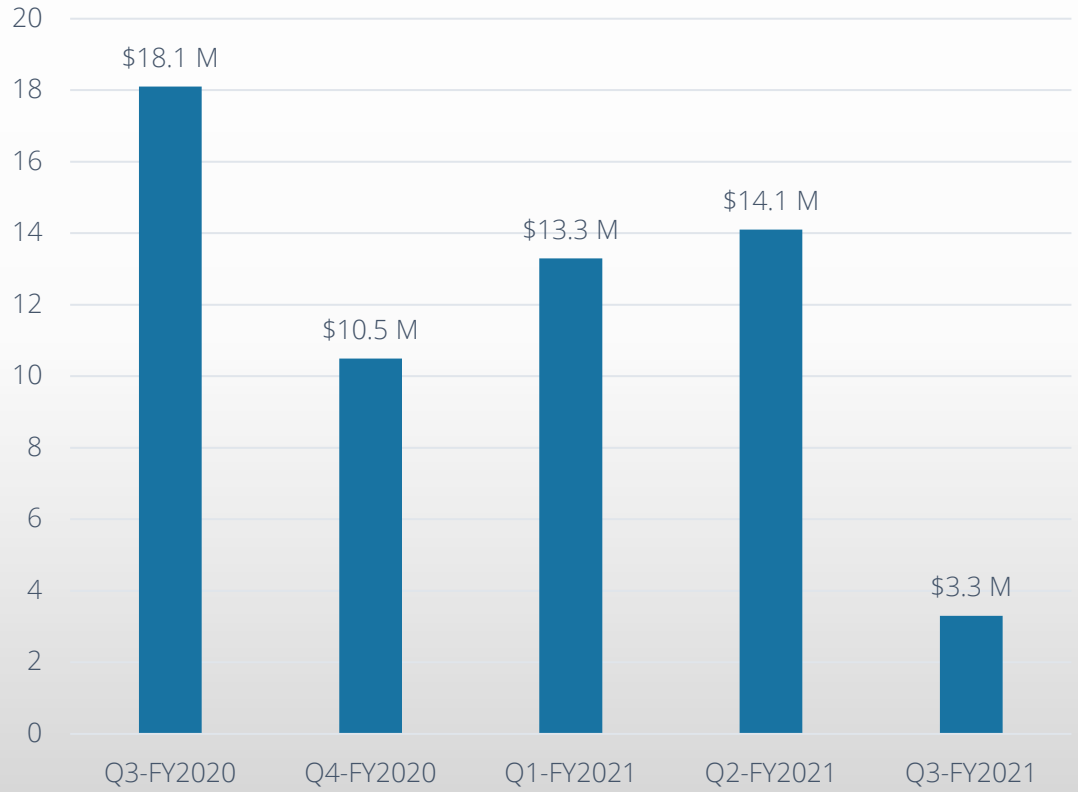
Increased from $17.6 M to $18.9 M:

| Financial Position | Period ended March 31, 2021 | Year ended June 30, 2020 |
|---|---|---|
| Cash and Guaranteed Deposit Certificate | **$13.3 M** | $9.4 M |
| Receivables | **$20.3 M** | $19.3 M |
| Inventories | **$8.4 M** | $7.9 M |
| Contract assets | **$7.0 M** | $8.6 M |
| Payables | **$18.1 M** | $15.9 M |
| Bank loans | **-** | $3.4 M |
| Long-term debt | **$16.6 M** | $16.5 M |
| Contract liabilities | **$2.8 M** | $3.2 M |

- Receivables increased by $1.0 M, or 5.2 %, due to:
  - The acquisitions of GMP and GUS which accounted for $2.3 M, offset by an unfavorable US$ exchange rate impact of $1.0 M.
- Inventories increased by $0.6 M, or 7.0 %, due to:
  - The acquisition of GMP, which contributed $1.0 M, compensated by an unfavorable US$ exchange rate impact of $0.2 M.
- Payables increased by $2.2 M, or 14.0 %, due to:
  - The acquisitions of GMP and GUS which accounted for $1.1 M;
  - The working capital adjustment payable of $1.2 M to complete the acquisition of GMP;
  - The unfavorable US$ exchange rate impact of $1.2 M.

# Net Debt

*In CAD million $*

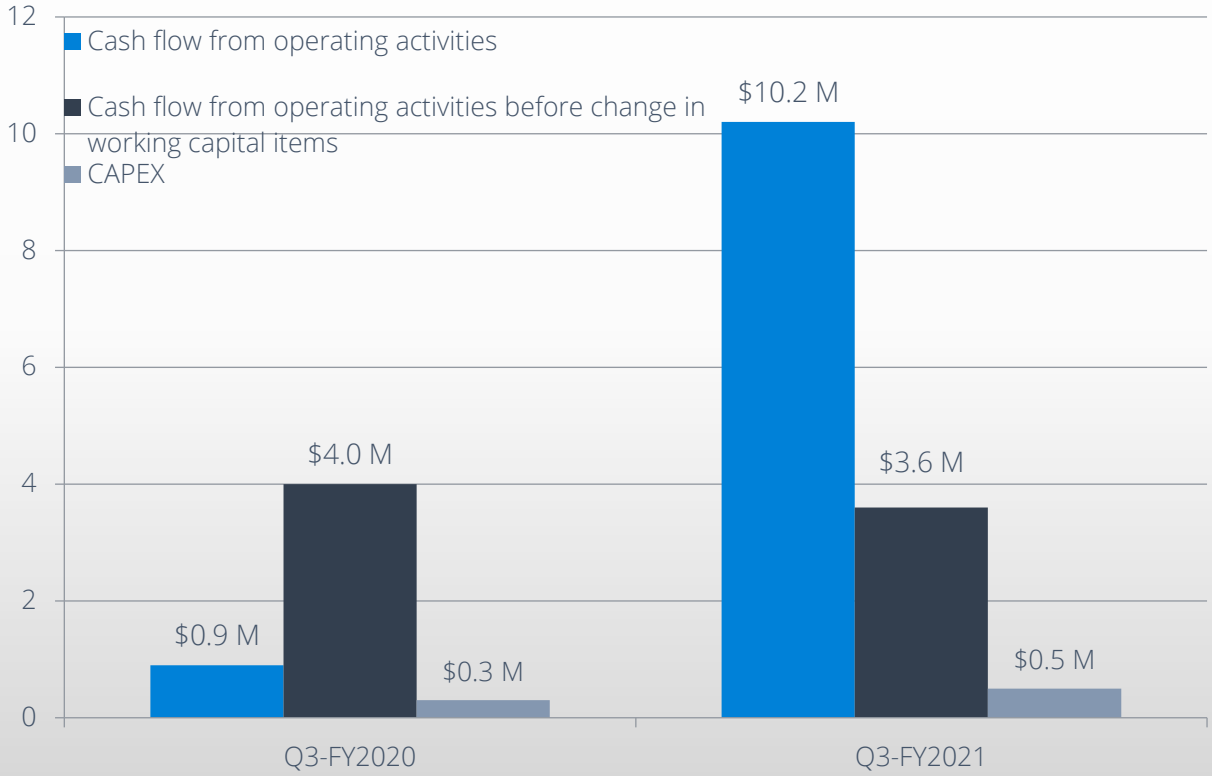



- $3.3 M, compared with $10.5 M on June 30, 2020, representing a $7.2 M decrease.
- Ratio Net debt/Adj. EBITDA: **0.20**
- This decrease is mainly attributable to:
  - The cash flows from operating activities generated;
  - The favorable changes in working capital items;
  - Exercise of warrants: $5.2 M.

| | March 31, 2021 | June 30, 2020 |
|---|---|---|
| Bank loans | - | $3.4 M |
| Current portion of long-term debt | $3.0 M | $2.8 M |
| Long-term debt | $13.6 M | $13.8 M |
| Less: Cash | ($13.3 M) | ($9.4 M) |
| **Net debt** | **$3.3 M** | **$10.5 M** |

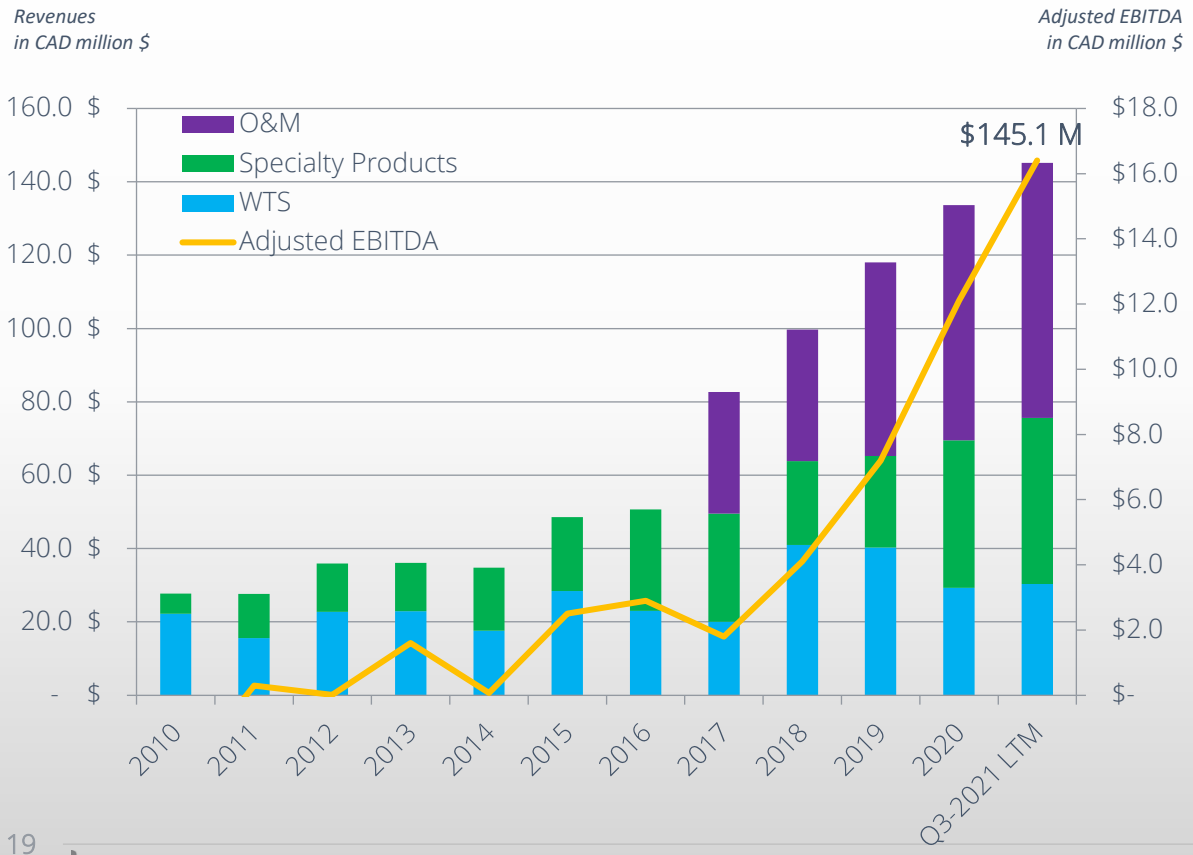
# Cash Flows from Operating Activities

*In CAD million $*




- Cash flows from operating activities $10.2 M for Q3-FY2021, compared to $0.9 M for Q3-FY2020.
- $6.5 M in favorable changes in working capital items.

# Takeaways on Q3-FY2021




- Continued expansion in gross profit and EBITDA margins:
  - On an LTM basis, adj. EBITDA reached $16.4 M, equivalent to 11.3 % of the revenues.
- Strong profitability and strong cash flow generated from operations;
- Business model is resilient, recurrent and diversified allowing sudden business fluctuations;
- Balance sheet is healthy, not overleveraged and ready for growth investments and acquisitions;
- Align with our 3-year plan:
  - Growing revenues to $250 M;
  - Expand the adj. EBITDA margin ≥ 11 %.

20 ANNIVERSARY

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