



PRESS RELEASE
For immediate release

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H₂O Innovation Reports Record High Revenues of \$51.9 M

Key financial highlights

- Revenue growth of 32.6%, reaching \$51.9 M for Q3-FY2022 from \$39.2 M for Q3-FY2021, driven by organic revenue growth of \$6.0 M, or 15.3%, and acquisition growth of \$6.7 M, or 17.3%;
- Adjusted EBITDA¹ reached \$5.3 M, or 10.3% of revenues, for Q3-FY2022, compared to \$4.5 M, or 11.5% of revenues, for Q3-FY2021; and
- Adjusted net earnings¹ amounted to \$3.4 M or \$0.038 per share for Q3-FY2022 compared to adjusted net earnings of \$2.2 M or \$0.027 per share for Q3-FY2021.

Subsequent event highlight

- On April 4, 2022, the Corporation announced that it had recently renewed its contract with its largest operation and maintenance customer, the City of Gulfport, Mississippi. The expanded four-year contract, valued at \$55.5 M, brought the Corporation's O&M backlog to \$131.0 M on April 4, 2022.
- On April 12, 2022, the Corporation announced that a letter of intent had been entered into with respect to the acquisition of the business carried on by Leader Evaporator Co., Inc. The transaction is expected to close before July 1, 2022, and is subject to customary closing conditions for this kind of transaction.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, May 12, 2022 – (TSX: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its financial results for the third quarter of fiscal year 2022 ended March 31, 2022.

“We have achieved revenue growth of 32.6% for this third quarter, combining organic growth and acquisitions, in line with our three-year strategic plan. Indeed, we are proud to present sustained double-digit organic revenue growth in all three of our business pillars. The expansion of our sales resources in our Specialty Products business pillar combined with our disciplined approach in the WTS business pillar and the successful start-up and renewal of multiple O&M projects have clearly paid off. Every day we continue to prove the value of our ESG-focused business model by relying on clean technologies, green chemistry and high-recurring revenues based on close customer relationships. Despite highly volatile market conditions, measures are taken to ensure the continuity of business and supply of products in the most competitive way to serve our customers and preserve our gross profit margins. Finally, the strategic renewal and scope of work expansion for the city of Gulfport (Mississippi) as well as the possible acquisition of Leader Evaporator, both announced after the third quarter, set the tone for the upcoming quarters,” **stated Frédéric Dugré, President and Chief Executive Officer of H₂O 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 press release. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release in section “Non-IFRS financial measurements” to give the reader a better understanding of the indicators used by management.

Third quarter results

H₂O Innovation relies on three well-balanced business pillars, which reduces the risk of volatility in the Corporation's revenues. Consolidated revenues from the Corporation's three business pillars for the three-month period ended on March 31, 2022, increased by \$12.7 M, or 32.6%, to reach \$51.9 M, compared to \$39.2 M for the comparable quarter of the previous fiscal year. These results were driven by organic revenue growth¹ of \$6.0 M, or 15.3%, and acquisition growth of \$6.7 M, or 17.3%. This overall increase was partially fuelled by the acquisition of JCO, Inc. ("JCO") and Environmental Consultants, L.L.C. ("EC") on December 15, 2021, which contributed \$4.5 M in revenues for the three-month period ended on March 31, 2022. Genesys Membrane Products, S.L.U. ("GMP"), which was acquired on February 1, 2021, contributed \$2.2 M in revenues for the three-month period ended on March 31, 2022, compared to \$1.5 M for the same quarter of fiscal year 2021.

(In thousands of Canadian dollars)	Three-month periods ended				Nine-month periods ended			
	2022		March 31, 2021		2022		March 31, 2021	
	\$	% ^(a)	\$	% ^(a)	\$	% ^(a)	\$	% ^(a)
Revenues per business pillar								
WTS	11,892	22.9	10,095	25.7	29,442	22.3	23,281	21.3
Specialty Products	15,909	30.6	11,810	30.2	41,038	31.0	33,586	30.8
O&M	24,116	46.5	17,250	44.1	61,830	46.7	52,253	47.9
Total revenues	51,917	100.0	39,155	100.0	132,310	100.0	109,120	100.0
Gross profit margin before depreciation and amortization	14,128	27.2	11,081	28.3	36,144	27.3	29,943	27.4
SG&A expenses ^(b)	9,098	17.5	6,497	16.6	23,709	17.9	18,546	17.0
Net earnings for the period	1,330	2.6	2,062	5.3	2,710	2.0	3,314	3.0
EBITDA ²	4,382	8.4	5,347	13.7	11,082	8.4	11,279	10.3
Adjusted EBITDA ²	5,332	10.3	4,513	11.5	13,149	9.9	11,557	10.6
Adjusted net earnings ²	3,378	6.5	2,181	5.6	7,269	5.5	6,014	5.5
Recurring revenues ²	43,311	83.4	32,339	82.6	112,969	85.4	95,070	87.1

(a) % of total revenues.

(b) Selling, general and administrative expenses ("SG&A").

WTS's financial performance for the third quarter of fiscal year 2022 was characterized by a 17.8% growth in revenues, coupled with an improved gross profit margin at 23.0% for the third quarter of fiscal year 2022, compared to 19.2% for the same quarter of last year.

Specialty Products's EBAC³ increased by 31.1% for the third quarter of fiscal year 2022, driven by higher sales coming from specialty chemical products and Piedmont business line. Specialty Products also faced challenges caused by supply chain issues and logistic. The Specialty Products pillar depends on the import and export of goods and had to deal with global supply chain delays and increased costs of materials.

During the third quarter of fiscal year 2022, the O&M business pillar showed organic revenue growth of 13.4% but was offset by the reduction of the gross profit margin in % partly due to the consequences of the COVID-19 pandemic. In the last twelve months, the O&M business pillar gained four new projects as well

¹ Organic revenue is a non-IFRS financial measure corresponding to the amount of revenue of a given period, excluding the effect of acquisitions and foreign currency changes of the same period. Organic revenue growth is a non-IFRS ratio calculated by comparing the amount of organic revenue of a given period with the amount of revenue of the comparative period.

² These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in this press release. Definition of all non-IFRS measures and additional IFRS measures are provided at the end of this press release in section "Non-IFRS financial measurements" to give the reader a better understanding of the indicators used by management.

³ 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 decisions. The definition of EBAC used by the Corporation may differ from those used by other companies.



as scope expansions. Generally, start-up of new projects begins at lower gross profit margins because of training and initial setup, after which margins grow progressively. The O&M gross profit margin was also affected by the consequences of the COVID-19 pandemic, such as the pressure on employee salaries due to staff shortage, sick leave related to COVID-19 within the staff and the increases in insurance costs.

The Corporation's gross profit margin before depreciation and amortization stood at \$14.1 M, or 27.2%, during the third quarter of fiscal year 2022, compared to \$11.1 M, or 28.3% for the previous fiscal year, representing an increase of \$3.0 M, or 27.5%. The percentage decrease is explained by reduced gross profit margins in the Specialty Products and O&M business pillars, partly compensated by the improved gross profit margin in WTS. Specialty Products and O&M were the business pillars mostly affected by the impacts resulting from the pandemic, namely the costs arising from sick leave and the increased cost of materials. H₂O Innovation's business model relies on three different business pillars enabling it to reduce the volatility of the Corporation's profitability through diversification.

The Corporation's SG&A totalled \$9.1 M during the third quarter of fiscal year 2022, compared to \$6.5 M for the same period of the previous fiscal year, which represents an increase of \$2.6 M, or 40.0%, while the revenues of the Corporation increased by 32.6%. The acquisition of GMP on February 1, 2021, and the acquisition of JCO and EC on December 15, 2021, contributed \$0.4 M of this increase. The remainder of the increase is due to hiring of additional resources in the sales and human resources departments, resumption of travel activities, higher professional fees, as well as higher stock-based compensation costs and insurance costs, compared to the same quarter of the last fiscal year. The Corporation also incurred uplisting fees of \$0.2 M following the listing of its common shares on the TSX in March 2022.

The Corporation's adjusted EBITDA increased by \$0.8 M, or 18.1%, to reach \$5.3 M during the third quarter of fiscal year 2022, from \$4.5 M for the comparable period of fiscal year 2021. The adjusted EBITDA % decreased to 10.3% for the third quarter of fiscal year 2022, compared to 11.5% for the same quarter of last fiscal year, mostly due to the aforementioned consequences resulting from the COVID-19 pandemic. The reduction of the adjusted EBITDA % resulted from the decrease in the Corporation's consolidated gross profit margin and the increase of the SG&A ratio to support the growth of the Corporation as presented in the three-year strategic plan. The Corporation's profitability has been impacted by the current global consequences of the COVID-19 pandemic, as previously stated.

Net earnings amounted to \$1.3 M and \$0.015 per share for the third quarter of fiscal year 2022 compared to net earnings of \$2.1 M and \$0.026 per share for the comparable quarter of fiscal year 2021. Adjusted net earnings amounted to \$3.4 M and \$0.038 per share for the third quarter of fiscal year 2022 compared to adjusted net earnings of \$2.2 M and \$0.027 per share for the comparable quarter of fiscal year 2021.

Nine-month results

Revenues stood at \$132.3 M, compared to \$109.1 M last year, driven by organic revenue growth of \$13.0 M, or 11.9%, and acquisition growth of \$12.4 M, or 11.3%, offset by an unfavourable USD exchange rate impact of \$2.2 M, or 1.9%; gross margin was \$36.1 M, or 27.3%, compared to \$29.9 M, or 27.4% last year; adjusted EBITDA was \$13.1 M, or 9.9%, compared to \$11.6 M, or 10.6% last year; and net earnings were \$2.7 M, or \$0.031 per share, compared to net earnings of \$3.3 M, or \$0.042 per share last year, essentially for the same reasons mentioned for the third quarter.

Non-IFRS financial measurements

EBITDA and adjusted EBITDA

EBITDA means earnings before finance costs – net, income taxes, depreciation and amortization. The definition of adjusted EBITDA excludes expenses otherwise considered in net earnings according to Generally Accepted Accounting Principles (“GAAP”), namely the unrealized exchange (gains) losses, the change in fair value of contingent considerations and the stock-based compensation costs, the fair value gain on step acquisition and litigation provision. 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 and integration costs, as they are not directly linked to the operations. The reader can establish the link between adjusted EBITDA and net earnings 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.

Reconciliation of net earnings to EBITDA and to adjusted EBITDA

(In thousands of Canadian dollars)	Three-month periods ended		Nine-month periods ended	
	2022	March 31, 2021	2022	March 31, 2021
	\$	\$	\$	\$
Net earnings for the period	1,330	2,062	2,710	3,314
Finance costs – net	556	862	1,606	1,975
Income taxes	39	590	262	529
Depreciation of property, plant and equipment and right-of-use assets	938	789	2,690	2,367
Amortization of intangible assets	1,519	1,044	3,814	3,094
EBITDA	4,382	5,347	11,082	11,279
Unrealized exchange (gain) loss	(113)	(3)	(665)	639
Stock-based compensation costs	330	39	823	121
Changes in fair value of the contingent considerations	496	615	1,451	719
Acquisition and integration costs	237	212	458	496
Fair value gain on step acquisition	-	(2,347)	-	(2,347)
Litigation provision	-	650	-	650
Adjusted EBITDA	5,332	4,513	13,149	11,557

Adjusted net earnings

The definition of adjusted net earnings excludes acquisition and integration costs, amortization of intangible assets from acquisition, unrealized exchange (gain) loss, change in fair value of the contingent considerations, stock-based compensation costs, fair value gain on step acquisition, litigation provision, and realized net (gain) loss on swap termination. The reader can establish the link between net earnings and adjusted net earnings with the reconciliation items presented in this report. The definition of adjusted net earnings used by the Corporation may differ from those used by other companies. Adjusted net earnings and adjusted net earnings per share are non-IFRS measure and they are used by management to monitor financial performance and to make strategic decisions.



Reconciliation of net earnings to adjusted net earnings

(In thousands of Canadian dollars)	Three-month periods ended		Nine-month periods ended	
	2022	March 31, 2021	2022	March 31, 2021
	\$	\$	\$	\$
Net earnings for the period	1,330	2,062	2,710	3,314
Acquisition and integration costs	237	212	458	496
Amortization of intangible assets related to business combinations	1,442	931	3,549	2,853
Unrealized exchange (gain) loss	(113)	(3)	(665)	639
Changes in fair value of the contingent considerations	496	615	1,451	719
Stock-based compensation costs	330	39	823	121
Fair value gain on step acquisition	-	(2,347)	-	(2,347)
Litigation provision	-	650	-	650
Realized net (gain) loss on interest rate swap termination	-	237	(237)	237
Income taxes related to above items	(344)	(215)	(820)	(668)
Adjusted net earnings	3,378	2,181	7,269	6,014

Recurring revenues

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. Revenues excluded from the definition of "recurring revenue by nature" come from water treatment system projects which are characterized by the lumpiness factor. This non-IFRS measure is used by management to evaluate the stability of revenues from one year to the other. The definition of recurring revenues by nature used by the Corporation may differ from those used by other companies.

Organic revenue growth

Three-month period ended March 31, 2022

(In thousands of Canadian dollars)

	2022	2021	Variation		Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	Revenues	Revenues	\$	%	\$	%	\$	%	\$	%
WTS	11,892	10,095	1,797	17.8	-	-	-	-	1,797	17.8
Specialty Products	15,909	11,810	4,099	34.7	1	0.0	2,238	19.0	1,860	15.7
O&M	24,116	17,250	6,866	39.8	3	0.0	4,543	26.3	2,320	13.4
Total revenues	51,917	39,155	12,762	32.6	4	0.0	6,781	17.3	5,977	15.3

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 third quarter financial results in further details at 10:00 a.m. Eastern Time on Thursday, May 12, 2022.

To access the call, please call 1-888-440-2131 or 438-803-0534, 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 third-quarter financial report is available on www.h2oinnovation.com. 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 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. Forward-looking statements concern analysis and other information based on forecast future results and the estimate of amounts that cannot yet be determined and are based on the estimates and opinions of management on the date the statements are made.

In this press release, such forward-looking statements include, but are not limited to, statements regarding the Corporation’s ability to grow its business and to reach specific financial objectives and targets and involve several risks and uncertainties. Those risks and uncertainties include, without limitations, the Corporation’s ability to maintain its financial position and its business improvements and to complete and execute projects and deliveries in due time and as expected by the customers, despite the challenges and impacts of the COVID-19 pandemic. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 27, 2021, which is available on SEDAR (www.sedar.com).

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. 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

Innovation is in our name, and it is what drives the organization. H₂O Innovation is a complete water solutions company focused on providing best-in-class technologies and services to its customers. The Corporation’s activities rely on three pillars: i) Water Technologies & Services (WTS) applies membrane technologies and engineering expertise to deliver equipment and services to municipal and industrial water, wastewater, and water reuse customers, ii) Specialty Products (SP) is a set of businesses that manufacture and supply a complete line of specialty chemicals, consumables and engineered products for the global water treatment industry, and iii) Operation & Maintenance (O&M) provides contract operations and associated services for water and wastewater treatment systems. Through innovation, we strive to simplify water. For more information, visit www.h2oinnovation.com.

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