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H_2O Innovation Reports Record Fiscal Year 2022 Revenues and Profitability

Key Financial Highlights

- Revenues reached $184.4 M for fiscal year 2022, representing a $40.1 M growth, or 27.7%, compared to $144.3 M for the previous fiscal year;
- Revenue growth in each pillar, with an organic revenue growth of 17.7% and acquisitions impact of 10.9% and a foreign exchange impact of (0.9)%;
- Net earnings of $5.1 M or $0.058 per share for fiscal year 2022, compared to a net earnings of $3.1 M or $0.039 per share for the previous fiscal year. Net earnings for the current fiscal year were impacted by a deferred tax recovery of $4,6 M;
- Adjusted net earnings[1] reached $8.8 M or $0.100 per share for this fiscal year compared to $6.5 M or $0.081 per share for the previous fiscal year;
- Adjusted EBITDA[1] reached $18.1 M, or 9.8% of revenues for this fiscal year compared to $14.6 M, or 10.1% of revenues, for the previous fiscal year.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, September 28, 2022 – (TSX: HEO) – H_2O Innovation Inc. (“H_2O Innovation” or the “Corporation”) announces its financial results for the fourth quarter and fiscal year ended June 30, 2022.

“Our fiscal year 2022 was marked by a remarkable growth of 27.7%. Such growth is the result not only of the three acquisitions completed in the year, but most importantly of a 18.0% organic growth that we generated during our last fiscal year. These results testify to all the investments we have done according to our three-year strategic plan, the growing needs for clean, safe, and reused water and the increasing demand for ESG-related products and business solutions. Among the key business achievements in fiscal year 2022, we successfully renewed and expanded our largest operation, maintenance, and management (O&M) contract, adding $56.0 M to our combined backlog, which stood at $163.0 M as of June 30, 2022.This backlog allows us to have good visibility on the upcoming quarters and puts the Corporation in a good position to continue to generate organic growth. The derailment of the supply chain and logistics combined with the hard labor market caused higher inflation on materials, transport, gas, and wages, which impacted the margin. However, our teams have strived to mitigate these impacts. Such efforts resulted into an improvement of our profitability, and an adjusted EBITDA of $18.1 M, representing and increase of 23.6% year over year. Moreover, we remain focused on the proper integration of our acquired companies to gain operational efficiency and capture business synergies. Our mergers and acquisition agenda remains the same, framed by a disciplined approach, reasonable valuation multiples and high-potential business synergies”, **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 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.

Financial results for the fiscal year 2022

H_2O 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 fiscal year ended on June 30, 2022, increased by $40.0 M, or 27.7%, to reach $184.4 M compared to $144.3 M for the comparable period of the previous fiscal year. These results were driven by organic revenue growth[1] of $25.5 M, or 17.7%, and acquisition growth of $15.8 M, or 10.9%. This overall increase was mainly fuelled by the gradual recovery of economic activities despite the ongoing pandemic combined with the continuous synergy between our business pillars.

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Twelve-month periods ended June 30,			
	2022		2021)		**2022**		2021	
	$	**%** [a]	$	% [a]	**$**	**%** [a]	$	% [a]
Revenues per business pillar								
WTS	**12,997**	**25.0**	7,074	20.1	**42,440**	**23.0**	30,355	21.0
Specialty Products	**13,360**	**25.7**	10,334	29.4	**54,397**	**29.5**	43,920	30.4
O&M	**25,689**	**49.4**	17,796	50.6	**87,519**	**47.5**	70,049	48.6
Total revenues	**52,046**	**100.0**	35,204	100.0	**184,356**	**100.0**	144,324	100.0
Gross profit margin before depreciation and amortization	**13,464**	**25.9**	10,002	28.4	**49,607**	**26.9**	39,945	27.7
SG&A expenses[b]	**9,667**	**18.6**	6,947	19.7	**33,376**	**18.1**	25,493	17.7
Net earnings (loss)	**2,445**	**4.7**	(195)	(0.6)	**5,107**	**2.8**	3,119	2.2
EBITDA[2]	**1,999**	**3.8**	3,206	9.1	**13,079**	**7.1**	14,485	10.0
Adjusted EBITDA[2]	**4,754**	**9.1**	3,089	8.8	**18,101**	**9.8**	14,646	10.1
Adjusted net earnings[2]	**1,627**	**3.1**	457	1.3	**8,848**	**4.8**	6,471	4.5
Recurring revenues[2]	**43,543**	**83.7**	30,980	88.0	**156,511**	**84.9**	126,050	87.3

(a) % of total revenues.
(b) Selling, general operating and administrative expenses ("SG&A").

This overall increase in organic revenue growth is coming from the synergies generated by the integration of the acquisitions made over the last 4 years, the investment made in adding new sales resources and the sales of new products and innovations launched over the last few years. In FY2022 all our business pillars generated significant organic revenue growth.

Revenues from the Water Technologies and Services ("WTS") business pillar increased by $12.1 M, or 39.8% compared to the previous fiscal year, to reach $42.4 M compared to $30.4 M. The increase was primarily due to the growth in service activities. This growth was driven by higher organic revenue in water treatment systems projects and an increase of our sales coming from the service group. The Corporation's three-year strategic plan consists of prioritizing WTS projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars, and to expand service activities.

Revenues of the O&M business pillar for increased by $17.5 M, or 24.9%, compared to previous fiscal year, to reach $87.5 M compared to $70.0 M. Such increase was driven by organic revenue growth of $8.6 M, or 6.0%, and acquisition growth of $9.8 M, or 6.8% resulting from the acquisition of JCO, Inc. ("JCO") and Environmental Consultants, L.L.C. ("EC").

[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.

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Revenues from the Specialty Products business pillar increased by $10.5 M, or 23.9% compared to previous fiscal year, to reach $54.4 M compared to $43.9 M last year. These results were driven by the acquisition growth of $5.9 M, or 4.1% over total revenue, coming from Genesys Membrane Products, S.L.U. (“GMP”), and by the organic revenue growth of $4.8 M, or 3.3% over total revenue, coming from a strong performance of all our specialty products revenues lines, Specialty Chemicals Group, Piedmont and Maple and coming from the investments in sales resources, marketing, product innovation and the synergies coming from the integration of the acquisition of Genesys and GMP.

The Corporation’s gross profit margin before depreciation and amortization stood at $49.6 M, or 26.9%, for the year ended June 30, 2022, compared to $39.9 M, or 27.7% for the same period of last fiscal year, which represents an increase of $9.7 M, or 24.2%. The overall gross profit margin slightly decreased in % due to high inflation of material costs, pressure on salaries and higher percentage of revenue coming from the WTS and O&M business pillars compared to previous fiscal year. Nevertheless, all business pillars contributed to an increase gross margin in dollars, compared to the same period of the previous fiscal year. H_2O 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 reached $33.4 M for the year ended June 30, 2022, compared to $25.5 M for the same period of the previous fiscal year, representing an increase of $7.9 M, or 30.9%, while the revenues of the Corporation increased by 27.7%. The acquisition of JCO and EC on December 15, 2021 partly contributed to this increase. The remainder of the increase is due to the pressure on salaries, the hiring of additional resources, the resumption of travel activities, as well as higher stock-based compensation costs. The Corporation also incurred uplisting fees of $0.2 M following the listing of its common shares on the TSX in March 2022.

Net earnings amounted to $5.1 M or $0.058 per share for fiscal year ended June 30, 2022 compared to a net earnings of $3.1 M or $0.039 per share for the previous fiscal year. The variation was impacted by the reduction in gross profit margin, higher depreciation and amortization, higher acquisition costs and the change in fair value of the contingent consideration– net, offset by the current income tax recovery and deferred tax recovery. Moreover, the SG&A ratio increased from 17.7% to 18.1%.

The Corporation’s adjusted EBITDA increased by $3.5 M, or 23.6%, to reach $18.1 M for the fiscal year ended June 30, 2022, compared to $14.6 M for the previous fiscal year. The adjusted EBITDA % over revenue decreased to 9.8% for the fiscal year ended June 30, 2022, compared to 10.1% for the previous fiscal year. The variation is explained by a decrease of the gross margin and by the investments in SG&A to generate organic growth. The ongoing pandemic context has affected the Corporation’s gross margin mainly due to the supply chain challenges, the increased costs of materials as well as the pressure on employee salaries due to staff shortage and the inflation.

As at June 30, 2022, the net debt stood at $40.3 M, compared with $0.5 M as at June 30, 2021, representing an increase of $39.8 M, mainly attributable to the financing of the JCO and EC acquisitions on December 15, 2021, the investment in our chemical manufacturing facilities in Vista, CA, USA and Cheshire, UK, the purchase of equipment required to execute some of the work related to the scope expansion of O&M contracts, and the investment in working capital items to support Corporation’s organic growth.

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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 (loss) to EBITDA and to adjusted EBITDA

(In thousands of Canadian dollars)	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings (loss) for the period	**2,445**	(195)	**5,107**	3,119
Finance costs – net	**753**	360	**2,359**	2,335
Income taxes (recovery)	**(3,927)**	1,174	**(3,618)**	1,703
Depreciation of property, plant and equipment and right-of-use assets	**1,122**	820	**3,812**	3,187
Amortization of intangible assets	**1,606**	1,047	**5,419**	4,141
EBITDA	**1,999**	3,206	**13,079**	14,485
Unrealized exchange (gain) loss	**484**	15	**(181)**	654
Stock-based compensation costs	**480**	132	**1,303**	253
Changes in fair value of the contingent considerations	**1,114**	(257)	**2,565**	462
Acquisition and integration costs	**677**	(7)	**1,135**	489
Uplisting fees	**-**	-	**200**	-
Fair value gain on step acquisition	**-**	(4)	**-**	(2,351)
Litigation provision	**-**	4	**-**	654
Adjusted EBITDA	**4,754**	3,089	**18,101**	14,646

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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 (loss) to adjusted net earnings

(In thousands of Canadian dollars)	Three-month periods ended June 30,		Twelve-month periods ended June 30,	
	2022	2021	**2022**	2021
	$	$	**$**	$
Net earnings (loss) for the period	**2,445**	(195)	**5,107**	3,119
Acquisition and integration costs	**677**	(7)	**1,135**	489
Amortization of intangible assets related to business combinations	**1,477**	986	**5,026**	3,839
Unrealized exchange (gain) loss	**484**	15	**(181)**	654
Changes in fair value of the contingent considerations	**1,114**	(257)	**2,565**	462
Stock-based compensation costs	**480**	132	**1,303**	253
Fair value gain on step acquisition	**-**	(4)	**-**	(2,351)
Litigation provision	**-**	4	**-**	654
Realized net (gain) loss on interest swap termination	**-**	-	**(237)**	237
Deferred tax recovery	**(4,570)**	-	**(4,570)**	-
Income taxes related to above items	**(480)**	(217)	**(1,300)**	(885)
Adjusted net earnings	**1,627**	457	**8,848**	6,471

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

Year ended June 30, 2022

(In thousands of Canadian dollars)

	2022 Revenues	2021 Revenues	Variation		Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	$	$	$	%	$	%	$	%	$	%
WTS	**42,440**	30,355	12,085	39.8	-	-	-	-	12,085	39.8
Specialty Products	**54,397**	43,920	10,477	23.9	(308)	(0.2)	5,966	4.1	4,820	3.3
O&M	**87,519**	70,049	17,470	24.9	(1,019)	(0.7)	9,796	6.8	8,692	6.0
Total revenues	**184,356**	144,324	40,032	27.7	(1,327)	(0.9)	15,762	10.9	25,597	17.7

Net Debt

The definition of net debt consists of bank loans and long-term debt less cash, excluding and/or including contingent considerations. Net debt is a non-IFRS measure without a standardized definition within IFRS and is used by management to measure the liquidity of the Corporation. The definition of net debt used by the Corporation may differ from those used by other companies.

(In thousands of Canadian dollars)	**June 30, 2022**	June 30, 2021	Variation	
	$	$	$	%
Bank loans	**45,562**	-	45,562	100.0
Current portion of long-term debt	**1,563**	2,975	(1,412)	(47.5)
Long-term debt	**510**	12,941	(12,431)	(96.1)
Contingent considerations	**10,017**	6,738	3,279	48.7
Less: Cash	**(7,382)**	(15,409)	(8,027)	(52.1)
Net debt including contingent considerations (1)	**50,270**	7,245	43,025	593.9
Contingent considerations	**10,017**	6,738	3,279	48.7
Net debt excluding contingent considerations ("Net debt") (1)	**40,253**	507	39,746	-
Adjusted EBITDA (1)(2)	**18,101**	14,646	3,455	23.6
Net debt-to-adjusted-EBITDA ratio (1)	**2.23**	0.03	-	-

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 fourth quarter and full fiscal year 2022 financial results in further details at 10:00 a.m. Eastern Time on Wednesday, September 28, 2022.

To access the call, please call 1-888-396-8049 or 416-764-8646, 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 annual 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 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, performance and achievements and the estimate of amounts that cannot yet be determined. Those forward-looking statements, based on the current expectations of management, involve a number of risks and uncertainties, known and unknown, which may result in actual and future results, performance, and achievements of the Corporation to be materially different than the said forward-looking statement. Such risks and uncertainties include, but are not limited to, the Corporation’s ability to grow its business as per the strategic plan, to reach specific financial objectives and targets, to maintain its financial position and to improve its business, as well as its capacity to execute, complete or deliver its backlog, in a timely manner and without additional costs, considering the challenges resulting from the global supply chain, and to create the expected synergies within its business pillars. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 27, 2022, 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, 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

Innovation is in our name, and it is what drives the organization. H_2O 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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