



PRESS RELEASE
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H₂O Innovation Reports First Quarter Results **Record Revenues of \$56.1 M, Driven by 25% Organic Growth**

Key financial highlights

(All comparisons are relative to the three-month period ended September 30, 2021, unless otherwise stated)

- Revenue growth of 46.3% reaching \$56.1 M from \$38.3 M;
- Organic revenue growth of 25.0%, compared to 7.7%, with recurring revenues by nature of 89%;
- Adjusted EBITDA¹ reached \$5.0 M, compared to \$4.0 M;
- Breakeven net earnings, compared to net earnings of \$0.6 M; and adjusted net earnings¹ of \$2.6 M or \$0.029 per share, compared to \$2.1 M or \$0.025 per share; and
- Consolidated backlog of \$182.0 M as at the end of the first quarter of fiscal year 2023, up to 48.2%.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, November 10, 2022 – (TSX: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its financial results for the first quarter of its fiscal year 2023 ended September 30, 2022.

“On the heels of a remarkable fiscal year ended June 30, 2022 we are proud to release for the first quarter of our fiscal year 2023, record-high revenues of \$56.1 M, supported by an impressive organic growth of 25% for the comparable three-month period ended. All our business lines contributed to this growth, driven by the high demand for our specialty products, the start-up and scope expansion of operation and maintenance (“O&M”) contracts and award of new capital equipment projects generating additional services and aftermarket sales. Our unique business model promoting customer retention throughout our three business pillars posted recurring revenues by nature of 89.0% at the end of the first quarter of our fiscal year 2023. Despite the pressure on our gross profit margin emerging from high inflation on material and wages, pricing initiatives and other measures have been implemented to improve margin in the coming quarters. Looking at our sales pipeline, which is rich in diversified municipal and industrial opportunities, at the strength of our distribution network for specialty products, and at our consolidated backlog of \$182.0 M, up 48.2% compared to Q1-FY2022, we envision continuation of strong organic revenue growth and see opportunities for margin expansion coming from price adjustment and business mix”, **stated Frédéric Dugré, President and Chief Executive Officer of H₂O Innovation.**

First Quarter Results

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. Consolidated revenues from its three business pillars, for the three-month period ended on September 30, 2022, increased by \$17.7 M, or 46.3 %, to reach \$56.1 M compared to \$38.3 M for the comparable quarter of the previous fiscal year. This increase mainly came from an organic revenue growth of \$9.6 M, or 25.0%, and an acquisition growth of \$7.8 M, or 20.4% following the acquisitions of JCO and EC in December 2021 and of substantially all of the assets of Leader Evaporator Co., Inc. (“Leader”) on June 30, 2022, combined with a favourable exchange rate impact of \$0.3 M, or 0.9%.

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. A 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.

(In thousands of Canadian dollars)	Three-month periods ended September 30,			
	2022		2021	
	\$	% ^(a)	\$	% ^(a)
Revenues per business pillar				
WTS	10,025	17.8	9,011	23.5
Specialty Products	18,392	32.8	11,335	29.5
O&M	27,732	49.4	18,038	47.0
Total revenues	56,149	100.0	38,384	100.0
Gross profit margin before depreciation and amortization	13,507	24.1	10,920	28.4
SG&A expenses ^(b)	9,064	16.1	7,085	18.5
Net earnings for the period	9	0.0	618	1.6
EBITDA ¹	4,412	7.9	3,276	8.5
Adjusted EBITDA ¹	4,968	8.8	4,018	10.5
Adjusted net earnings ¹	2,590	4.6	2,132	5.6
Recurring revenues ¹	50,206	89.4	33,096	86.2

(a) % of total revenues.

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

WTS's revenues for the first quarter of fiscal year 2022 increased by 11.3%, which increase is coming from an organic growth of \$0.6 M, or 7.7%, related to service activities and water treatment systems projects. Our WTS team strives to develop relationships with industrial clients for whom water reuse solutions could alleviate operational concerns emerging from water scarcity and water tariff increases. This is becoming a growing trend as many industrial companies are now taking steps to become net water positive in their manufacturing processes as part of their Environment, Social and Governance plans.

The Specialty Products' business pillar delivered a solid financial performance for the first quarter of fiscal year 2022 with a revenue growth of 62.3% compared to the same quarter of the previous fiscal year. Most of such increase came from the organic revenue growth of \$5.2 M, or 46.2%. Leader contributed to \$2.6 M, or 23.0% of acquisition growth. Specialty Products' EBAC increased by \$1.0 M, or 30.5%, representing an increase in dollars, but a decrease in percentage. This variation in percentage is mainly due to the business mix within this business pillar, with a higher level of revenue coming from both Piedmont and Maple business lines, which have lower average gross profit margins than the specialty chemicals.

During the first quarter of fiscal year 2022, O&M revenues stood at \$27.7 M during the first quarter of fiscal year 2023, compared to \$18.0 M for the same quarter of the previous fiscal year, representing an increase of \$9.7 M, or 53.7%. The O&M business pillar showed organic growth of \$3.7 M, or 20.4%, coming from an important scope expansion and new O&M projects secured in the previous quarters, and acquisition growth of \$5.2 M, or 29.0% during this quarter, combined with a favorable foreign exchange rate impact of \$0.8 M.

The Corporation's gross profit margin before depreciation and amortization stood at \$13.5 M, or 24.1%, during the first quarter of fiscal year 2023, compared to \$10.9 M, or 28.4%, for the same period of the previous fiscal year, representing an increase of \$2.6 M, or 23.7%, while the revenues of the Corporation increased by 46.3%. The decrease in percentage was primarily due to the high inflation of material costs, pressure on salaries and higher percentage of revenue coming from the O&M business pillar compared to the same quarter of previous fiscal year, combined with a business mix factor within the Specialty Products business pillar. The Corporation is closely monitoring the evolution of the economy context, and mitigation measures, such as price increases, are being implemented to improve gross profit margin.

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The Corporation's SG&A reached \$9.1 M during the first quarter of fiscal year 2023, compared to \$7.1 M for the same period of the previous fiscal year, representing an increase of \$2.0 M, or 27.9%, while the revenues of the Corporation increased by 46.3%. The increase is due to the pressure on salaries, the hiring of additional resources as well as higher stock-based compensation costs. Despite the increase in SG&A expenses, the percentage of expenses over revenues has decreased from 18.5% to 16.1%, which shows the scalability of our business model as revenues continue to grow. Investments made in sales and business development are paying off since revenues are growing faster than the SG&A ratio.

The Corporation's adjusted EBITDA increased by \$1.0 M, or 23.6%, to reach \$5.0 M during the first quarter of fiscal year 2023, from \$4.0 M for the same period of the previous fiscal year, while the revenues of the Corporation increased by 46.3%. Consequently, the adjusted EBITDA % decreased and reached 8.8% for the first quarter of fiscal year 2023, compared to 10.5% for the same quarter of last fiscal year. This negative variation is mostly explained by a decrease in the Corporation's consolidated gross profit margin. The Corporation's profitability has been impacted by the extended economic consequences of the COVID 19 pandemic, ongoing macroeconomic trends on the supply chain, higher inflation, increased wages, and freight and logistic costs. The Corporation is closely monitoring the evolution of the economic context, and mitigation measures, such as price increases, are being implemented to improve the EBITDA margin.

Net earnings amounted to \$nil or \$0.000 per share for the first quarter of fiscal year 2023 compared to net earnings of \$0.6 M or \$0.007 per share for the comparable quarter of previous fiscal. The variation was impacted by the reduction in gross profit margin, higher depreciation and amortization, and higher finance costs, partially compensated by other gains related to the debt extinguishment.

As at September 30, 2022, the combined backlog of secured contracts between WTS and O&M reached \$182.0 M compared to \$122.8 M as at September 30, 2021, which is an increase of 48.2%. This combined backlog provides excellent visibility on revenues for the coming quarters of fiscal year 2023 and beyond.

The net debt stood at \$48.2 M, compared to \$40.2 M as at June 30, 2022 due to seasonality trends in free cash flows and increase in working capital to support growth and acquisitions.

Non-IFRS financial measurements

Certain indicators used by the Corporation to analyze and evaluate its results, which are listed below, are non-IFRS financial measures or ratios, supplementary financial measures or non-financial information. Consequently, they do not have a standardized meaning as prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. These non-IFRS measures are presented as additional information and should be used in conjunction with the IFRS financial measurements presented in condensed interim financial statements. Even though these measures are non-IFRS measures, they are used by management to make operational and strategic decisions. Providing this information to the stakeholders, in addition to the Generally Accepted Accounting Principles ("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. However, these measures should not be viewed as a substitute for related financial information prepared in accordance with IFRS.



The following non-IFRS indicators are used by management to measure the performance and liquidity of the Corporation: Earnings before interests, income taxes, depreciation and amortization (“EBITDA”), adjusted earnings before interests, income taxes, depreciation and amortization (“Adjusted EBITDA”), adjusted EBITDA over revenues, earnings before administrative costs (“EBAC”), adjusted net earnings, adjusted net earnings per share (“Adjusted EPS”), Organic revenue growth, reconciliation of net earnings to adjusted net earnings, net debt including and excluding contingent considerations, net debt-to-Adjusted EBITDA ratio, recurring revenues by nature, organic revenue, backlog.

Additional details for these non-IFRS and other financial measures can be found in section “Non-IFRS financial measurements” of the Corporation’s MD&A for the three-month period ended September 30, 2022 which is available on the Corporation’s website www.h2oinnovation.com and filed on SEDAR at www.sedar.com. Reconciliations of non-IFRS financial measures and ratios to the most directly comparable IFRS measures are provided below.

EBITDA and adjusted EBITDA

Reconciliation of net earnings to EBITDA and to adjusted EBITDA

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2022	2021
	\$	\$
Net earnings for the period	9	618
Finance costs – net	1,158	557
Income taxes	306	140
Depreciation of property, plant and equipment and right-of-use assets	1,343	866
Amortization of intangible assets	1,596	1,095
EBITDA	4,412	3,276
Gain on debt extinguishment	(1,029)	-
Unrealized exchange (gain) loss	407	(246)
Stock-based compensation costs	617	219
Changes in fair value of the contingent considerations	180	767
Acquisition and integration costs	381	2
Adjusted EBITDA	4,968	4,018
Revenues	56,149	38,384
Adjusted EBITDA over revenues	8.8%	10.5%

Reconciliation of net earnings to adjusted net earnings

(In thousands of Canadian dollars)	Three-month periods ended September 30,	
	2022	2021
	\$	\$
Net earnings for the period	9	618
Acquisition and integration costs	381	2
Amortization of intangible assets related to business combinations	1,477	992
Unrealized exchange (gain) loss	407	(246)
Changes in fair value of the contingent considerations	180	767
Stock-based compensation costs	617	219
Income taxes related to above items	(481)	(220)
Adjusted net earnings	2,590	2,132



Revenue growth

(In thousands of Canadian dollars)	Three-month periods ended September 30,				Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	2022	2021	Variation							
	\$	\$	\$	%	\$	%	\$	%	\$	%
Revenues per business pillar										
WTS	10,025	9,011	1,014	11.3	318	0.8	-	-	696	1.8
Specialty Products	18,392	11,335	7,057	62.3	(763)	(2.0)	2,599	6.8	5,221	13.6
O&M	27,732	18,038	9,694	53.7	771	2.0	5,236	13.6	3,687	9.6
Total revenues	56,149	38,384	17,765	46.3	326	0.8	7,835	20.4	9,604	25.0

Net debt

(In thousands of Canadian dollars)	September 30, 2022	June 30, 2022	Variation	
	\$	\$	\$	%
Bank loans	53,773	45,562	8,211	18.0
Current portion of long-term debt	342	1,563	(1,221)	(78.1)
Long-term debt	473	510	(37)	(7.3)
Contingent considerations	6,261	10,017	(3,756)	(37.5)
Less: Cash	(6,293)	(7,382)	1,089	14.8
Net debt including contingent considerations⁽¹⁾	54,556	50,270	4,286	8.5
Contingent considerations	6,261	10,017	(3,756)	(37.5)
Net debt excluding contingent considerations ("Net debt")⁽¹⁾	48,295	40,253	8,042	20.0
Adjusted EBITDA⁽¹⁾	19,051	18,101	950	5.2

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 first quarter financial results in further details at 10:00 a.m. Eastern Time on Thursday, November 10, 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 first 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 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, 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 its 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, 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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Source:

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