



PRESS RELEASE
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H₂O Innovation Reports Second Quarter Results Sustained Revenue Growth Driven by 27% Organic Growth

Key financial highlights

(All comparisons are relative to the three-month period ended December 31, 2021, unless otherwise stated)

- Revenue growth of 52.0% reaching \$63.9 M from \$42.0 M;
- Organic revenue growth of 26.8%, compared to 16.2%, with recurring revenues by nature of 90%;
- Adjusted EBITDA¹ reached \$6.5 M, compared to \$3.8 M;
- Net earnings amounted to \$0.6 M, compared to \$0.8 M;
- Adjusted net earnings¹ of \$2.7 M, compared to \$2.0 M; and
- Consolidated backlog of \$206.2 M as at the end of the second quarter of fiscal year 2023, up to 63.4%.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, February 14, 2023 – (TSX: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its financial results for the second quarter of its fiscal year 2023 ended December 31, 2022.

“We could not be prouder of our financial results and operational performance for the second quarter of our fiscal year 2023, particularly given the challenging economic backdrop. In H₂O Innovation, growth is present in every aspect of our business, with the water industry being at a critical inflection point. We achieved record-high quarterly revenues of \$63.9 M, propelled by 27% organic growth, driving a 70% increase in adjusted EBITDA. The measures taken to mitigate price increases in raw materials and rapid inflation in wages are starting to reflect positively on our gross profit margins. The roadmap introduced at the Annual General Meeting of Shareholders in December supports further margin improvements and optimization of our cash-flow conversion. Moving forward, we have confidence in our strategy, the right resources and identified multiple opportunities to maintain our growth momentum while minimizing our risks. The drivers of the water industry are now incontrovertible, with the key themes being population growth, aging infrastructure, increasing regulations, water scarcity, aging workforce and water positive. All these factors contributed to grow our consolidated backlog to \$206 M, an increase of 63% from last year. H₂O Innovation has built a platform and continues to monetize it with repeat business and new customers, both municipal and industrial. Combined with our high recurrent business model, expanded international distribution network demanding more green chemistry and innovative products and solutions, our business outlook remains very robust”, **stated Frédéric Dugré, President, Chief Executive Officer and co-Founder of H₂O Innovation.**

Second Quarter Results

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue. The Corporation was able to generate important revenue growth for the three-month period ended December 31, 2022. Consolidated revenues from its three business pillars, for the second quarter ended December 31, 2022, increased by \$21.8 M, or 52.0%, to reach \$63.9 M compared to \$42.0 M in the corresponding period of previous year. This increase mainly came from an organic revenue growth of \$11.2 M, or 26.8%, and an acquisition growth of \$8.3 M, or 19.9% following the acquisitions of JCO inc. and Environmental Consultants, L.L.C. in December 2021 and of Leader Evaporator on June 30, 2022, combined with a favorable exchange rate impact of \$2.3 M, or 5.4%.

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 December 31,				Six-month periods ended December 31,			
	2022		2021		2022		2021	
	\$	% ^(a)	\$	% ^(a)	\$	% ^(a)	\$	% ^(a)
Revenues per business pillar								
WTS	11,003	17.2	8,539	20.4	21,028	17.5	17,550	21.8
Specialty products	23,920	37.5	13,794	32.8	42,312	35.3	25,129	31.3
O&M	28,927	45.3	19,676	46.8	56,659	47.2	37,714	46.9
Total revenues	63,850	100.0	42,009	100.0	119,999	100.0	80,393	100.0
Gross profit margin before depreciation and amortization	17,013	26.6	11,096	26.4	30,520	25.4	22,016	27.4
SG&A expenses ^(b)	11,158	17.5	7,526	17.9	20,222	16.9	14,611	18.2
Net earnings for the period	620	1.0	762	1.8	629	0.5	1,380	1.7
EBITDA ¹	5,408	8.5	3,424	8.2	9,820	8.2	6,700	8.3
Adjusted EBITDA ¹	6,453	10.1	3,799	9.0	11,421	9.5	7,817	9.7
Adjusted net earnings ¹	2,712	4.2	1,996	4.8	5,302	4.4	4,128	5.1
Recurring revenues ¹	57,445	90.0	36,562	87.0	107,651	89.7	69,658	86.6
(a) % of total revenues.								
(b) Selling, general operating and administrative expenses ("SG&A").								

WTS' revenues for the second quarter of fiscal year 2023 increased by 28.9%, coming from an organic growth related to service activities and capital equipment projects. The Corporation's 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 respective Environment, Social and Governance plans.

The Specialty Products business pillar delivered a strong financial performance for the second quarter of fiscal year 2023 with a revenue growth of 73.4% compared to the same quarter of the previous fiscal year. Most of such increase came from an organic revenue growth of \$6.7 M, or 48.3%. Leader contributed to \$3.6 M, or 25.8% of acquisition growth. Specialty Products' EBAC² increased by \$1.8 M, or 46.7%, representing an increase in dollars, but a decrease in percentage. This variation in percentage is mainly explained by two main reasons: the business mix within this business pillar due to the acquisition of Leader which have lower average gross margins than the rest of the specialty products; and increase of the costs related to raw materials required for the manufacturing of specialty chemicals.

During the second quarter of fiscal year 2023, O&M's revenues stood at \$28.9 M, compared to \$19.7 M for the same quarter of the previous fiscal year, representing an increase of \$9.2 M, or 47.0%. The O&M business pillar showed organic growth of \$2.8 M, or 14.2%, coming from an important scope expansion and new O&M projects secured in the previous quarters, and acquisition growth of \$4.8 M, or 24.3% during this quarter, combined with a favorable foreign exchange rate impact of \$1.7 M.

The Corporation's gross profit margin before depreciation and amortization stood at \$17.0 M, or 26.6%, during the second quarter of fiscal year 2023, compared to \$11.1 M, or 26.4%, for the same period of the previous fiscal year, representing an increase of \$5.9 M, or 53.3%, while the revenues of the Corporation

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.

² 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.



increased by 52.0%. The % of gross profit margin before depreciation and amortization over revenues remains fairly stable mainly due to higher percentage of revenue coming from WTS business pillar which had improved project performance and increased service activities.

The Corporation's SG&A reached \$11.2 M during the second quarter of fiscal year 2023, compared to \$7.5 M for the same period of the previous fiscal year, representing an increase of \$3.7 M, or 48.3%, while the revenues of the Corporation increased by 52.0%. 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 for the three and six-month periods decreased respectively by 0.4% and 1.3%, showing the scalability of the Corporation's 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 \$2.7 M, or 69.9%, to reach \$6.5 M during the second quarter of fiscal year 2023, from \$3.8 M for the same period of the previous fiscal year, while the revenues of the Corporation increased by 52.0%. Consequently, the adjusted EBITDA % increased and reached 10.1% for the second quarter of fiscal year 2023, compared to 9.0% for the same quarter of last fiscal year. This positive variation is partly explained by higher revenues coming from the Specialty Products business pillar characterized by higher gross profit margin and overall lower SG&A expenses over revenues.

Net earnings amounted to \$0.6 M or \$0.007 per share for the second quarter of fiscal year 2023 compared to net earnings of \$0.8 M or \$0.009 per share for the comparable quarter of previous fiscal. The variation was impacted by a higher gross profit margin compensated by higher depreciation and amortization and higher finance costs.

As at December 31, 2022, the combined backlog of secured contracts between WTS and O&M reached \$206.2 M compared to \$126.2 M as at December 31, 2021, which is an increase of 63.4%. This combined backlog provides excellent visibility on revenues for the coming quarters of fiscal year 2023 and beyond.

The net debt stood at \$53.5 M, compared to \$50.3 M as at June 30, 2022 mainly attributable to the cash flows used from investing activities combined with the cash flows used from financing activities related to higher interest payments.

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 December 31, 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		Six-month periods ended	
	2022	December 31, 2021	2022	December 31, 2021
	\$	\$	\$	\$
Net earnings for the period	620	762	629	1,380
Finance costs – net	1,373	493	2,531	1,050
Income taxes (recovery)	374	83	680	223
Depreciation of property, plant and equipment and right-of-use assets	1,417	886	2,760	1,752
Amortization of intangible assets	1,624	1,200	3,220	2,295
EBITDA	5,408	3,424	9,820	6,700
(Gain) on debt extinguishment	-	-	(1,029)	-
Unrealized exchange (gain) loss	(88)	(306)	319	(552)
Stock-based compensation costs	583	274	1,200	493
Changes in fair value of the contingent considerations	291	188	471	955
Acquisition and integration costs	259	219	640	221
Adjusted EBITDA	6,453	3,799	11,421	7,817
Revenues	63,850	42,009	119,999	80,393
Adjusted EBITDA over revenues	10.1%	9.0%	9.5%	9.7%

Reconciliation of Net Earnings to Adjusted Net Earnings

(In thousands of Canadian dollars)	Three-month periods ended		Six-month periods ended	
	2022	December 31, 2021	2022	December 31, 2021
	\$	\$	\$	\$
Net earnings for the period	620	762	629	1,380
Acquisition and integration costs	259	219	640	221
Amortization of intangible assets related to business combinations	1,408	1,115	2,885	2,107
Unrealized exchange (gain) loss	(88)	(306)	319	(552)
Changes in fair value of the contingent considerations	291	188	471	955
Stock-based compensation costs	583	274	1,200	493
Income taxes related to above items	(361)	(256)	(842)	(476)
Adjusted net earnings	2,712	1,996	5,302	4,128
Adjusted basic EPS	0.030	0.023	0.059	0.048
Adjusted diluted EPS	0.029	0.022	0.057	0.045



Revenue Growth

(In thousands of Canadian dollars)	Three-month periods ended				Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	December 31,									
	2022	2021	Variation							
	\$	\$	\$	%	\$	%	\$	%	\$	%
Revenues per business pillar										
WTS	11,003	8,539	2,464	28.9	675	1.6	-	-	1,789	4.3
Specialty products	23,920	13,794	10,126	73.4	(91)	(0.2)	3,561	8.5	6,656	15.8
O&M	28,927	19,676	9,251	47.0	1,684	4.0	4,773	11.4	2,794	6.7
Total revenues	63,850	42,009	21,841	52.0	2,268	5.4	8,334	19.9	11,235	26.8

Net Debt

(In thousands of Canadian dollars)	December 31, 2022		June 30, 2022		Variation	
	\$	\$	\$	\$	\$	%
Bank loans	55,725	45,562	10,163	22.3		
Current portion of long-term debt	301	1,563	(1,262)	(80.7)		
Long-term debt	404	510	(106)	(20.8)		
Contingent considerations	6,513	10,017	(3,504)	(35.0)		
Less: Cash	(9,459)	(7,382)	(2,077)	28.1		
Net debt including contingent considerations ⁽¹⁾	53,484	50,270	3,214	6.4		
Contingent considerations	6,513	10,017	(3,504)	(35.0)		
Net debt excluding contingent considerations ("Net debt") ⁽¹⁾	46,971	40,253	6,718	16.7		
Adjusted EBITDA ⁽¹⁾	21,705	18,101	3,604	19.9		

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 second quarter financial results in further details at 10:00 a.m. Eastern Time on Tuesday, February 14, 2023.

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 second 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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