



PRESS RELEASE
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H₂O Innovation Reports Third Quarter Results Momentum Maintained on Revenue Growth

Key Financial Highlights

(All comparisons are relative to the three-month period ended March 31, 2022, unless otherwise stated)

- Revenue growth of 31.7% reaching \$68.4 M from \$51.9 M;
- Organic revenue growth¹ of 17.8%, compared to 15.3%, with recurring revenues¹ by nature of 86.8%;
- Adjusted EBITDA¹ of \$6.9 M, compared to \$5.3 M;
- Net earnings of \$0.4 M, compared to \$1.3 M;
- Adjusted net earnings¹ of \$2.7 M, compared to \$3.4 M; and
- Consolidated backlog¹ of \$202.9 M up 86.3%.
- Net cash flows generated from operating activities of \$10.4 M for the three-month period.

All amounts are in Canadian dollars unless otherwise stated.

Quebec City, May 11, 2023 – (TSX: HEO) – H₂O Innovation Inc. (“H₂O Innovation” or the “Corporation”) announces its financial results for the third quarter of its fiscal year 2023 ended March 31, 2023.

“We continue to execute, focusing acutely on profitable growth with another strong performance for our third quarter of fiscal year 2023. For four consecutive quarters, we are realizing organic revenue growth higher than 17% compared to similar periods. Such growth is underpinned by repeatable and increasing business with existing customers, as well as new customers. The Company is experiencing strong sales synergies and most importantly, sustained sales momentum across all our business lines. We are delivering on new capital equipment sales to major industrial customers, capturing significant orders for specialty products delivered to some of the largest desalination plants in the world and broadening the scope of work expansion within our renewed O&M customer base. Managing such growth in a tight labor market with a volatile supply chain makes for a challenging environment. However, we achieved a sustained adjusted EBITDA growth rate of 28.6% compared to the same period last year. Cash management and paying down debt continues to be a focus for the Company, and we intend to continue to improve our cashflow conversion cycle and remain selective on our growth capital expenditures. The cash generated from operations reached \$10.4 M and led to a reduction of our net debt to \$49.4 M. With a diversified backlog of \$202.9 M combined with a high level of recurring revenues, we have strong visibility to sustained growth and improving margins and are aligned with our Three-Year Strategic Plan”, **stated Frédéric Dugré, President, President and Chief Executive Officer of H₂O Innovation.**

Third Quarter Results

With three strong and complementary business pillars, the Corporation is well balanced and not dependent on a single source of revenue, enabling it to generate a sustained revenue growth for the three-month period ended March 31, 2023. Consolidated revenues coming from the Corporation’s three business pillars, for the third quarter ended March 31, 2023, increased by \$16.4 M, or 31.7%, to reach \$68.4 M compared to \$51.9 M in the corresponding period of previous year. This increase mainly came from an organic revenue growth of \$9.2 M, or 17.8%, and an acquisition growth of \$4.3 M, or 8.4% following the acquisition of Leader Evaporator (“Leader”) on June 30, 2022, combined with a favorable exchange rate impact of \$2.8 M, or 5.5%.

¹ 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 in the MD&A in the section “Non-IFRS financial measurements” to give the reader a better understanding of the indicators used by management. Quantitative reconciliations of non-IFRS financial measures are presented below under the section “Non-IFRS financial measurements”.

(In thousands of Canadian dollars)								
	Three-month periods ended				Nine-month periods ended			
	2023		March 31, 2022		2023		March 31, 2022	
	\$	% (a)	\$	% (a)	\$	% (a)	\$	% (a)
Revenues per business pillar								
WTS	14,053	20.6	11,892	22.9	35,081	18.7	29,442	22.3
Specialty products	24,228	35.4	15,909	30.6	66,540	35.3	41,038	31.0
O&M	30,079	44.0	24,116	46.5	86,738	46.0	61,830	46.7
Total revenues	68,360	100.0	51,917	100.0	188,359	100.0	132,310	100.0
Gross profit margin before depreciation and amortization								
	17,948	26.3	14,128	27.2	48,468	25.7	36,144	27.3
SG&A expenses (b)	11,478	16.8	9,098	17.5	31,700	16.8	23,709	17.9
Net earnings for the period	364	0.5	1,330	2.6	993	0.5	2,710	2.0
EBITDA ¹	5,626	8.2	4,382	8.4	15,446	8.2	11,082	8.4
Adjusted EBITDA ¹	6,857	10.0	5,332	10.3	18,278	9.7	13,149	9.9
Adjusted net earnings ¹	2,670	3.9	3,378	6.5	7,972	4.2	7,269	5.5
Recurring revenues ¹	59,355	86.8	43,311	83.4	167,006	88.7	112,969	85.4

(a) % of total revenues.

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

WTS' revenues for the third quarter of fiscal year 2023 increased by 18.2%, coming from organic revenue growth in water treatment system 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. WTS' EBAC² increased by \$0.4 M, or 26.5%, representing an increase in dollars and percentage mainly attributable to the improved project performance.

The Specialty Products business pillar delivered a strong financial performance for the third quarter of fiscal year 2023 with a revenue growth of 52.3% compared to the same period last year. This increase came from an organic revenue growth of \$3.7 M, or 23.4%, which arise from supply contracts to deliver components and consumables to large desalination plants and the strategic breakthrough in certain regions of the Middle East. In addition, Leader contributed to \$4.3 M, or 27.3% of acquisition growth. Furthermore, the Corporation achieved more sales synergies between its various product lines creating a positive momentum. Specialty Products' EBAC² increased by \$1.3 M, or 31.3%, representing an increase in dollars, but a decrease in percentage. This variation in percentage is explained by two main reasons: the business mix within this business pillar since more revenues are coming from maple farming equipment, following the last acquisition, usually at lower average gross margin; and the increase of raw material costs for the manufacturing of the specialty chemicals.

During the third quarter of fiscal year 2023, O&M's revenues stood at \$30.1 M, compared to \$24.1 M for the same period last year, representing an increase of \$6.0 M, or 24.7%. The O&M business pillar showed organic growth of \$4.1 M, or 16.9%, coming from scope expansions and new O&M projects secured in the previous quarters, combined with a favorable foreign exchange rate impact of \$1.8 M.

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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.



The Corporation's gross profit margin before depreciation and amortization stood at \$17.9 M, or 26.3%, during the third quarter of fiscal year 2023, compared to \$14.1 M, or 27.2%, for the same period last year. The decrease in percentage is explained by high inflation of material costs, pressure on salaries and business mix within the Specialty Products business pillar.

The Corporation's SG&A reached \$11.5 M during the third quarter of fiscal year 2023, compared to \$9.1 M for the same period last year, representing an increase of \$2.4 M, or 26.2%, while the revenues of the Corporation increased by 31.7%. 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 nine-month periods decreased respectively by 0.7% and 1.1%, 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 \$1.5 M, or 28.6%, to reach \$6.9 M during the third quarter of fiscal year 2023, from \$5.3 M for the same period last year, while the revenues of the Corporation increased by 31.7%. Consequently, the adjusted EBITDA % decreased and reached 10.0% for the third quarter of fiscal year 2023, compared to 10.3% for the same period last year. This variation is explained by the gross profit margin decrease considering that the profitability has been impacted by ongoing macroeconomic trends on the supply chain, higher inflation, increased wages, and freight and logistic costs.

Net earnings amounted to \$0.4 M or \$0.004 per share for the third quarter of fiscal year 2023 compared to net earnings of \$1.3 M or \$0.015 per share for the comparable quarter of previous fiscal. This variation is mostly explained by the reduction of the Corporation's gross profit margin, higher depreciation and amortization and higher finance costs, partially offset by other gains related to the debt extinguishment.

As at March 31, 2023, the combined backlog of secured contracts between WTS and O&M reached \$202.9 M compared to \$108.9 M as at March 31, 2022, which is an increase of 86.3%. This combined backlog provides good visibility on revenues for the upcoming quarter of fiscal year 2023 and beyond.

The net debt stood at \$49.4 M, compared to \$50.3 M as at June 30, 2022, representing a \$0.9 M decrease attributable to a higher cash balance.

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 March 31, 2023 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 March 31,		Nine-month periods ended March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net earnings for the period	364	1,330	993	2,710
Finance costs – net	1,655	556	4,186	1,606
Income taxes (recovery)	575	39	1,255	262
Depreciation of property, plant and equipment and right-of-use assets	1,432	938	4,192	2,690
Amortization of intangible assets	1,600	1,519	4,820	3,814
EBITDA	5,626	4,382	15,446	11,082
(Gain) on debt extinguishment	-	-	(1,029)	-
Unrealized exchange (gain) loss	(6)	(113)	313	(665)
Stock-based compensation costs	552	330	1,752	823
Changes in fair value of the contingent considerations	471	496	942	1,451
Acquisition and integration costs	214	237	854	458
Adjusted EBITDA	6,857	5,332	18,278	13,149
Revenues	68,360	51,917	188,359	132,310
Adjusted EBITDA over revenues	10.0%	10.3%	9.7%	9.9%

Reconciliation of Net Earnings to Adjusted Net Earnings

(In thousands of Canadian dollars)	Three-month periods ended March 31,		Nine-month periods ended March 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net earnings for the period	364	1,330	993	2,710
Acquisition and integration costs	214	237	854	458
Amortization of intangible assets related to business combinations	1,452	1,442	4,337	3,549
Unrealized exchange (gain) loss	(6)	(113)	313	(665)
Changes in fair value of the contingent considerations	471	496	942	1,451
Stock-based compensation costs	552	330	1,752	823
Income taxes related to above items	(377)	(344)	(1,219)	(820)
Adjusted net earnings	2,670	3,378	7,972	7,269
Adjusted basic EPS	0.030	0.038	0.089	0.083
Adjusted diluted EPS	0.028	0.037	0.086	0.084



Revenue Growth

(In thousands of Canadian dollars)	Three-month periods ended				Foreign exchange impact		Acquisitions impact		Organic revenue growth	
	2023	2022	March 31, Variation							
	\$	\$	\$	%	\$	%	\$	%	\$	%
Revenues per business pillar										
WTS	14,053	11,892	2,161	18.2	717	1.4	-	-	1,444	2.8
Specialty products	24,228	15,909	8,319	52.3	257	0.5	4,336	8.4	3,726	7.2
O&M	30,079	24,116	5,963	24.7	1,894	3.6	-	-	4,069	7.8
Total revenues	68,360	51,917	16,443	31.7	2,868	5.5	4,336	8.4	9,239	17.8

Net Debt

(In thousands of Canadian dollars)	March 31, 2023	June 30, 2022	Variation	
	\$	\$	\$	%
Bank loans	54,526	45,562	8,964	19.7
Current portion of long-term debt	234	1,563	(1,329)	(85.0)
Long-term debt	270	510	(240)	(47.1)
Contingent considerations	4,884	10,017	(5,133)	(51.2)
Less: Cash	(10,534)	(7,382)	(3,152)	(42.7)
Net debt including contingent considerations ⁽¹⁾	49,380	50,270	(890)	(1.8)
Contingent considerations	4,884	10,017	(5,133)	(51.2)
Net debt excluding contingent considerations ("Net debt") ⁽¹⁾	44,496	40,253	4,243	10.5
Adjusted EBITDA ⁽¹⁾	23,032	18,101	4,931	27.2

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 third quarter financial results in further details at 10:00 a.m. Eastern Time on Thursday, May 11, 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 third quarter financial report is available on www.h2oinnovation.com. Additional information on the Corporation is also available on SEDAR (www.sedar.com).



Forward-Looking Statements

Certain information and statements contained in this press release and in other Corporation's oral and written public communications regarding the Corporation's business and activities and/or describing management's objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of the applicable securities legislation. Forward-looking statements include the use of words such as "anticipate", "believe", "continue", "could", "estimate", "expect", "if", "intend", "may", "plan", "potential", "predict", "project", "should" or "will", and other similar expressions, as well as those usually used in the future and the conditional, although not all forward-looking statements include such words. H2O Innovation would like to point out that forward-looking statements involve a number of uncertainties, known and unknown risks and other factors which may cause the actual results, performance or achievements of the Corporation, or of its industry, to materially differ from any future results, performance or achievements expressed or implied by such forward-looking statements. Major factors that may lead to a material difference between the Corporation's actual results and the projections or expectations set forth in the forward-looking statements include, without limitation, statements regarding future capital expenditures, revenues, expenses, earnings, economic performance, indebtedness and financial position; business and management strategies; expansion and growth of the Corporation's operations; the Corporation's backlog, the execution of such backlog and the timing of new and existing projects and contracts; the Corporation's ability to deliver projects and contracts in due time, without additional costs, considering labor shortage and the global impact on supply chain; the Corporation's ability to generate future cash flows; the Corporation's ability to capitalize on future growth opportunities; anticipated trends in the Corporation's revenue streams and business mix; expectations of customers' needs; customers' acceptance of and confidence in the Corporation's existing technologies and product innovation; and other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions and results and such other risks as described in the Corporation's Annual Information Form dated September 27, 2022, which is available on SEDAR (www.sedar.com). The forward-looking information contained in this press release is based on information available as of the date of the release and is subject to change after this date. Unless otherwise required by the applicable securities laws, H2O Innovation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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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