H2O Innovation Reports Record Fiscal Year 2021 Revenues and Profitability

written by Raj Shah | September 28, 2021

September 28, 2021 (Source) — **Key Financial Highlights**

- Revenues reached $144.3 M for fiscal year 2021, representing a $10.7 M growth, or 8.0 %, compared to $133.6 M for the previous fiscal year;
- Gross profit margin before depreciation and amortization expenses represented 27.7 % of the Corporation's total revenues for fiscal year 2021, compared to 26.9 % for the previous fiscal year;
- Net earnings of $3.1 M or $0.039 per share for fiscal year 2021, compared to a net loss of ($4.2 M) or ($0.061) per share for the previous fiscal year;
- Adjusted net earnings[1] reached $6.5 M or $0.081 per share for this fiscal year compared to $5.4 M or $0.078 per share for the previous fiscal year;
- Adjusted EBITDA[1] reached $14.6 M, or 10.1 % of revenues for this fiscal year compared to $12.5 M, or 9.4 % of revenues, for the previous fiscal year;
- Strong financial position with a net debt[1] of $0.5 M at the end of the year, compared to a net debt of $10.5 M as at June 30, 2020;
- Completion of two accretive acquisitions complementing our O&M services in Texas and expanding our specialty products offering and sales network; and
- Q4-FY2021 financial results impacted by foreign exchange and freight delays which postponed revenue recognition.

All amounts in Canadian dollars unless otherwise stated.

QUEBEC CITY, Sept. 28, 2021 (GLOBE NEWSWIRE) – (TSXV: 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, 2021.

“FY2021 was exceptional in many ways. Not only have we delivered our best financial performance with significant profitability improvement, as seen with our adjusted EBITDA of $14.6 M for fiscal year 2021, but we achieved that while dealing with an unprecedented pandemic challenging all aspects of our lives. We have had to reinvent ourselves and develop new ways to interact and lead our business. Through this all, we realized that water is truly essential and that our business model is sound, robust, and resilient. Through our different business lines, we continue to create sales synergies and customer retention. Hence, we have maintained a high-level our recurring revenues by nature, allowing us to gain financial predictability and continuously improve our balance sheet. We kept the business going without interruption in the safest possible manner, and continued to grow organically while completing two acquisitions, one to consolidate our O&M service activity in Texas, and a second one to complement our specialty chemicals and laboratory services offering, expanding our reach in Spain and Latin America. While continuing to improve our financial performance and straightening our balance sheet, we remain confident to achieve the objectives set in our triennial strategic plan and continue to complete acquisitions,” **stated Frédéric Dugré, President and Chief Executive Officer of H_2O Innovation.**

(In thousands of Canadian dollars)	Three-month periods ended June 30,				Twelve-month periods ended June 30,		
	2021		2020	)	**2021**	2020	

	$		% [a]		$	% [a]		$	% [a]	$		% [a]	
Revenues per business pillar													
WTS	**7,074**		**20.1**		6,982	19.4		**30,355**	**21.0**	29,298		21.9	
Specialty Products	**10,334**		**29.4**		11,716	32.6		**43,920**	**30.4**	40,175		30.1	
O&M	**17,796**		**50.5**		17,281	48.0		**70,049**	**48.6**	64,124		48.0	
Total revenues	**35,204**		**100.0**		35,979	100.0		**144,324**	**100.0**	133,597		100.0	
Gross profit margin before depreciation and amortization	**10,002**		**28.4**		10,598	29.5		**39,945**	**27.7**	35,908		26.9	
SG&A expenses[b]	**6,947**		**19.7**		6,016	16.7		**25,493**	**17.7**	23,748		17.8	
Net earnings (loss)	**(195**	**)**	**(0.6**	**)**	813	2.3		**3,119**	**2.2**	(4,227	)	(3.2	)
EBITDA[1]	**3,206**		**9.1**		3,954	11.0		**14,485**	**10.0**	4,690		3.5	
Adjusted EBITDA[1]	**3,089**		**8.8**		4,832	13.4		**14,646**	**10.1**	12,524		9.4	
Adjusted net earnings[1]	**457**		**1.3**		2,110	5.9		**6,471**	**4.5**	5,364		4.0	
Recurring revenues[2]	**30,980**		**88.0**		31,379	87.2		**126,050**	**87.3**	115,110		86.2	

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

Financial results for the fiscal year 2021

Despite the significant negative CAD-USD foreign exchange rate impact, consolidated revenues from our three business pillars, for the year ended on June 30, 2021, increased by $10.7 M, or 8.0 %, to reach $144.3 M compared to $133.6 M for the previous fiscal year. Assuming a constant USD exchange rate during this fiscal year, the consolidated revenues increase would have been $15.0 M or 11.2 %. This overall increase was partially fuelled by the acquisition of GUS on July 1, 2020, which contributed $5.9 M in revenues, and the acquisition of GMP on February 1, 2021, which contributed $3.0 M in revenues for the year ended on June 30, 2021.

Revenues from the WTS business pillar increased by $1.1 M compared to the previous fiscal year. The increase was primarily due to the growth in service activities. The Corporation's willingness to grow first the service activities is in line with its 3-year strategic plan and aligned with its vision to maximize customers' retention, thus recurring revenues. With $4.5 M of new industrial and municipal projects secured at the end of the fourth quarter, revenues from the WTS business pillar are gaining positive momentum. It is in line with the Corporation's business plan to prioritize WTS' projects with higher gross profit margins, or projects that can fuel opportunities for other business pillars.

The O&M business pillar was positively impacted by the acquisition of GUS and showed organic growth of $3.1 M, or 4.9 % this fiscal year, offset by an unfavourable USD exchange rate impact of $3.1 M. In July 2021, the Corporation announced it was awarded an O&M contract with a total value of $10.4 M over 4 years. This new contract should positively affect the coming quarters for the O&M business pillar.

Revenues from the Specialty Products business pillar increased by $3.7 M compared to last fiscal year, largely coming from acquisitions. Genesys, which was acquired on November 15, 2019, contributed $10.7 M to the revenues of fiscal year 2021, compared to $7.2 M for the previous fiscal year. During the third and fourth quarters of fiscal year 2020, Piedmont business line had exceptional deliveries which generated record revenues, while during the third and fourth quarters of this fiscal year, the number of deliveries for Piedmont business line was not at the same level, somehow impacted by a general slowdown in the construction of new desalination plants mainly due to the COVID-19 pandemic.

The Corporation’s gross profit margin before depreciation and amortization stood at $39.9 M, or 27.7 %, for the year ended June 30, 2021, compared to $35.9 M, or 26.9 % for the previous fiscal year, representing an increase of $4.0 M, or 11.2 %. The increase of gross profit margin (%) before depreciation and amortization is explained by the business mix, with more sales coming from the Specialty Products business pillar, which is characterized with higher gross profit margins’ products, compared to last fiscal year. These higher-margin sales, positively affected by the acquisition of Genesys and GMP, contributed significantly to increase the gross profit margin before depreciation and amortization for year ended June 30, 2021, compared to last fiscal year. Assuming a constant USD exchange rate during this fiscal year, the Corporation’s gross profit margin before depreciation and amortization would have been $1.1 M higher.

The Corporation’s SG&A reached $25.5 M for the year ended June 30, 2021, compared to $23.7 M for the same period of the previous fiscal year, representing an increase of $1.8 M, or 7.3 %, while the revenues of the Corporation increased by 8.0 %. This increase was mainly due to the acquisitions of GUS and GMP completed during the fiscal year 2021 as well as the acquisition of Genesys on November 15, 2019, which did not fully impact the fiscal year 2020. Overall, the SG&A ratio was maintained below 18.0 % and was lined with management expectations and the

Corporation’s 3-year strategic plan.

Net earnings amounted to $3.1 M or $0.039 per share for fiscal year ended June 30, 2021 compared to a net loss of ($4.2 M) or ($0.061) per share for the previous fiscal year. The variation was impacted by the increase in the Corporation’s consolidated revenues, the improvement in gross profit margins, lower impairment costs, lower acquisition and integration costs, lower restructuring costs and the fair value gain on step acquisition that were compensated by higher other losses – net, higher tax expenses and higher finance costs. Moreover, the SG&A ratio decreased from 17.8 % to 17.7 %. The Corporation recognized a gain of $2.4 M as a result of measuring at fair value its 24 % equity interest in GMP held before the business combination.

The Corporation’s adjusted EBITDA increased by $2.1 M, or 16.9 %, to reach $14.6 M for the fiscal year ended June 30, 2021, compared to $12.5 M for the previous fiscal year. The adjusted EBITDA % improved and reached 10.1 % for the fiscal year ended June 30, 2021, compared to 9.4 % for the previous fiscal year. Improvement of the adjusted EBITDA was driven by the increase in the Corporation’s consolidated revenues and by the improvement in gross profit margins and SG&A ratio.

Financial results for the fourth quarter of fiscal year 2021
Corporation’s consolidated revenues for the fourth quarter of fiscal year 2021 decreased by 2.2 %, or $0.8 M, to $35.2 M from $36.0 M for the same period of the previous fiscal year. The decrease is explained by the negative CAD-USD foreign exchange rate impact and the decrease in Specialty Products business pillar, partially compensated by the acquisitions of GUS and GMP, which contributed $3.0 M to the revenues this quarter.

The Corporation’s gross profit margin before depreciation and amortization stood at $10.0 M, or 28.4 %, during the fourth quarter of fiscal year 2021, compared to $10.6 M, or 29.5 % for the previous fiscal year, representing a decrease of $0.6 M, or 5.6 %. The decrease of gross profit margin (%) before depreciation and amortization is explained by the business mix, with more sales coming from the WTS and O&M business pillars and fewer sales coming from the Specialty Products business pillar. The WTS business pillar showed an improvement of gross profit margin (%) before depreciation and amortization, in line with the Corporation's strategy to focus on projects with a higher margin profile.

The Corporation's adjusted EBITDA decreased by $1.7 M, or 36.1 %, to reach $3.1 M during the fourth quarter of fiscal year 2021, compared to $4.8 M for the comparable period of fiscal year 2020. The adjusted EBITDA % decreased to 8.8 % for the fourth quarter of fiscal year 2021, compared to 13.4 % for the same quarter of last fiscal year. The reduction of the adjusted EBITDA is explained by the decrease in the Corporation's consolidated revenues and by the decrease in gross profit margins while the SG&A ratio increased.

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 (loss) according to Generally Accepted Accounting Principles ("GAAP"), namely the unrealized exchange (gains) losses, the change in fair value of contingent considerations, the stock-based compensation costs, the impairment of intangible assets and goodwill, the fair value gain on step acquisition, restructuring costs and litigation settlement. 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 (loss) 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

	Three-month periods ended June 30,			**Twelve-month periods ended June 30,**			
(In thousands of Canadian dollars)	**2021**		2020	**2021**		2020	
	$		$	**$**		$	
Net earnings (loss) for the period	**(195**	**)**	813	**3,119**		(4,227	)
Finance costs – net	**360**		529	**2,335**		2,037	
Income taxes (recovery)	**1,174**		618	**1,703**		(319	)
Depreciation of property, plant and equipment and right-of-use assets	**820**		798	**3,187**		2,880	
Amortization of intangible assets	**1,047**		1,196	**4,141**		4,319	

EBITDA	**3,206**	3,954	**14,485**	4,690
Unrealized exchange (gain) loss	**15**	272	**654**	(344)
Stock-based compensation costs	**132**	54	**253**	223
Changes in fair value of the contingent considerations	**(257)**	61	**462**	329
Acquisition and integration costs	**(7)**	85	**489**	1,912
Impairment of intangible assets and goodwill	**–**	–	**–**	5,308
Restructuring costs	**–**	406	**–**	406
Fair value gain on step acquisition	**(4)**	–	**(2,351)**	–
Litigation settlement	**4**	–	**654**	–
Adjusted EBITDA	**3,089**	4,832	**14,646**	12,524

Adjusted net earnings

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

Reconciliation of net earnings (loss) to adjusted net earnings

	Three-month periods ended June 30,				**Twelve-month periods ended June 30,**			
(In thousands of Canadian dollars)	**2021**		2020		**2021**		2020	
	$		$		**$**		$	
Net earnings (loss)	**(195**	**)**	813		**3,119**		(4,227	)
Acquisition and integration costs	**(7**	**)**	85		**489**		1,912	
Restructuring costs	**–**		406		**–**		406	
Amortization of intangible assets related to business combinations	**986**		960		**3,839**		3,504	
Unrealized exchange (gain) loss	**15**		272		**654**		(344	)
Changes in fair value of the contingent considerations	**(257**	**)**	61		**462**		329	
Stock-based compensation costs	**132**		54		**253**		223	
Impairment of intangible assets and goodwill	**–**		–		**–**		5,308	
Fair value gain on step acquisition	**(4**	**)**	–		**(2,351**	**)**	–	

Litigation settlement	**4**		–		**654**		–	
Realized net loss on swap termination	**–**		–		**237**		–	
Income taxes related to above items	**(217**	**)**	(541	)	**(885**	**)**	(1,747	)
Adjusted net earnings	**457**		2,110		**6,471**		5,364	

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. 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.

Net Debt

The definition of net debt consists of bank loans and long-term debt less cash, excluding and/or including contingent considerations. The definition of net debt used by the Corporation may differ from those used by other companies. The Corporation believes that Net debt is important to analyze the Corporation's financial leverage.

(In thousands of Canadian dollars)	**June 30, 2021**		June 30, 2020	
	$		$	
Bank loans	**–**		3,415	
Current portion of long-term debt	**2,975**		2,782	

Long-term debt	**12,941**		13,766	
Contingent considerations	**6,738**		1,413	
Less: Cash	**(15,409**	**)**	(9,439	)
Net debt including contingent considerations	**7,245**		11,937	
Contingent considerations	**6,738**		1,413	
Net debt excluding contingent considerations (''Net debt'')	**507**		10,524	

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 2021 financial results in further details at 10:00 a.m. Eastern Time on Tuesday, September 28, 2021.

To access the call, please call 1 (877) 223-4471 or 1 (647) 788-4922, 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 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, deliver 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 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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Source:
H_2O Innovation Inc.
www.h2oinnovation.com

Contact:
Marc Blanchet
+1 418-688-0170
marc.blanchet@h2oinnovation.com

[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.

[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.