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H_2O Innovation's 2018 First Quarter Results Show Sustained Organic Growth Driven by a Solid Business Model

Key highlights

- For clarity and fair comparison, the first quarter of fiscal year 2018 numbers should be compared to the unadjusted numbers of the first quarter of fiscal year 2017, which includes a full three months of Utility Partners' operations;
- Revenue growth of 13.8% to reach $22.6 M, compared to $19.9 M for the first quarter of fiscal year 2017;
- Recurring revenues from Specialty Products and Services ("SP&S") and Operation & Maintenance ("O&M") business pillars represent 63.9% of total revenues;
- Consolidated backlog, combining Projects and O&M, stood at $105.3 M as of September 30, 2017, compared to $98.5 M for the period ended September 30, 2016;
- Adjusted EBITDA[1] stable at $0.6 M during the first quarter of fiscal year 2018 and for the comparable quarter of fiscal year 2017;
- Net loss of ($1,089,875), compared to ($1,082,086) in the first quarter of previous fiscal year.

All amounts in Canadian dollars unless otherwise stated.

Quebec City, November 14, 2017 – (TSXV: HEO) – H_2O Innovation Inc. ("H_2O Innovation" or the "Corporation") announces its results for the first quarter of fiscal year 2018 ended September 30, 2017. Revenues for the first quarter of fiscal year 2018 totaled $22.6 M, representing a $2.7 M or 13.8% increase, as compared with revenues of $19.9 M for the same quarter of fiscal year 2017. Our growing consolidated backlog which stands at $105.3 M as of September 30, 2017, compared to $98.5 M last year, continues to provide excellent visibility on revenues recognition for the coming quarters.

Revenues from Projects stood at $8.2 M compared to $5.4 M in the corresponding period of the previous fiscal year, representing a 51.9% increase. This increase is explained by increasing number of projects entering a higher revenue recognition phase. The current sales pipeline of Projects remains rich in opportunities and coming quarters should remain busy supported by a $54.7 M projects backlog, as of September 30, 2017.

[1] The definition of adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) does not take into account the Corporation's finance costs – net, stock-based compensation costs, net loss on bank fraud, unrealized exchange (gains) / losses and acquisition and integration costs. The reader can establish the link between adjusted EBITDA and net earnings. The definition of adjusted EBITDA used by the Corporation may differ from those used by other companies.

On the SP&S side, revenues reached $6.0 M compared to $5.9 M in the comparable quarter of the previous fiscal year, which represents an increase of 1.1%. This increase in SP&S revenues is a result of investments made in the operating and selling functions to support and fuel the growth of this business line. "With the maple season kicking in, we expect the SP&S revenues to increase in the next coming quarters, which should drive the gross profit margin up", **stated Frédéric Dugré, President and CEO of H_2O Innovation.**

As for the revenues coming from O&M activities, an adjustment has been made during the year-end audit of fiscal year 2017. The acquisition of Utility Partners ("UP") has been considered effective as of July 26, 2016 instead of July 1, 2016, as disclosed in the unaudited interim consolidated financial statements for the period ended September 30, 2016. Therefore, the comparative figures for the first quarter ended September 30, 2016 have been adjusted accordingly and only 2 months of Utility Partners' operations are recorded for the first quarter of fiscal year 2017. The impact on the results for the period ended September 30, 2016 are as follow: a decrease in revenues of $2,384,712, a decrease in cost of goods sold of $2,212,400, a decrease in administrative expenses of $172,312 and a decrease of amortization of intangible assets related to the acquisition of Utility Partners of $132,927. The net impact is a decrease of the net loss of $132,927 due to amortization. The basic loss per share decreased from ($0.028) to ($0.024), while the diluted loss per share decreased from ($0.027) to ($0.024). The profitability of the Corporation has not been affected by this adjustment, creating distortion on the results of operations (gross profit margin and adjusted EBITDA over revenues ratio). Although these numbers have been adjusted in the comparable period, management has elected to present both the adjusted and unadjusted numbers in the Management's Discussion and Analysis, as if the transaction had occurred on July 1st, 2016, to give a more accurate picture of the results.

Revenues coming from O&M activities are recurring in nature and stand at $8.4 M, compared to revenues for a full three-month of $8.5 M in the corresponding quarter of last fiscal year, representing a 1.1% decrease. Without foreign exchange impact and considering a full three months of revenues, the O&M business pillar is showing organic growth of 2.4% since last year, if compared in US dollars. Since these revenues are recurrent, this growth will keep impacting positively the upcoming quarters. The backlog coming from O&M contracts stands at $50.6 M as at September 30, 2017, and consists of long-term contracts, mainly with municipalities, which contain multi-year renewal options.

"One year following the acquisition of UP, allowing us to build the foundation of our O&M 3rd business pillar, we can claim that our business model is really coming to fruition. Altogether, our three business pillars keep growing, improving and are proposing to our customers a unique integrated offering. Our business model is generating multiple synergies across the three pillars and is allowing us to increase the ratio of recurring revenues. Boosted by the award of the 40 MGD flagship water reuse project for the City of San Diego combined to 100% of renewal of our O&M contracts, our consolidated backlog, standing to $105.3 M, is providing us an excellent visibility of the revenues for the current fiscal year. We continue to strive for innovations at all three business pillars allowing us to secure new sales, increase customers retention and recruit new distributors for our speciality product lines. Overall, our business has never been so well balanced, predictable and position for growth", **added Frédéric Dugré, President and CEO of H_2O Innovation.**

In this first quarter of fiscal year 2018, the Corporation generated a 19.7% gross profit before depreciation and amortization compared to 22.5% gross profit before depreciation and amortization generated in the first quarter of fiscal year 2017. This decrease is explained by the revenue mix, which has been modified with the increase of revenues coming from Projects business pillar. Indeed, Projects and O&M activities generally generates lower gross margin. Therefore, having 63.7% of revenues coming from these two pillars puts pressure on the overall gross margin of the Corporation.

The Corporation's ratio of selling, operating and administrative expenses ("SG&A") as a whole over revenues amounted to 17.7% for this quarter, down from 19.6% for the corresponding quarter of the previous fiscal year. This decrease in percentage of SG&A over revenues is mostly attributable to the increase of the overall revenues without impacting proportionally the selling, operating and administrative expenses. The overall level of SG&A was somewhat stable for the first quarters of fiscal year 2017 and fiscal year 2018.

The Corporation's adjusted EBITDA is stable at $0.6 M in the first quarter of fiscal year 2018 and in the comparable quarter of fiscal year 2017. The adjusted EBITDA over revenues ratio represents 2.6%, compared to 3.2% for the same quarter in fiscal year 2017. Adjusted EBITDA was impacted by a higher volume of executed projects, a lower margin in Projects compared to previous fiscal year and revenues coming from the O&M business.

The net loss amounted to ($1,089,875) or ($0.027) per share for the first quarter of fiscal year 2018 compared with ($1,082,086) or ($0.028) of basic loss per share for the first quarter of fiscal year 2017. The increase in net loss is mostly caused by the product mix with more revenues coming from the Projects and O&M business pillars, putting pressure on the gross profit margin and to the net impact of the external fraud perpetrated through the Corporation's banking online platform.

Operating activities, after the working capital items, used $3.0 M in cash for the period ended September 30, 2017, compared with $1.7 M of cash used during the corresponding period ended September 30, 2016. The net loss impact was mitigated by the increase of depreciation and amortization, but also to a significant impact of change in working capital items, such as a higher volume of activities during this quarter, compared to the first quarter of fiscal year 2017, an increase of level of finished goods inventory to meet the growing demands and a timing difference within the projects production phases affecting the invoicing milestones reached. The operating activities were also impacted negatively by the external fraud perpetrated through the Corporation's banking online platform during the first quarter of fiscal year 2018. Investment in property, plant and equipment was also realized, totaling $0.4 M, from which $0.1 M was made for direct support of O&M specific plants.

CONSOLIDATED RESULTS Selected financial data	Three-month period ended on September 30, (Unaudited)		
	2017	2016 (adjusted)	2016 (unadjusted)
	$	$	$
Revenues	**22,617,998**	17,484,150	19,868,862
Gross profit before depreciation and amortization	**4,454,386**	4,291,226	4,463,537
Gross profit before depreciation and amortization	**19.7%**	24.5%	22.5%
Operating expenses	**877,385**	438,404	438,404
Selling expenses	**1,638,213**	1,595,891	1,595,891
Administrative expenses	**1,477,610**	1,688,419	1,860,730
Research and development expenses – net	**8,515**	81,372	81,372
Net loss	**(1,089,875)**	(949,159)	(1,082,086)
Basic loss per share	**(0.027)**	(0.024)	(0.028)
Diluted loss per share	**(0.027)**	(0.024)	(0.027)
Adjusted EBITDA	**588,063**	629,015	629,015
Adjusted EBITDA over revenues	**2.6%**	3.6%	3.2%

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 financial results for 2018 first quarter in further details at 10:00 a.m. Eastern Time on Tuesday, November 14, 2017.

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 first quarter financial report is available on www.h2oinnovation.com. 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 concern analysis and other information based on forecast future results, performance and achievements and the estimate of amounts that cannot yet be determined. Forward-looking statements include the use of words such as "anticipate", "if", "believe", "continue", "could", "estimate", "expect", "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, notably regarding certain assumptions as to the success of a venture. 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 those indicated. Information about the risk factors to which the Corporation is exposed is provided in the Annual Information Form dated September 26, 2017 available on SEDAR (www.sedar.com). 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

H_2O Innovation designs and provides state-of-the-art, custom-built and integrated water treatment solutions based on membrane filtration technology for municipal, industrial, energy and natural resources end-users. The Corporation's activities rely on three pillars which are i) water and wastewater projects; ii) specialty products and services, including a complete line of specialty chemicals, consumables, specialized products for the water treatment industry as well as control and monitoring systems; and iii) operation and maintenance services for water and wastewater treatment systems. For more information, visit www.h2oinnovation.com.

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