

**BluMetric Environmental Inc.**

**2024 First Quarter Conference Call**

February 29, 2024 — 1:00 p.m. E.T.

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## **CORPORATE PARTICIPANTS**

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## **CONFERENCE CALL PARTICIPANTS**

### **Tom Fedichin**

*MicroCap Connection — Analyst*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to the BluMetric Environmental Inc. Full Year 2024 First Quarter Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Thursday, February 29, 2024.

I would now like to turn the conference call over to Brandon Chow. Please go ahead.

**Brandon Chow** — Investor Relations, BluMetric Environmental Inc.

Thank you, operator. Welcome, everyone, to BluMetric Environmental's quarterly earnings conference call. This call will cover BluMetric's financial and operating results for the 2024 first quarter ended December 31, 2023. Following our prepared remarks, we will open the conference call to a question-and-answer session. Our call today will be led by Scott MacFabe, BluMetric's CEO, and Dan Hilton, the Company's CFO.

Before we begin with our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The Company's actual results may differ significantly from those projected or suggested in

any forward-looking statements due to a variety of factors, which are discussed in detail in our regulatory filings. There may also be references to certain non-IFRS measures such as EBITDA, backlog, working capital, free cash flow, and net cash. These non-IFRS measures are not recognized measures under International Financial Reporting Standards and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Please see our disclosures for further information and reconciliations of these non-IFRS measures.

I will now hand the call over to Scott MacFabe. Please go ahead, Scott.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, Brandon. Welcome, everybody, to our first quarter fiscal year 2024 earnings call for BluMetric Environmental. We appreciate all of you for taking the time to join us on today's conference call. As per usual, I'll start off by providing an overview of the first quarter, then Dan will go over our financial results in more detail.

As a reminder, BluMetric is a full-service environmental consulting and cleantech firm focusing on professional services and providing agile water and wastewater systems. Through a track record that spans over 45 years, BluMetric has evolved into a full-service integrator of environmental solutions in the fields of water and wastewater treatment and professional environmental services. We aspire to be the environmental solutions and water cleantech company of choice globally.

Now let's discuss first quarter in a little more detail. We had a good start to the year, showcased by our continued profitability and gross margins, reflecting more ideal contracts. We continue to

maintain a long-term focus on profitability in addition to a robust balance sheet. This is always a fine balance as we're making strategic investments for growth, particularly in our cleantech water systems division. The next 12 months will be important for us as we execute on our record backlog, expand the geographic reach of our cleantech systems, and explore potential tuck-in acquisitions on the consultancy or technology side.

Revenues for the quarter were down a bit over the same period prior year; however, we note that in Q1 2023 it was unusually high due to the completion of a large remediation project, which included substantially lower-margin, third-party subcontracts as a pass-through. Dan will elaborate a little bit more on those dynamics to better understand the progress we're making as well as the lumpiness that you may see on a quarter-to-quarter basis in our business.

As mentioned on last quarter's call, we're currently sitting on a record backlog, which potentially sets us up well for modest revenue growth as we execute through it for fiscal year 2024 and beyond. Furthermore, gross margins were up quarter over quarter, representing a significant increase from 32% to 42%. As we alluded to last conference call, we've undertaken a deep dive to evaluate our gross margins. This has identified a market consensus among our peers such as WSP, Stantec, and Biorem to only report direct costs in the cost of goods sold. As a result, we are now retroactively reporting the same way as our peers to be consistent. Again, Dan will explain more of this on the call later.

The Company saw higher operating expenses, which were mainly the result of increases in IT consulting, compensation costs, and travel expenses as we saw more work. Thankfully, we continue to utilize our strong balance sheet to support these growth initiatives, which is important in the current

market we're in. Some of these growth initiatives include our continued expansion of key sales personnel, which we saw at the start in fiscal 2023 for our overall business. In response to increased demand by our clients, we've currently opened a satellite office in Halifax. This office will be important to support our business development efforts and provide improved service and support to our clients in that region. Initiatives like these show our ongoing investment into our cleantech water systems division as we aim to increase our geographic reach. Furthermore, to expand our service and support capabilities, we've reorganized to support a dedicated operation and maintenance division within our cleantech business. This new division will expand our capability to service and support what we sell and our clients' existing systems. As we build our team of field service representatives, we can better serve a broader geography, including international assets.

I'm also pleased with our recent win, which was announced after the quarter, which was for a \$5.3 million extension of a service and support contract for Canada's Department of National Defence Reverse Osmosis Water Purification Units, or ROWPUs. This contract is expected to be delivered in calendar year 2024 and our ambition is to complete this assignment this fall in order to free up shop capacity for the Rheinmetall ASUWPS production. In addition, a \$0.4 million proof-of-concept contract was recently awarded by a multinational defence contractor to optimize onboard portable water quality systems. This will be an interesting project as we tackle new solutions for customers that rely on our expertise to deliver mission-ready water solutions, particularly on the service side. Contingent upon a successful outcome, we anticipate a broader application of this solution. These contracts highlight BluMetric's versatile cleantech service capabilities, which extend across both land and sea applications. They're an important part of our overall growth strategy to build a larger base of recurring and higher-margin revenues.

In our key markets, government revenues remained consistent with the previous quarter last year. Our commercial and industrial segment had a decrease in revenues year over year, mainly explained by the previously mentioned large remediation project that relied on third-party subcontractors. Our military market saw an increase in revenues, mainly due to an increase in services. As a reminder, our \$12.2 million contract with Rheinmetall Canada is expected to see delivery throughout fiscal year 2025. Lastly, our mining market saw a decrease in revenues, mainly due to our shift towards higher-value services and improving our client portfolio, particularly in areas such as Northern Quebec.

We remain optimistic about our military market and cleantech systems given the robust pipeline we're seeing through active proposals, the recent service contract wins to reduce the overall variability in our top line, and remain committed to the advancement of our unique water technologies in the market's growing need for resilient water solutions. Overall, our financial position, consisting of adequate working capital and minimal debt, offers the ability for us to continue capturing opportunities and delivering on our record order backlog.

I'd now like to hand this over to Dan Hilton for a more detailed overview of the quarterly financials. Please go ahead, Dan.

**Dan Hilton** — Chief Financial Officer, BluMetric Environmental Inc.

Thank you, Scott. Today I'll be presenting BluMetric's 2024 fiscal first quarter results in more detail.

Revenue for the fiscal quarter was \$8.5 million compared to \$10.5 million for the fiscal quarter ended December 31, 2023. As Scott mentioned, revenues were down mainly due to the completion of a large remediation project in the first quarter of fiscal 2023, which included significant low-margin subcontractors and had the effect of increasing our revenues but lowering our margins in the prior year. I'd like to take a moment to provide some additional context on our revenues. While the gross revenues are down year over year, the net fee revenues generated has increased for the third year in a row. It's a positive indicator that our core business continues to grow when we remove volatility introduced from third-party subcontractors.

Our gross margin was 42% for the first quarter compared to 32% in the year prior. We have historically captured all of our professional employee labour costs and associated benefits in the calculation of gross profit. We completed an analysis of publicly reporting entities in the environmental engineering services sector and noted a consensus to report only direct project costs within gross profit. With the impending growth of cleantech revenues, we felt it was the appropriate time to reflect this change in our reporting methodology to align better with the market. This change in reporting has no impact to our net income and only reflects a change in the allocation of expenses to various income statement components. This change is now reflected as a restatement and its intent is to enhance transparency, conform to marketplace standards, and ensure a clearer financial presentation. Hopefully, this is clearer for you now. To give you some context, with the previous calculation method, our gross margin would have been 28% versus 22% in the same quarter in the prior year. I am pleased to see how our work is progressing to improve our gross margins, which we believe is possible with the continued cost controls, price increases, and risk management initiatives that we are rolling out.



Operating expenses for the first quarter came in at \$3.1 million compared to \$2.6 million in the prior year. The increase is mainly due to increases in IT consulting services, compensation costs, and travel expenses.

EBITDA for the first quarter was \$0.6 million compared to \$0.9 million in the prior year. The decrease in EBITDA is mainly due to the previously mentioned increases in operating expenses.

Net earnings for the first quarter was \$241,000 compared to \$455,000 in the prior year. On December 31, 2023, BluMetric had a net cash balance of \$0.8 million compared to a net cash balance of \$2.9 million on December 31, 2022. The decrease in net cash is mainly attributable to the timing of customer billing cycles, which are often based on milestone deliverables. The milestone billings are often tied to the fiscal periods of our clients, which typically fall in the December 31 and March 31 periods.

BluMetric remains well financed to achieve its objectives and maintains a clean capital structure with minimal debt and a very strong working capital position of \$11.2 million. As at December 31, 2023, the Company had approximately \$4.1 million in immediate cash availability between its operating line and cash balances and the Company remains in compliance with all of its banking covenants.

That concludes my update on the financials and I'd like to thank everyone for taking the time to allow us to present our results to you today and I now hand the time back over to Scott.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, Dan. That was a great update. We'll now take questions from all participants and we'll pass it back over to the operator.

## Q & A

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press star followed by the number one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you would like to cancel your request, please press star two. Once again, it is star one to ask a question.

As a reminder, if you have any questions, please press star one on your telephone keypad.

Your first question comes from the line of Tom Fedichin from MicroCap Connection. Your line is now open.

### **Tom Fedichin** — Analyst, MicroCap Connection

Good morning, guys. Thank you for taking my call. I would like to know what the outlook is for the balance of the year. I know you've got a record backlog, but if you were to try to guess how the revenues will be placed throughout the year, first of all, do you think you'll hit \$35 million or \$40 million in sales? I think you did \$35 million last year. So, I'm just breaking that down as to what, say if it's \$40 million, what that would look like on a quarterly basis moving forward.

### **Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Sure. Thank you for your question. I think we've been very consistent, almost painfully so, to hit around \$35 million on our top line and the goal is to push that closer to \$40 million. And I think what's

going to be the differentiator there is increasing the pass through and revenue production in our cleantech side of the business. I think if we can do that, we can hit that higher number, and that is our desire. Without making promises, I mean we're working very diligently with the cleantech business, with investment in new personnel, broader or actually we've doubled the size of our footprint, and so the ambition is definitely to gear up to be able to have a stronger revenue contribution from cleantech to get closer to that \$40 million range where we think we should be or beyond.

**Tom Fedichin** — Analyst, MicroCap Connection

Okay. And the revenue breakdown, would it be the back half of the year that you would see increased revenues? Would Q2? Like I think there's seasonality in your business. I believe you said on the last call that, towards year end, things do slow down a little bit. I forget how you worded it. But would you suggest that Q3, Q4 will be the strongest quarters moving forward?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

I would say, from where we sit right now, that would be a fair statement.

**Tom Fedichin** — Analyst, MicroCap Connection

Okay. You had mentioned about an acquisition, some tuck-in acquisitions as well. What sort of size are you talking about? What sort of costs would you presume this would cost?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

I'm going to let Dan answer that. I think he's probably... We work on a pipeline of opportunities, but in terms of the range that we're looking at currently, Dan, I'll pass it to you.

**Dan Hilton** — Chief Financial Officer, BluMetric Environmental Inc.

Sure. I think there's two different, perhaps, perspectives on this. One is on the professional services side of the business. In that range, to the extent that we see something strategic that we see being very additive to what we're offering to the markets today. Based on the value of our balance sheet and our worth as a business, we're sort of looking at companies in the 25 to 30 headcount space and we have a few of those that we're sort of in discussions with on a regular basis. Nothing beyond that at the moment on that side of the business, but those are more strategic and we're looking for interesting tuck-ins there that might help the business to grow.

On the cleantech side, it's a little different. On that front we're looking more for technologies that would help us realize higher margins and try to lock down certain aspects of the both potable and wastewater businesses that we're deploying within the military especially. We're seeing a lot of interest there. So I think, on that front, the dollar amounts of these things are probably sub-\$5 million acquisitions that we have our eye on at the moment, but not necessarily large headcount, but more strategic from a technology perspective, things that will help us garner a little bit more traction in that marketplace.

**Tom Fedichin** — Analyst, MicroCap Connection

Wonderful. Now you did speak in the press release about opportunities abroad and outside of Canada. Would these acquisitions be within Canada or outside our borders?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, I think we're keeping our eyes open and our minds clearer as the opportunities present themselves. And we realize that our current, our footprint really is mostly in Canada, and we have made all the right, I think, adjustments to really run a tight business to now look beyond our borders, and so we don't limit it necessarily to a particular geography. I mean we know, we have a relationship with a large environmental consulting company in the US where we can work pretty much anywhere we need to by association, but beyond that really it's NATO countries that really see the value, especially in our cleantech. It travels well and there is a demand.

**Tom Fedichin** — Analyst, MicroCap Connection

Okay. You had mentioned in the press release that there was, I think, a \$400,000 contract with foreign multinational company. Can you guys kind of explain more about that, that opportunity and what it presents and where you see that going?

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

The reason we bring that up is because it really speaks to our position or our cachet in the market. We're looked to as a water leader for water treatment with the Department of National

Defence and so there are boat builders that look to us to help them troubleshoot specific issues that come up post production that they need improvement in water quality, things like that. And so that particular contract is a first commission to do a proof-of-concept of a bit of a system that we can add to an existing build to improve water quality. If it proves out as we expect it will, then of course it's a broader application to a host of other assets and that could grow to \$3 million to \$4 million.

**Tom Fedichin** — Analyst, MicroCap Connection

Wow. Okay. Wonderful. Well, thank you, guys. I appreciate your time.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Our pleasure. Thank you for the questions.

**Operator**

Once again, if you have any questions, please press star one on your telephone keypad.

There are no further questions at this time. I will now hand the call over to Scott MacFabe. Please continue.

**Scott MacFabe** — Chief Executive Officer, BluMetric Environmental Inc.

Well, thank you, everybody, for attending the call today. We really appreciate your interest. We hope we've answered all of your questions and look forward to our next conversation as we drive the

business forward and hopefully exceed your expectations. So thank you for your time and we look forward to our next conversation.

**Operator**

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation.

You may now disconnect.