

BluMetric Environmental Inc.

Fiscal 2024 Second Quarter Results Conference Call

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CONFERENCE CALL PARTICIPANTS

John Lewis

Private Investor

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the BluMetric Environmental Inc. FY 2024 Q2 Conference Call. At this time, all lines are in 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 Friday, May 31, 2024.

I would now like to turn the conference 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 second quarter ended March 31, 2024. Following our prepared remarks, we will open the conference call to a Q&A 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 the 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 the 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 over the call to Scott MacFabe. Please go ahead, Scott.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, Brandon, for the introduction. Welcome, everybody, to our second quarter of the 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 second quarter, then Dan will go over our financial results in a little more detail.

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

Now let's discuss the second quarter in a little more detail. We continued our steady trajectory this quarter, as showcased by our revenue and EBITDA generation. This is consistent with our commitment to sustainable profitability as we aim to grow our business. Revenues for the quarter were slightly down from the same period in the prior year. This is similar to previous quarters where we had a reduction in lower-margin, third-party subcontractors as a pass-through and we were not able to fully replace that revenue. However, the reduction in that revenue resulted in a higher gross margin, which helped contribute positively to the bottom line earnings, which are up year over year.

Overall, we continue to believe that more meaningful organic growth will come from our cleantech side of the business and we're pleased by how activity is starting to ramp up. As you recall, we've doubled our manufacturing footprint in Carp, Ontario; hired key sales staff, technical personnel, and created a new operation and maintenance division; and have started building up inventory. The site transitioning to a more heavy revenue cleantech company and making these growth investments, we are encouraged by the overall profitability from our business, which ultimately comes from the support of professional services. As a reminder, our sales cycle for cleantech products and services can be a multi-year event. Typically, it sees high dollar value contracts as well. I think this is a differentiating factor between us and many of the other cleantech companies, who may have to operate at a loss for many years until they get enough commercial traction.

As we transition into the second half of this year, our focus starts to shift towards the execution of our backlog and equipment orders. We'll start to work on our recent \$5.3 million refurbishment contract with DND that was announced earlier this year. That work has started in Q3. That work is expected to continue within three quarters and be completed. Thereafter, there is other ongoing work

with the DND we're working with independent of that service contract. In addition, the team is building our first portable unit for Rheinmetall. That contract is ongoing and we're in the middle of the process of finishing our prototype, which is under review. We expect to start working full production on that contract in this fiscal fourth quarter. Furthermore, we're pleased that gross margins were up quarter over quarter, representing a significant increase from 37% to 43%.

In our key markets, government revenues were up this quarter compared to previous quarter last year due to more Northern Canada work. Our commercial industrial segment has had a decrease in revenues year over year due to similar reasons as last quarter, resulting to a large remediation project that concluded in fiscal year 2023. Our military market saw an increase in revenues due to the refurbishment of water purification systems for the Canadian DND, which is expected to continue into the fiscal 2024. As I mentioned, the other \$5.3 million contract is in addition to that work along with our other Rheinmetall contract. Lastly, our mining market saw a slight 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 continue to be optimistic about our military market and Cleantech Systems given the robust pipeline we're seeing through active proposals. Global geopolitical tensions are driving increased military spend, which BluMetric continues to be a beneficiary of. These trends support the Company's goal to expand geographically by integrating its mission-ready water technologies into a full-service solution throughout North America and globally with other allied nations. It's a crucial time for us to make sure that we deliver our products on cost and on time while continuing to build on our sales momentum. As I always say, we believe that we're well positioned to capitalize on our growth

opportunities. Our financial position offers flexibility to pursue optionality while benefiting from a recognizable brand in environmental consulting services and clean water technologies.

I'd now like to hand it over to Dan 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 second quarter results in more detail.

Revenue for the fiscal second quarter was \$7.1 million compared to \$7.4 million for the quarter ended March 31, 2024. As Scott mentioned, revenues were slightly down due to the sales mix, which reduced low-margin flow-through subcontractor work, which, in prior periods, had the effect of increasing our revenues but lowering our overall gross margins. Specifically, third-party project work decreased by \$0.9 million from \$2.6 million for the quarter ended March 31, 2023 to \$1.7 million in this fiscal quarter. Similar to last quarter, while gross revenues were down year over year, the net fee revenues generated continued to increase, which results in stronger margins. There will always be volatility present in our business model from third-party subcontractors, but as we grow and include more Cleantech products and services revenues, we hope for its impact to be reduced.

Our gross margin was 43% for the second quarter compared to 37% in the year prior. As I mentioned, this stronger gross margin reflects the higher margin contracts we executed, which included less third-party subcontractor reliance.

Operating expenses for the first quarter came in at \$2.9 million compared to \$2.6 million in the prior year. The increase is mainly due to increases in compensation costs, travel and marketing expenses, along with the benefit in last year's quarter from a bad debt expense recovery.

EBITDA for the second quarter was \$0.4 million compared to \$0.3 million in the prior year. The increase in EBITDA is mainly due to the previously mentioned increase in gross margins.

Net earnings for the first quarter were \$116,589 compared to \$79,925 in the prior year.

On December 31, 2023, BluMetric had a net cash balance of \$2.4 million, consistent with what we saw for the period ended March 31, 2023. The net cash balance increased from the prior quarter due to the timing of customer billing based on milestone deliverables.

Overall, BluMetric remains well financed to achieve its objectives and maintains a clean capital structure with minimal debt and a strong working capital position of \$11.3 million. As of December 31, 2023, the Company had approximately \$5.6 million in immediate cash availability. I apologize, that's March 31, 2024, the Company had approximately \$5.6 million in immediate cash availability between its operating line and existing cash balances and the Company was in compliance with all of its banking covenants, which have been extinguished post quarter end.

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'll now hand it back over to Scott.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, Dan. That was a great update. We'll now take some s from call 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. Should you have a question, please press star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press star followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please for your first question.

Your first question comes from John Lewis. Your line is now open.

John Lewis — Private Investor

Thank you, operator. Good afternoon, guys. Going by the press release, you're showing a \$16 million backlog for 2024, so I'm wondering, I guess, if we're to assume we'll fulfill that, that would maybe, you can help me with the math and tell me whether I'm right or wrong, means the sales would be flat for the year. So I'm wondering if there's any upside to this. Also, the Company has been spending a lot of money on infrastructure for a while, so wondering where that might start to show up in the results. I assume that, if we hold true then with the higher margin, we'll be a little more profitable.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

John, I appreciate the question. Good to hear your voice. Let's talk on the first one. The bullet is to say that's where we have currently available backlog to burn for the rest of the year. So of course we don't stop selling now, it's just what we have generated year to date plus what we have in the bank in terms of billable backlog to burn. Add on top of that, what we continue to push and sell through the rest of the year should give, we hope, that the investment community some confidence in the fact that we are in a good solid position to meet or exceed our revenues from previous year. And so again, this all depends, making sure that there are no surprises, no delays, and we continue to work on the same cadence of sales and booking new work, we should be in a good, solid shape. So really that was the intent of that bullet. That was a new addition to our reporting.

In terms of our profitability on our investments, I think what we're happy about is we've maintained the same kind of results that we have, and steady, but at the same time investing where we need to in our cleantech side of the business, along with some key hires in professional services too. But at the end of the day, we are finding a way to blend our work that we're delivering on in cleantech that generates immediate revenue and some that's the front-end work, for instance, for our ASUWPS contract, that portable system with Rheinmetall, that will really be in the production of revenue mode at the end of this calendar year and into next. So I think that particular unit, the cleantech unit, is learning how to blend the work that we are working on and still stay well in the black and so that's where we're at on that. So really, we see that the big push on the production and outcome, revenue outcome in cleantech is really scheduled into next year, next fiscal year.

I think there was a third question in there, but I might have answered it. So did I miss it?

John Lewis — Private Investor

No, that's fine. Last question: Any acquisitions in the pipeline? If so, how many? And wondering what multiples look like these days.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Well, it's a good question. I mean, to the extent that I can communicate it, we've developed a very robust pipeline. Two things are happening. We find that there is a gravity to BluMetric now where there's organizations that want to be part of us, which is great. We look at those favourably. And we start with culture, then we look at the financials, and then the future. And so we're deep into that now on more than one.

And in terms of cleantech, we're also finding opportunities where not only are they being presented to us but there is a gravity and interest to what we're doing in our mission-ready water business. And so those opportunities are also in deep review, specifically by Dan and myself. We're not going to rush it. If we accomplish one or two of these this year, it will be on the basis, the same kind of diligence and conservatism that have got us to hear in the first place. So we're very excited about possibilities. Any of these opportunities, should they close, would definitely be accretive to the business and a good story. So we're well aware that the kind of organic growth that we generate now is not going to excite a lot of people, but at the same time I think we've got a reputation where we definitely see a really nice healthy pipeline of opportunities for M&A.

John Lewis — Private Investor

Okay, got it. Thanks very much and keep up the great work.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Thank you. Appreciate it. Appreciate your support, John.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the one.

There are no further questions at this time. I will now turn the call over to Scott for closing remarks.

Scott MacFabe — Chief Executive Officer, BluMetric Environmental Inc.

Thank you, operator. Again, everybody, we really appreciate your attendance on the call. We look forward to your questions. We appreciate your support. I do believe that the team here is working very hard to exceed your expectations and we hope to continue to develop the kind of business that you'll all be proud to invest in in the future. So thank you again for your time. Look forward to speaking to you at the next quarterly call. So thank you again.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.