

**LIQTECH INTERNATIONAL, INC.
(NASDAQ: LIQT)**

LIQTECH

**THIRD QUARTER FISCAL YEAR 2021
FINANCIAL RESULTS CONFERENCE CALL**

**Thursday, November 11, 2021
9:00 a.m. Eastern**

CORPORATE PARTICIPANTS

Sune Mathiesen - Chief Executive Officer, LiqTech International, Inc.
Robert Blum - Managing Partner, Lytham Partners, LLC

PRESENTATION

Operator

Good morning, everyone, and welcome to the LiqTech International Reports Third Quarter Fiscal Year 2021 Financial Results Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) and then one (1). To withdraw your question, you may press star (*) and two (2).

Please also note today's event is being recorded. At this time, I'd like to turn the conference call over to Robert Blum with Lytham Partners. Sir, please go ahead.

Robert Blum

All right. Jamie, thank you very much, and good morning, everyone. Thank you all for joining us today during LiqTech's Third Quarter 2021 Financial Results Conference Call. As Jamie just indicated, I'm Robert Blum, Lytham Partners. I'll be your moderator for today's event. Joining us on the call from the company is Sune Mathiesen, the company's Chief Executive Officer.

Before I turn the call over, let me remind listeners that following the conference call prepared remarks, there will be an open Q&A session. Also, please note that there is a slide presentation accompanying today's conference call. For those on the webcast, the presentation will be on your screen for those that have dialed in, the presentation is available on the company's website at liqtech.com/investor-relations and that is, if you sort of scroll about a quarter way down, there's a black box that indicates company presentation, Q3-2021, and you can click on it and access it there.

Before we begin with prepared remarks, we submit for the record the following statement. This conference call may contain forward-looking statements. Although the forward-looking statements

reflect the good faith and judgment of management. Forward-looking statements are inherently subject to known and unknown risks and uncertainties and that may cause actual results to be materially different from those discussed during the conference call.

The Company, therefore, urges all listeners to carefully review and consider the various disclosures made in the reports filed with the Securities and Exchange Commission, including risk factors that attempt to advise interested parties of the risks that may affect our business, financial condition, and sales of operations and cash flows. If one or more of these risks or uncertainties materialize or if the underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected or projected. The Company, therefore, is a listen not to place undue reliance on these forward-looking statements, which speak only as of this date and the date of the release and conference call. The Company assumes no obligation to update any forward-looking statement in order to reflect any events or circumstances that may arise after the date of this release and conference call.

Now I'd like to turn the call over to Sune Mathiesen, Chief Executive Officer of LiqTech International. Sune, please proceed.

Sune Mathiesen

Thank you very much, Robert, and good morning to all of you, and thank you for joining us today. As Robert mentioned, we have included a slide presentation to accompany our call this morning. I will reference certain slide numbers as I proceed with my prepared remarks.

At a high level, and I am now on Slide 3. I'm pleased with the traction we are making to diversify our business and grow our order book, particularly within the oil and gas industry, where we have recently booked orders with industry leaders such as Baker Hughes, Chevron and ONGC during the past few months. These orders from these very important industry leaders highlights our progress in this important market segment for us, and I believe that we will see further acceleration of our oil and gas business in the coming months. The order for the Middle East market through our joint venture partner is clearly a key milestone for LiqTech, and one, we hope we'll be able to build momentum from going forward.

The first order clearly took longer than we originally expected, but we are optimistic that the first one is always the most difficult to get and that it will be an easier pathway going forward. Not only does this order open a larger addressable market for us, it also marks our entry into a build, own and operate model, which we believe will provide us with significant potential upside in the coming years. I will expand more on this momentarily.

Beyond oil and gas, we are seeing reemergence within our marine scrubber business, where we continue to see increased inquiries and bookings. We could also see further growth if the IMO acts on the proposed open loop scrubber ban currently being discussed with its ongoing MEPC committee session. I'll expand more in a moment on our marine scrubber business, but the trends seem to be heading in the right direction for us.

On our China joint venture for the black carbon marine emission reduction market, we are successfully executing on our plan, where we have now obtained our business license, we have taken possession of the factory, and we have begun equipment installation. We remain on schedule to be operational in



the second half of 2022 with significant revenue ramp expected in 2023. I'll expand more on this in a moment and what our expectations are for this large market.

Finally, as you hopefully saw in the press release, we are now seeing increased visibility in our order book and pipeline. As a result, we believe the timing is now appropriate to introduce expectations for the remainder of the year and 2022 as well. This is highlighted by expected revenues in fiscal 2022 of \$50 million to \$80 million, and at these revenue levels, we expect to be profitable, and we expect cash flow to be positive in 2022. We believe that we are being conservative in our expectations, which has been reviewed by the entire management team and Board, and it is the operating plan by which we are working from going forward.

We understand that as investors, you want to have a good understanding of what the operating plan and expectations are. We have tried to be as transparent as possible in providing you the details on market segment breakdowns and where there could be deviations from the plan depending on certain actionable items such as the open loop ban I mentioned just before.

Throughout this slide presentation, you will see that we go on to lay out revenue and contribution margin expectations by segment for 2022 as well. Now clearly, no one has a crystal ball, and there are any number of items that could impact our expectations, including the supply chain disruptions that are impacting nearly every industry around the world, including us, but we are taking as many of these risks into account as possible. Weighing them against our order book and pipeline to provide as accurate a picture as we believe possible for you.

With that as an overview, let's now first transition to the marine scrubber market, and for those following along, we are now on Slide 5. We continue to see improving market conditions for scrubber systems as the price spread between high and low sulfur fuel remains stabilized above \$100 per metric ton. In recent weeks, the spread has further widened as reports of shortages of low sulfur fuel permeate throughout the market. You will see that on the chart on the right-hand side of the slide.

The IMO is currently discussing a harmonization of scrubber discharge regulations at the MEPC 77 meeting currently being held through November 12. The potential harmonization follows a number of local open-loop discharge bans across the world, including the European Union and most recently, Turkey. We expect to see some type of announcement from the IMO in the following months on their recommendations.

We believe that the trends in the marine scrubber market continue to favor increased adoption of closed loop systems that employ the Company's filtration technology. This transition to closed-loop systems could accelerate with a potential global port ban of open loop systems, providing us the additional opportunity to supply closed loop conversion systems for some 4,000 vessels that have already installed open loop or hybrid scrubbers.

In addition to the 4,000 vessels, that would need to be converted, analysts continue to estimate that an additional 4,000 to 6,000 ships will yet be retrofitted with exhaust gas scrubber systems in the coming years.



Similar to what we mentioned last call, the new orders we are receiving are rather diversified. They are diversified by scrubber manufacturer, they are diversified by end user, and they are diversified by geography, although we continue to see a strong growth out of China.

As you turn to slide 6, we are currently expecting revenue from marine scrubbers to be in the range of \$12 million to \$20 million in 2022.

Now transitioning to oil and gas on slide 8. As I mentioned at the outset, we recently received orders for multiple oil and gas-related projects with industry leaders, Baker Hughes, Chevron and ONGC across multiple end market geographies, including the Middle East, the deep-sea oil and gas market as well as India. The order from Baker Hughes for the Middle East is considered a significant milestone for the company as it not only enters a very large addressable market, it also marks our first entry into a build, own and operate model where the Company can generate income from both the sales and operation of its water filtration systems.

As I have stated in the past, there is a significant shift taking place in the Middle East towards the reuse of water. In particular, new environmental regulations, combined with geological restrictions and local water scarcity are driving a greater fraction of the produced water to be more extensively treated and reused. This reuse plus 50% more water expected to be treated over the next 10 years is what is providing this significant opportunity for LiqTech.

We believe that our current available market for this application is more than \$7.5 billion, but as environmental awareness grows, legislation tightens and water scarcity increases, we believe that this number grows much larger. The build, own and operate model in connection with our JV partner provides us a unique opportunity to create a recurring revenue stream of sorts going forward, and one we may look to deploy in other markets as well.

I spoke briefly on this during our October conference call, but I wanted to take an extra moment to be sure that we were all clear on how our joint venture structure works. As I mentioned, LiqTech sells the equipment to the joint venture under normal prices, normal payment terms and normal margins. LiqTech is a minority owner in the joint venture, and we are not funding the joint venture. The joint venture pays LiqTech the full price for the equipment. On the revenue recognition and accounting, since LiqTech is a minority shareholder, and since we are not funding the joint venture, nor purchaser of the equipment, LiqTech recognizes revenue on the entire sale of the system.

The joint venture then rents the equipment to the customers. Any profits that the joint venture generates from the rental of the systems will be proportionally split between LiqTech and the joint venture partner, 49% for LiqTech and 51% from our joint venture partner on an ongoing basis. That potential joint venture profit will show up below the line as other income from joint ventures. We believe this is a great setup for LiqTech going forward, and we do look forward to the execution of additional agreements with them.

Expanding on our other oil and gas opportunities outside of the Middle East, we're excited about the ethylene glycol recovery opportunity we discussed last quarter. As noted, this agreement is with Chevron, one of the largest oil companies in the world, and we are optimistic that there are a number of large opportunities with Chevron and with other customers.



Finally, we recently received an order for Oil and Natural Gas Corporation, or ONGC, an Indian government crude oil and natural gas corporation. Here, our technology is again applied for a produced water application.

On the next page, slide 9, as you can see, we are forecasting oil and gas revenue of \$14 million to \$20 million in fiscal 2022 with strong contribution margins of 60% to 65%. Our pipeline of projects for the oil and gas market remains large. That said, we want to set what we believe are conservative expectations for our 2022 revenue opportunity given the challenges we discussed in getting our first order over the finish line. If additional large orders come in, we believe we certainly could be adjusting our expectations in the future quarters.

On Slide 11, let's now transition to the black carbon reduction market, where our focus is on marine vessels within China. To quickly remind you, China has taken a lead in reducing black carbon emissions from inland and ocean-going vessels. The new mandates in China have created a large opportunity for a product, which we have been a 20-year leader in -- our Diesel Particulate Filters to remove particulate matter from exhaust gas of internal combustion engines.

With the new mandates, we are moving forward with plans to develop a new manufacturing facility in China, the facility will manufacture both black carbon and NOx reduction products, and it will also function as a service center for the Company's marine scrubber products.

So just a brief update here. We have now signed our lease agreement for the facility, which is based in Taicang, some 50 kilometers away from Shanghai. We have taken possession of the facility, and we are in the process of installing critical infrastructure and have procured key equipment for production. You can see a picture of the facility on the right-hand side of the slide, and we have also signed relevant agreements with the local authorities, and you can see a picture from this event also on the right-hand side of the slide. Bottom line is that we remain on track to be operational in the second half of 2022.

If you turn to the next slide, slide 12, you will see our expectations for revenues in 2022. This is obviously reflective of the timing by which we expect to have the new facility up and running and ramp in this market. As we look to 2023 and beyond, we're expecting a very significant revenue ramp, and this is the primary reason behind the building of the new facility. As a reminder, the new facility will have a revenue capacity of approximately \$225 million. We remain very excited about the future potential in China.

As we turn to the next slide, you will see what we have described as other product opportunities. We typically don't spend as much time discussing these, but as a result of our investments in new applications throughout the pandemic, they will make up a significant part of our business on a going-forward basis. Some of these you may be familiar with, such as our legacy DPF filters, OEM filters, land-based water treatment systems and engineered parts.

As you see on slide 15, we are expecting 2022 revenue of \$23 million to \$36 million from these 4 areas. The biggest component of them is OEM membranes, where we're supplying water treatment companies with our proprietary silicon carbide membranes. These are relatively high-margin opportunities for us and provide us a great opportunity to leverage the investments we have made in our technology over the years.



Again, the significant growth in new applications and sales of membranes is a direct result of the investments in sales and R&D throughout the pandemic. We are already seeing the results in terms of an increased amount of inquiries and orders, and we are confident that we can meet our ambitious growth targets for 2022 and beyond.

Transitioning now to management expectations on slide 17, as I mentioned, we are experiencing increasing demand for our products and solutions following the negative impacts from the pandemic, which significantly impacted revenue in 2020 and the first part of 2021. New orders and our overall pipeline have provided us with enhanced visibility which is why we are now comfortable introducing guidance on the fourth quarter and 2022 as well.

As you see on the slide, which really summarizes much of what we talked about this morning, we are expecting revenue of \$50 million to \$80 million in 2022. We see continued traction and growth in our oil and gas business coupled with continued progress within our marine scrubber business, which combined are expected to contribute more than 50% of 2022 revenue.

Additional revenue growth is expected from applications, including OEM membranes, land-based water treatment systems, DPF and engineered parts, which I just touched on. We're expecting limited initial revenues from black carbon reduction in 2022, as I just mentioned, however, a significant ramp is expected in the following years after the completion of our China-based manufacturing facility.

Further, we expect a return to profitability next year as a result of the growing volume and stabilization of our operating expense.

In the near term, if you look to the next slide, these improvements will be partly offset by supply chain disruptions, particularly in our ability to obtain pumps and electronic parts, which has impacted third quarter deliveries and will likely impact fourth quarter deliveries as well. However, we believe that this will normalize itself in the coming quarters.

So, to wrap things up, we are excited about the position the company is in today. We have successfully diversified our product offerings to leverage our proprietary technology, and importantly, we are beginning to win orders in these segments. Despite the supply chain disruptions, our visibility to orders and our pipeline is significantly stronger today, and it provides us confidence in the outlook we have provided for you for the coming year.

Just one final note, I will finally be back in the U.S. at the beginning of December during the Stephens Investment Conference in Nashville. I look forward to visiting with many of you face-to-face, and further, I'll be at the Lytham Winter 2021 Conference in mid-December, which is a virtual conference and I look forward to connecting with many of you then as well.

As always, I thank you all for your support of LiqTech and now I would like to turn the call over to your questions. Operator, please?





QUESTION AND ANSWER SESSION

Operator

Ladies and gentlemen, at this time we will begin the question-and-answer session. To ask a question, you may press star (*) and then one (1) using a touchtone telephone. To withdraw your question, you may press star (*) and two (2). If you are using a speakerphone, please pick up your handset before pressing the keys to ensure the best sound quality. Once again, that is star (*) and then one (1) to ask a question. We will pause momentarily to assemble the roster.

Our first question today comes from Rob Brown from Lake Street Capital Markets. Please go ahead with your question.

Robert Brown

Thank you for all the detail in the presentation here and sort of color on the 2022. My first question is really around the scrubber market and sort of some of the supply chain issues? And maybe how is your visibility on in terms of delivering things and maybe what's the order book activity level there at the moment?

Sune Mathiesen

As you know, the Marine Scrubber business has been tremendously affected by or negatively impacted by the pandemic, and we've been operating on a very low level throughout 2020 and 2021 on marine scrubbers. Back in February, we saw that the price spread between low sulfur fuel and bunker fuel began to increase again, and that spiked an interest from ship owners again to install marine scrubbers. We have been collecting orders and we are slowly ramping back up to speed in the marine scrubber business. We are now anticipating \$12 million to \$20 million of revenue in here, and I believe we have quite good visibility on that.

So, it's been a long downturn and finally getting back to booking orders and we believe the outlook we have provided for next year will turn out to be accurate. It's obviously a big range, but we think we'll be within that range.

Robert Brown

Okay. Good, and then on the oil and gas order, you talked about in India, what's the scale of that? And is that a direct equity sale?

Sune Mathiesen

You broke up there, Rob, sorry.

Robert Brown

Sorry, I was talking about the India oil and gas order that you talked about. What's sort of the size of that order? And is that a direct equipment sale? Or is that part of a JV arrangement as well?

Sune Mathiesen

It's a direct equipment sales. So, it's sales outside of the JV. It's a new customer. We are currently working on several projects with them. This first order was for an application like what we're doing in

the Middle East. The first order was not as big as the first one we announced in the Middle East. We have a few quite exciting projects coming up here that we can hopefully book in the near future. So, let's call it a good start and with a great potential customer, and then we look forward to booking next orders.

Robert Brown

Great. Thank you, I'll turn it over.

Sune Mathiesen

Thanks, Rob.

Operator

Our next question comes from Jeb Armstrong from Clear Harbor Asset Management. Please go ahead with your question.

Jeb Armstrong

Hi, good afternoon, Sune. I hope you are well and thank you for providing the guidance. I think it's terrific to be able to have some visibility into what's happening over the next 12 months. I wanted to first sort of go back and hone in a little bit on the logistics, the supply chain issues about what sort of happened in the last couple of months that may have changed? And what kind of visibility you have going forward now, now that we're in the sort of the middle of the fourth quarter?

Sune Mathiesen

Yes. We actually discussed it on our previous conference call that we were beginning to see supply chain disruptions in the market, and that has become worse. We see the pump deliveries and deliveries for electronic parts are being pushed out, and that has affected our ability to deliver certain orders in the third quarter. These orders have now been moved into the fourth quarter and actually even some of the orders we're supposed to deliver in the fourth quarter have now been moved to the first quarter and so forth. It is what it is. I think that most companies around the world are experiencing this right now. We're trying to work around it. We're trying to be able to forecast better on what parts we need, but it is affecting our business right now. We think it will do that for the next 1 or 2 quarters, and then we believe the situation will stabilize.

Jeb Armstrong

I just wanted to turn back and if you could just sort of review the -- how gross margin -- what goes into gross margin as it does move about a fair amount. So, if you could just provide sort of an overview of the items that go into gross margin and why it does tend to move about as much as it does?

Sune Mathiesen

Why it moves around right now is very much related to volume. So, it also means with the low volume, the impact from our fixed costs that are part of the gross margin, they -- that becomes a bigger part on the low volume. So, as we grow our revenues, that will fluctuate less. So basically, our costs that are included in the gross margin consists of fixed cost and output costs, and as we grow revenues, the fixed part becomes smaller. Depreciation becomes a smaller part, and also, we should see, depending on revenue mix that the gross margins will stabilize.



As you can see from the presentation, our contribution margins vary quite a lot depending on the specific application. Contribution margins from oil and gas are high, whereas contribution margins from DPF, for example, are very low, but again, as we grow revenues in each of these business segments, we will also see that gross margins will stabilize.

Jeb Armstrong

Thank you, Sune. I appreciate the insight.

Operator

Once again, if you would like to ask a question, please press star (*) and then one (1). To withdraw your question, you may press star (*) then two (2).

Our next question comes from Craig Rose from Axiom. Please go ahead with your question.

Craig Rose

Hello, Sune. Considering the low end of your guidance is offering 100% revenue growth, is there a reason why you're not reporting a backlog number like most people would?

Sune Mathiesen

We -- yes, good question, Craig -- we are just getting into the habits of providing guidance throughout the pandemic. It's been difficult for us to forecast our business. As you know, we -- our marine scrubber business was seriously impacted by the effects from the pandemic. What has led us to now provide guidance is enhanced visibility on the order book and our pipeline, and that now has led us to take the decision to provide guidance.

We could obviously include more things into guidance going forward, maybe order book is one of them. This is certainly a starting point, and I think it's a great starting point. I think it provides our investors with much more visibility on where we think the Company will be 12 months from now, but we'll certainly take into consideration, including order book in the future.

Craig Rose

Well, I would say with -- you're now pulling revenue from 4 locations, you no longer have to fear reporting your purchase orders or your booked orders because your competitors won't know where the orders are coming from. So, I would recommend start doing it immediately and it's a way for you to build credibility among current and future investors.

Sune Mathiesen

Yes. I think that's certainly a valid point, Craig, and would certainly be part of our considerations for which metrics we will include in our guidance going forward.

Craig Rose

Is it safe to say that you purchase orders for the low end of your guidance?

Sune Mathiesen

Yes. Again, we have not provided that number, and again, we -- I think you have a valid point and it will be part of our consideration when we provide metrics on the next update.



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Craig Rose

Thank you very much.

Sune Mathiesen

Thanks, Craig.

Operator

Ladies and gentlemen, at this time, we're ending today's question-and-answer session. I'd like to turn the floor back over to management for any closing remarks.

CONCLUSION

Sune Mathiesen

Thank you very much, Jamie, and again, thanks for everyone joining us on the call today. I wish you a great day and stay safe. Thank you.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.