

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

**LIQTECH**

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

**Monday, August 16, 2021  
9:00 a.m. Eastern**

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**CORPORATE PARTICIPANTS**

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

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**PRESENTATION**

**Operator**

Good morning and welcome to the LiqTech International 2<sup>nd</sup> 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 "\*" key, followed by "0". After today's presentation, there will be an opportunity to ask questions.

To ask a question, you may press "\*", then "1" on your telephone keypad. To withdraw your question, please press "\*", then "2".

Please note this event is being recorded.

I would now like to turn the conference over to Robert Blum with Lytham Partners. Please go ahead.

**Robert Blum**

Alright, thank you, Andrea, and good morning, everyone. Thank you for joining us, today, to discuss LiqTech International's second quarter, 2021 financial, results.

I'm Robert Blum of Lytham Partners. I'll be your moderator for today's call. Joining us on today's call from the company is Sune Mathiesen, the company's Chief Executive Officer.

Before I turn the call over to Sune, let me remind listeners that, following the conference call, there will be an open Q&A session. You should also note that a replay of this call will be available shortly, following the conclusion of the live call.

Before we begin with prepared remarks, we submit for the record the following statements:

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 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, 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, urges all listeners not to place undue reliance on these forward-looking statements, which speak only as of this date and the date of the press release and conference call.

The Company assumes no obligation to update any forward-looking statements, in order to reflect any events or circumstances that may arise after the date of this release and conference call.

Now, I would 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.

At a high level, our business has significantly improved from the last four to five quarters with our backlog now again growing. We have seen a resurgence in orders for marine scrubber filtration systems and have recently booked orders for the black carbon reduction market in China.

We also received our first commercial order from one of the industry's largest companies for a difficult offshore deep-sea drilling application in the oil & gas market, where we will be deploying our proprietary membrane technology to recover and reuse ethylene glycol. I will touch more on this in a moment.

Similar to what many other companies are seeing in our industry, the order ramp is outpacing our current revenue levels during the second quarter, and it is our belief that revenues will more than double in the second half of 2021.

We are, obviously, very pleased with our progress and recovery of our business, but this is more than just a return to normal from the pandemic. As you are all aware, starting from the third quarter last year, we have made significant strategic investments in our market approach and selling organization to drive revenue growth. The team has done an outstanding job and we are excited about the expected return to growth for LiqTech.

While we were successful in receiving our first oil and gas order within an offshore application, we are still eagerly awaiting final signoff from counterparts on our Middle East oil and gas orders.

Clearly, we thought we would have received the necessary documentation to feel comfortable in making a formal announcement but, to this point, we have not. I will state, very strongly, that we don't believe this has any long-term impact on the multiple orders that we are working on and, instead, seems to be based on the lengthy process and procedures within these very large companies in how they operate.

If this has not been made clear, I want to make sure it is. The rapidly improving order book and the doubling of revenues we are forecasting in the second half of the year is without contributions from any Middle East oil and gas orders. If, and when, those orders are finalized, they will all be on top of those expectations.

Let's dive into each of our three core markets and provide some added details for you.

First, on the marine scrubber market.

As a continuation of the trends from the first quarter, the marine scrubber market continues to improve. The price spread between bunker fuel and low sulphur fuel, which remained lower than \$50 throughout much of 2020, is now stabilizing above \$100, per metric ton.

As a reminder, we believe a business case argument supportive of marine scrubber installations ranges between approximately \$70 to \$80, per metric ton. Given the return to strong and stabilized price spreads, this is providing shipowners much greater confidence in achieving good investment returns on their scrubbers. And as a result, we are seeing a steady increase in inquiries and improving order intake.

Importantly for LiqTech, however, is the transition towards closed-loop systems that deploy the Company's filtration technology. This momentum has been enhanced, following the November 2020 European Parliament vote to out-phase and, ultimately, ban open-loop scrubber systems.

To date, more than 120 ports, worldwide, have banned open-loop discharge. However, the IMO has deferred committee discussions to harmonize open loop scrubber water discharge regulations, until November 2021.

Recently, a leading industry analyst, has predicted a second wave of scrubber installations. New ship owners are now adopting scrubbers and the expectation is that an additional 4,000 to 6,000 vessels will install scrubbers, in the next five years.

On top of that comes some 4,000 vessels that we believe, ultimately, will have to be converted into closed-loop systems. All together, this represents a business opportunity for LiqTech of more than \$3 billion.

Similar to what we mentioned last quarter, the new orders are rather diversified. They are diversified by scrubber manufacturer, they are diversified by end user, and they are diversified by geography.



I also mentioned last quarter that the number of vessels, per order, we were winning were smaller than they had been in 2019. We were booking orders of one to three units, per order, but we said the quotation activity was for larger vessel numbers and we expected to win a fair share of those. Over the last few months, we have now seen orders grow larger, again.

This is similar to the development we saw in 2019, when the marine scrubber market was booming, and it provides us with confidence that this is, indeed, the start of a second wave of scrubber orders.

All told, we like what we are seeing in the marine scrubber market, in terms of quotation activity and orders, and the macro trends towards a potential ban on open loop systems, and the overall price spread increase provides us continued optimism for the near- and long-term.

Let's now transition to the black carbon reduction market, where our focus is on marine vessels within China, and we announced the receipt of the first orders.

As I said last quarter, China has taken a lead in reducing black carbon emissions from inland and ocean-going vessels. The new mandates in China have created a \$26 billion opportunity for the Company.

This tightening legislation has created a new opportunity for a product, which we have been a 20-year leader in. The product is our Diesel Particulate Filters to remove particulate matter from the exhaust gas of internal combustion engines. As you recall, we have adapted this 20-year history in DPF and have developed a product, specifically, for black carbon reduction within the marine sector.

Following up on the announcement we made in May, during our second quarter conference call, we have received first orders for this application. The market seems to be playing out, as we expected, and confirms our reasons for making the investments in manufacturing in the region.

So currently, orders are being supplied by our manufacturing facilities in Denmark. However, in China, we have now completed the site selection and signed the key lease and investment agreements.

The shell of the building is in place and equipment is expected to arrive in early 2022. We have also hired a Danish executive with excellent prior experience in China to lead our efforts there on the ground. We remain on track to be operational in the second half of 2022.

As a reminder, this facility will manufacture both black carbon and NOx reduction products and will also function as a service center for our marine scrubber products. Overall, total capacity is expected to be at about \$275 million in annual revenue.

Clearly, we are very excited about the future potential in China.

And finally, on the oil and gas market, we're excited to be entering this market in an initial capacity with our first order for the ethylene glycol recovery in deep-sea applications. You may recall that we hinted at this, last quarter. This application has, historically, been very challenging, but our technology has proven more efficient and effective than traditional equipment in pilot trials.

As background, normally, these rigs will include an ethylene glycol formula, or simply put, "anti-freeze" in the drilling process.

Today, this poses a big challenge for the operators, as the anti-freeze has to be filtered out, after the process. Our technology not only allows for the separation of the anti-freeze, but also allows for its reuse.

This is not only good business practice, but also good for the environment. The payback period is very short, so there is a rapid return on investment for these customers.

This order is with one of the largest oil and gas companies in the world and we are optimistic that it can lead to a number of other orders in this specific application. We expect delivery of this new order later in 2021.

And now, transitioning to the Middle East.

And clearly, there's a sense of frustration at the time it has taken to finalize our first order. That said, the orders are there, and the pipeline is unchanged. As I mentioned, we are awaiting final signoff from our counterparts and are, clearly, optimistic that it will be soon.

Our optimism for this market is as high today, as it has been at any point, given the conversations that are taking place. However, conversations need to turn into firm orders, and we are working hard to ensure that occurs. I obviously hope to have additional news to report to you in the near future.

So, to wrap things up, the journey to diversifying our business is here. Our order level has rapidly improved in the last few months, and we've seen a strong rebound in the marine scrubber market, initial orders in the marine black carbon in China, and a large pipeline in oil and gas.

We are expecting our revenues in the second half of 2021 to more than double, compared to the first half.

The deep-sea drilling oil and gas order we received, coupled with a \$2.2 million acid filtration order, really highlights the transition away from our reliance on just one end-market. I believe this demonstrates the potential of our proprietary technology and we continue to gain traction in still more applications.

And on top of that, our balance sheet remains strong, with more than \$25 million in cash at the end of the second quarter, as we efficiently manage the operations while, at the same, time gearing up for expectations of growth.

We have made great strides in the last few quarters to reposition us for strong growth. That said, there is still a lot of hard work to do and even bigger opportunities, ahead.

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



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## QUESTION AND ANSWER SESSION

**Operator**

We will now begin the question-and-answer session. To ask a question, you may press “\*”, then “1” on your telephone keypad. If you are using a speaker phone, please pick up your handset, before pressing the keys. To withdraw your question, please press “\*”, then “2”.

At this time, we will pause, momentarily, to assemble our roster.

And our first question will come from Rob Brown of Lake Street Capital Markets. Please go ahead.

**Rob Brown**

Hi, Sune.

**Sune Mathiesen**

Good morning, Rob.

**Rob Brown**

Just first, questions on the marine scrubber market and the order activity that you’re seeing in terms of ramp-what sort of level of orders have you been receiving? What’s the backlog there?

And I guess, what’s the quoting activity? Maybe just give a sense of how you get confidence in the back half ramp and really what you’re seeing in terms of order activity coming in?

**Sune Mathiesen**

I think we get confidence from a couple of things. One, we have noticed that the quarterly reports from several of the big scrubber manufacturers. And we see that they are reporting the same things we see, namely, revenues are still low. But they are now again picking up more and more orders, and they have high expectations for the upcoming quarters.

So, the trends that we are seeing is very much in line with the ones our customers are seeing, and the big scrubber manufacturers are seeing. So, that is one of the facts that provides us with confidence.

The other fact is, of course, the inquiries. We see more and more inquiries. We see a clear trend towards closed-loop systems, which is, obviously, very important for our business.

And then lastly, we have seen orders pick up. We have moved away from the one and two vessel orders into quite more significant orders and double-digit number of vessel orders.

So, all of that really provides us with confidence that this is a real rebound in the scrubber business.

We have also seen leading industry analysts come out with reports that they also expect a second wave in scrubber orders.

They have named several new customers or new end users that are now installing scrubbers. And they confirm our expectations of an additional 4,000 to 6,000 scrubber installations, in the next five years. So, all together, it all provides us with confidence and it's great to see that other players in the market, they see the same pattern.

**Rob Brown**

Okay, thank you. And then on the Middle East order that you talked about getting closer to sign off and really been working on, are those--could you characterize sort of the--how many orders are you sort of actively working in? And maybe some color on kind of getting the timing delayed? Is it really working through the--sort of the approval process at the customer? And just some color on how that's progressing.

**Sune Mathiesen**

Yeah, we are, obviously, new to the oil and gas market in the Middle East. And in all honesty, we had expected to see orders, by now. And I think a lot of our investors had expected to see that, as well.

But it is what it is, and the orders are still there. We are working through the system, and we are getting closer and closer to a final sign off on those orders.

And as soon as we do that, we will, obviously, let our investors know that this has happened. In terms of number of orders, well, we are working on quite a large number of projects. And I would say, a handful of those are getting close to the finish line.

**Rob Brown**

Okay. And are these with different customers? Or if you get sort of one over the finish line, do the other ones come easier? Or are they sort of each in of themselves kind of the same process of getting through the customer approvals?

**Sune Mathiesen**

Actually, some of them are even bundled together. So, when one crosses the finish line, so does the other projects. But yes, it's getting close now. We had hoped to be able to announce something before today. But it is what it is, and projects are still there, and we will get them across the finish line, very soon.

**Rob Brown**

Okay, great. Then the last question is on the China facility ramp. You mentioned how that's progressing. How did the orders start to come in? Do you need the facility up and running to really have that order flow start, or can you see bigger orders come in that you then service from Denmark and then switch to China, in time?

**Sune Mathiesen**

Yeah, it's still very early days in the back half on reduction market. But we think it's encouraging that we have seen the first orders come in. We think--when we look at the inquiries, it's even more encouraging. It's obviously, a huge market opening up and still early days.

We--until now, we have been able to supply it out of our Danish facility. We hope we will be able to do so and meet demand, until we can get the Chinese facility up and running.





We are on track to be operational in China in the second half of 2022, hopefully, in the beginning of the second half. And we think, again, it's a good sign that we're already taking up orders, but we will see, let's say, a real ramp in orders in the beginning of 2022.

**Rob Brown**

Okay, thank you. I will turn it over.

**Sune Mathiesen**

Thanks, Rob.

**Operator**

Again, if you would like to ask a question, please press "\*", then "1". And our next question will come from Liam Burke of B. Riley FBR. Please go ahead.

**Liam Burke**

Hi, Sune, and how are you?

**Sune Mathiesen**

Doing well. Good morning, Liam.

**Liam Burke**

Sune, in the offshore application that you just won, is that an opportunity for you to do more business in that area or do you see that as just a trial and really the value is on the oil and gas side in the Mid-East?

**Sune Mathiesen**

No, I actually see it as a great opportunity for us to do business outside of the Middle East. The order came from one of the largest oil and gas companies in the world. And this is a tough application and an application that has, traditionally, been difficult to handle for the operators.

We have demonstrated that we can handle this, and we can even reuse the ethylene glycol.

And with everything going on in the oil and gas industry with tightening the deflation with ESG profiles for the companies, we think that this is a real application where there is a significant amount of potential for LiqTech.

Having said that, we are still, obviously, focused on the Middle East, as well. But I think it's great that we have more than one, let's say, route to market in the oil and gas business.

And this, as a stand-alone application, could also prove very significant for us.

**Liam Burke**

Great. And in your reported revenue, how much was DPF in that \$4 million?

**Sune Mathiesen**

From top of my head, about \$1.5 million, but I would have to get back to you.



**Liam Burke**

That's fine, no, that's close enough. And then lastly, on the orders, you disclosed \$10 million in orders in the--at the end of the first quarter. Obviously, you've given us guidance on the revenue. Without having to quantify exactly what that order number is, how would you define that in, terms off of that \$10 million, directionally? Any kind of sense we can get on the percentage growth, there?

**Sune Mathiesen**

Yes. It looks like it'll be--it's a big percentage, as you can imagine, right? We hinted to, we even quantified the orders in the last quarter, and they, significantly, outpaced the revenue.

It looks like it's a clear trend. It looks like orders will continue to outpace revenue. We will see a nice revenue increase in the first-third quarter, should ramp further in the fourth quarter and so should orders, quarter-by-quarter.

So, this looks like a real rebound in the marine scrubber industry and a real commercial breakthrough in other applications, as well. And that, coupled together, should drive growth in the second half and beyond.

**Liam Burke**

Great. Thank you, Sune.

**Sune Mathiesen**

Thanks, Liam.

**Operator**

The next question comes from Roger Liddell of Clear Harbor. Please go ahead.

**Roger Liddell**

Yes. Good morning, Sune.

**Sune Mathiesen**

Good morning, Roger.

**Roger Liddell**

A couple of questions. The IMO's deferral to November of further action--on further action scrubbing, what are the politics of that deferral? In effect, why wasn't it brought to a head, when the rationale for closed loop is so strong and so obvious?

**Sune Mathiesen**

A couple of reasons, I believe, Roger. One is that the IMO, traditionally, gives the ship owners a couple of bites at the apple, or the membership countries, a couple of bites at the apple before they decide anything.

So, they typically have new legislation on the agenda for several meetings, before they actually vote on it. So, I think that's the first reason.



The second reason was that in the June meeting, where it was on the agenda, they didn't have enough time to go through all the points on the agenda. There has been criticism after that meeting from several ship owners that they were not able to discuss all the points on the agenda.

And this was one of the points that they had to differ. But I think it's, actually, good news for us because it means that they want to give the membership countries a couple of bites at the apple, before they put it to a vote. And if they didn't want to do that, it would simply have been removed from the agenda for the next meeting. So, I think it's good news for us, actually.

**Roger Liddell**

Okay. Following up in the marine scrubber area, if the orders were all ones-ies, twos-ies, I can see why you wouldn't have any visibility on that. But you're telling us that you are now looking at larger programs, whether that's by ship owner or by shipyard, I'm not clear.

But if we're speaking of, let's say, low-double digit quantities, not ones-ies, twos-ies, that ought to provide much more visibility, than in the recent past. Yet, I'm not hearing from you or maybe I need to have you clarify the visibility side. What are we looking at?

**Sune Mathiesen**

So first of all, what we said today is that we expect revenues to more than double from the first half, in the second half, so which is quite substantial, right, doubling revenues from one six-month period to the next. It would actually come very close to or maybe even above the prior six months record for the company.

So, I think that is substantial for us that we now see a real return to growth in our business. But let's all remember, we are coming out now of more than a year suffering from the pandemic. We had a great first quarter in 2020. It was a record quarter for the company. And then COVID hit. The second quarter, third quarter, fourth quarter and the first half of this year have all been very much affected by the pandemic.

And now, it finally seems like a real recovery. It looks like strong growth in the second half of the year. It looks like we're going to have a commercial breakthrough in new applications, but it's still early stages in that recovery.

We think we will feel much more comfortable in upcoming quarters of providing guidance of being more specific on backlog numbers, and so forth. But right now, our focus is on that recovery, which will happen.

And we feel comfortable, today, saying that orders are expected--sorry, revenue is expected to more than double in the second half of the year. And as we get further into the second half, we will get more specific on that.

**Roger Liddell**

On the interminable delays in the Middle East, the underpinning of the Middle East opportunity is water shortages--well, let's leave it at water shortages, as being the fundamental driver of that opportunity.



And that doesn't--that situation has not changed, at all. And in fact, it probably exacerbated by climate change now in the Middle East. I have no knowledge of that climate situation.

But given the water shortages are fundamental and relentless, how can it be that it just keeps sliding sideways? If it were a matter of pricing alone, or competing manufacturers, one might have a different viewpoint. But it appears that you're addressing a need, which is only getting worse and yet, we have 18 months of delays from when you first disclosed this at the Investor Day.

Can you just put more texture on why this can't be brought to the finish line?

**Sune Mathiesen**

Yeah, so, just a small correction, Roger, we spoke about this first on the Investor Day, 18 months ago, approximately. That is correct. We expected first orders to come in, by the end of last year. So, you could argue that it's about eight months delay from when we expected the orders to come in.

I think we have been taken by surprise about how lengthy the process really is in completing these tender processes and getting orders.

I also think that, let's say, the first and second and third wave of COVID in the region has complicated things more than usual and has delayed things, more than usual. But having said that, yes, we have been taken by surprise about how lengthy the process really is.

How can they afford to wait--well, I don't know. But reality is that things are not moving as quickly as we wanted in the region, for various reasons, and I think COVID has been a big factor in that. The good news is that we see more and more fast track projects come up.

So, they really realize this problem, and they are now putting out tenders we didn't know anything about, maybe three months ago, that come up to the surface now, and they are fast track projects.

So, I think they also realized the urgency and that something has to be done. So, that's the positive news. And I am, again, as I said in my prior remarks, very confident that the orders are there and that we will bring them across the finish line, soon.

**Roger Liddell**

Finally, on the drinking water side, there should be uptake. But is there any status report you can share on the drinking water, anything specific to LiqTech?

**Sune Mathiesen**

Yeah, so as you know, in the last three quarters or so, we have made quite significant investments in our--in the sales personnel and in ramping up our sales organization in Germany.

That has been quite successful. We have seen new applications, orders from new applications, and drinking water is one of the applications that we are putting a lot of focus on. Other applications are food and beverage and pharmaceutical applications.

We were able to announce, a couple of months back, a new order for a pharmaceutical application, the asset filtration application, which is a direct result of our efforts in diversifying our business. And we are



now getting close to orders in food and beverage, which is also a result of that effort we have made, in the last nine months.

Drinking water is also high on our agenda. We know that--and we have been saying for decades now that we're running out of clean water--but we really are. And I think there's a willingness to invest in projects also for drinking water reuse, right now.

I think the pandemic, again, has slowed down some of that. If you go before--if you look back before the pandemic, sustainability was really, really high on the agenda, I would say, in all countries in the world. And then the pandemic hit, and we got busy with some other things.

I think that now that governments around the world are looking to invest to let's say, see a rebound after the pandemic, I think that drinking water projects, sustainability projects will be something important in most countries.

And rest assured, we will be there. We have invested significant resources in diversifying our business. We will continue to do so. We have already seen the first results and drinking water will also be on top of our agenda.

**Roger Liddell**

As the Delta variant is creating all sorts of issues, are you confident that there will not be a spring of 2020 kind of impact from the Delta variant?

**Sune Mathiesen**

I feel like we have discovered a new way of working, right? We all have. We have discovered how to work out of our homes. We have discovered how to work on conference calls instead of traveling, and so forth and so forth. I think the world has, somehow, gotten used to the pandemic and dealing with it.

You never know, right, but I think what we see now is that things are really loosening up. And I think that will continue, even with the Delta variant around, and it will be for some time. But it doesn't look like things are slowing down, certainly not. It looks like things are coming back to life now, at least in our industries. And I think that will continue, even with Delta.

**Roger Liddell**

Thank you.

**Sune Mathiesen**

Thanks, Roger.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.



## CONCLUSION

### **Sune Mathiesen**

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

### **Operator**

The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.