

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

LIQTECH

**THIRD QUARTER FISCAL YEAR 2022
FINANCIAL RESULTS CONFERENCE CALL**

**Thursday, November 10, 2022
9:00 a.m. Eastern**

CORPORATE PARTICIPANTS

Fei Chen - Chief Executive Officer, LiqTech International, Inc.
Simon Stadil - Chief Financial Officer, LiqTech International, Inc.
Robert Blum - Managing Partner, Lytham Partners, LLC

PRESENTATION

Operator

Good day, and welcome to the LiqTech International Reports Its Third Quarter of Fiscal Year 2022 Financial Results conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference call with Mr. Robert Blum of Lytham Partners. Mr. Blum, the floor is yours.

Robert Blum

Great. Thank you so much. Good morning, everyone and thank you for joining us on today's conference call to discuss LiqTech International's Third Quarter 2022 Financial Results. Joining us on today's call from the company are Fei Chen, Chief Executive Officer; Alex Buehler, former interim Chief Executive Officer and member of the board of directors; and Simon Stadil, Chief Financial Officer.

Before I turn the call over to management, let me remind listeners that there will be an open Q&A session at the end of the call.

Before we begin with prepared remarks, we submit for the record the following statement. This conference call may contain forward-looking statements. Although 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, 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, encourages all listeners not to place undue reliance on these forward-looking statements, which pertain only as of this date and the date of the release in conference call. The company assumes no obligation to update any forward-looking statements to reflect any events or circumstances that may arise after the date of this release and conference call.

Now, like to turn the call over to Fei Chen, CEO of LiqTech International. Fei, please proceed.

Fei Chen

Thank you, Robert. Let me start out by saying what an honor it is to be the CEO of LiqTech at this important stage of the company's development, and how grateful I am for the strong support.

I have now been at LiqTech for eight weeks, and the response from the entire organization has been overwhelmingly warm, including from many of you, our investors, with whom I have had the opportunity to speak. I believe we all understand the tremendous opportunity that is in front of us to leverage our highly unique technological advantages, brand, competencies, and sustainability values to build a growing and profitable business in the years to come.

Where I need more than eight weeks to provide you with step-by-step details and going forward strategic plan, let me provide some high level observations and initial thoughts on how we are accelerating our commercial and the business development processes. First, it needs to be reinforced that we have tremendous technology. For those not familiar, I was the international innovation platform director responsible for establishing Grundfos' water treatment division. Grundfos is one of the world's leaders in the development, manufacturing and distribution of water and the liquid pumps.

While at Grundfos in 2012, I was introduced to LiqTech's technology. At that time, I saw the uniqueness of LiqTech's silicon carbide membrane technology and reached out to the company for a potential collaboration to accelerate the commercialization of this membrane technology. Unfortunately, LiqTech rejected the idea, electing instead to go it alone. It is, therefore, very interesting for me, all of these years later, to assume the responsibility to accelerate the commercialization of LiqTech's membrane technology, which is even stronger today.

Strategically, it's rather obvious that we are currently too reliant on large system sales to generate this revenue. To balance this reliance, we are moving quickly to maintain and grow our markets where we have increasing potential for recurring revenue, such as pool & spa systems, diesel particulate filters, membranes, plastics and aftermarket.

For instance, just last week we launched our new Aqua Solution® membrane that demonstrates notable improvements to our existing membrane solution, both in production process stability as well as final product robustness. You likely have not heard us talk much about the pool and spa market,

but from my experience, this brings an imminent opportunity for recurring revenue like we had possessed for many years with DPFs. As a point of reference, we have five pool system deliveries planned for the fourth quarter, so we are very excited about this market and intend to aggressively pursue it in the years to come.

Further, our agreement in the Middle East addressing produced water treatment for oil and gas production where we are operating in a build, own and operate model has similar recurring revenue characteristics.

The commercial test unit for this produced water initially deployed in May 2022 has been up and running for the past three months, demonstrating tremendous results. Over 99% of the feedwater passing through the system is being delivered back as clean permeate for reinjection. The quality of the clean water/permeate is better than the performance requirements originally defined by the end user. Furthermore, the system operates with a low amount of water and chemicals and has shown to be energy efficient. We are extremely pleased by these commercial test results, as we believe they are a gating factor to our expansion in the region. Importantly, with these results in hand, we are working intensively on go-to-market plan for produced water in Middle East region. I am excited to disclose more on this in the near future.

Another dimension of recurring revenue is membrane sales. We have applied an intensified strategic focus on membrane sales and achieved good results in sales order. Specifically, at the end of September, we closed a large order consisting of nearly 1200 membrane elements.

I will provide more details in the future, but please understand that expanding our commercial activities where we can achieve more recurring business is a key strategic focus going forward.

Another area of focus is the establishment of distribution agreements within key market verticals. I have a long history of developing mutually beneficial relationships with distributors across the world within the water treatment market, and I will look to leverage these relationships to extend our sales reach within selected end markets. I look forward to sharing more with you in the coming quarters on this front.

While we work to expand our focus on recurring revenue opportunities and develop distributor relationships, we will maintain our current efforts to further develop system projects to our target markets, including marine scrubbers, black carbon, oil & gas, acid purification and others where we have a number of systems set to be delivered that will drive near-term revenue growth.

Within marine scrubbers, we are in the process of manufacturing four water treatment systems, with delivery expected by the end of the year. We also have the planned delivery of the industrial wastewater system that we announced earlier this week along with the five pool systems I mentioned a moment ago. So overall, we have 10 key systems scheduled for delivery in Q4.

On top of that, following the successful commissioning of our first system for the acid purification market in the U.S., we are in active discussions with this customer regarding a second system deployment at another site. Most likely, this project is expected ship in the first half of next year.

I'll let Simon provide details on the outlook for the fourth quarter, but in general based on our existing



recurring revenue, coupled with system deliveries planned for Q4, we expect the revenue to land at the lower end of the revenue range in company guidance that was provided in September.

As you saw in two separate press releases issued recently, we are making some significant organizational changes to accelerate the commercial strategies that I have mentioned. In late September, we announced the appointments of Mrs. Janne Pedersen as Vice President of Sales and Mr. Kim Hansen as Managing Director of LiqTech Plastics.

Kim has many years of leadership experience with international companies such as Mercuri International Group and Grundfos, and was recently Managing Director of Flexiket, Intertek and Bording Link, where he achieved successful turnarounds and transformations.

Janne has wide industrial knowledge in water treatment, membrane filtration and instrumentation, having built a successful career in sales, business development and product management from firms such as Hach Lange, Grundfos, Diatom, FOSS Analytical and Alfa Laval. Janne joined us formally on November 1 and has provided immediate value to the organization.

Additionally, this week, we announced the appointment of Tobias Baldrian Madsen as our new Head of Strategy and Business Intelligence. As we work on advancing LiqTech to the next stage of commercial development, it is crucial that we define our market and customer focus based on sound business intelligence and formulate our strategy accordingly to ensure fast execution. I believe Tobias will make significant contributions given his business development experience and relevant industrial knowledge.

While we rapidly move forward with our plans, it's clearly important to note the operating backdrop. Since summer, Europe has experienced an energy crisis, the likes of which we have not experienced in decades. Electricity spot prices in September have increased 240% compared to January, and natural gas prices in September have increased 167% compared to January.

The extraordinarily high electricity price has negatively impacted us with respect to cost and margin, since our production for membranes and DPFs utilizes high-temperature furnaces that are heated by electricity. For some of our product categories, the production costs have increased 30% to 40%. We are working intensely to communicate with our customers and elevate prices to define margins. The results are mixed at this point as we try to balance customer retention and margin while competing in a global market. For future new sales, we will ensure the price increases are reflected in our sales price.

Nevertheless, we indeed experienced some slowdown in order closures in Q3 due to the energy crisis, macroeconomic uncertainty, high inflation, and rising interest rates, the combination of which has caused a lower second-half outlook than what we expected before the summer. We communicated this to everyone on September 13. Generally, we do expect that the situation will slowly stabilize, although we might land at a higher plateau of energy price.

As I turn the call over to Simon to review the numbers in more detail, let me quickly summarize. Firstly, we are moving quickly to accelerate the commercial and business development processes here at the company. We are simultaneously working to develop markets where we can create more predictable recurring revenue opportunities leveraging our differentiated technology, working to



overcome gating factors that have hindered certain end markets where we see opportunity for numerous large system deployments.

Secondly, we will continue to drive opportunities through our traditional direct go-to-market sales pathways, but also look to create new distributor relationships to address certain end markets. I have a strong history of creating successful agreements within the water treatment industry and believe I can apply this to LiqTech.

Thirdly, we have brought in highly accomplished commercial sales individuals that can help to develop end market strategies, but more importantly, can execute on those strategies. I believe the additions of Janne, Kim, Tobias and others will make significant contributions with their professional leadership skills and rich industrial knowledge.

And finally, Simon will touch on this in a moment, but I want to confirm that everything we are doing will be against the backdrop of achieving profitability. The organizational transition we are undertaking is proceeding with the emphasis on utilizing our existing core competencies within the company and calibrated with our renewed strategic focus and market dynamics.

Similar to what Alex and Simon mentioned last quarter, we remain on track to achieve breakeven at around \$7 (million) to \$8 million per quarter in revenue, moving more towards \$7 million per quarter.

With that, let me turn the call over to Simon to review the financials in more detail, after which I will wrap up with a few comments and then open the call to your questions.

Simon, please proceed.

Simon Stadil

Thank you, Fei. Let me add some color on the financial highlights for the third quarter and full year outlook.

Revenue for the quarter was \$3.3 million compared to \$4.1 million in the same period last year, representing a \$0.8 million or 20% decrease. This development reflects a quarter with stable contribution from our plastics, ceramics and aftermarket businesses underpinned by increased share of membrane and spare parts sales. However, the quarter was also impacted by a slowdown in Water system deliveries due to reduced order intake and delayed shipments due to general supply chain issues and longer lead time on our core AQS membrane production.

The quarter also reflects a period with unprecedented volatility in Europe due to the geopolitical unrest related to the Ukraine-Russia conflict with a significant surge in both gas and electricity prices across Europe, and also a period with increased macro-economic uncertainty and rising inflation. For our business, the uncertainty did result in reduced order intake for our Ceramic DPF and Plastics products, which was partly offset by the delivery of large Marine and on-road DPF orders for the Asian market secured earlier in the year.

Looking closer at the numbers for each our segments, Ceramics reported \$1.9 million in revenue underpinned by a couple of large membrane and DPF orders, followed by Water and Plastics revenue of \$0.8 (million) and \$0.7 million respectively. The reduction in Plastics revenue of 22% compared to



same period last year, generally reflects a slow start to the quarter with lower-than-expected order intake during the European summer holiday amidst the escalating energy crisis.

Turning to the Water systems business, the revenue of \$0.8 million represented a 47% reduction compared to Q3 last year with the lack of system deliveries explaining the reduction partly offset by increased aftermarket activities, more specifically commissioning and general spare parts sales.

Looking at the currency development, the USD appreciation against the EURO did continue into third quarter with the YTD September FX rate 12% higher than the same period last year. On that note, I can confirm that approximately 70% of our YTD revenue has been denominated in non-USD currency, predominantly EURO and DKK.

In terms of outlook for the fourth quarter, I echo the remarks made by Fei, indicating a Q4 and full year outlook at the lower end of the previously communicated guidance, this negatively impacted by the challenging market environment and overall delays in incoming orders and FX.

Before diving further into the numbers, I would like to highlight that we, despite the challenging market back-drop, have been working thoroughly and with clear and decisive measures to right size our business and restore financial stability. On that note I'm pleased to see substantial improvements in both cash flow, fixed cost and opex reduction efforts.

To be specific, our operating cash flow in the third quarter ended at - \$0.5 million, representing a significant improvement compared to previous quarter's run rate. Fixed cost and opex came down 19% sequentially, and down more than 30% compared to the beginning of the year, which reflect our commitment to substantially reduce our breakeven point of the business, measured on an adjusted EBITDA basis.

In the same context, I can confirm that we are on track to deliver a profitable business based on quarterly revenue breakeven around \$7 million, hence at the lower end of the previously communicated target of \$7 (million) to \$8 million.

With regards to cash flow outlook, I can confirm that the Company continues to benefit from reduced capex commitments and the successful refinancing of the convertible note earlier this year. The Company had, as of September 30, less than \$1 million of outstanding cash capex commitments and no interest payments due on the Senior Notes. Furthermore, following the delivery and installation of the new production equipment in early 2023, our company will have ample capacity to significantly grow our water systems aftermarket and ceramic membrane businesses without further investments over the near to medium term.

Now let me comment on the quarterly financials in more detail. The gross margin in the third quarter of 3% reflects low activity levels within our WaterSystems business, but also the adverse impact from the escalating energy crisis and highly inflationary environment across Europe, thus reducing our profitability across our core Ceramics and Plastics businesses. The quarter was further challenged by non-recurring inventory adjustments and write downs within our Ceramics business, reflecting a proactive and prudent review of our ceramics inventory for dated and slow-moving products in a period with reduced activity & increased uncertainty.

On a more positive note, we successfully secured and delivered high margin membrane and marine DPF orders during the quarter, as well large aftermarket orders, allowing for a stable sequential development in the reported gross margin – this despite the lower topline. Furthermore, our increased focus on pricing discipline is continuing to support our underlying profitability, which combined with a sequential reduction in fixed cost of \$0.2 million did allow for a significant improvement in both gross and contribution margin when excluding the non-recurring inventory adjustments previously mentioned.

Turning to opex, our total operating expenses for the quarter of \$2.4 million represents a sequential reduction of 19% when adjusting for the second quarter restructuring cost. The continued reduction is a direct result of the planned cost reduction efforts and organizational rightsizing announced earlier this year. The cost savings represent a mix of reduced employee cost as well increased focus on reducing run-rate travel, marketing, legal, and IT cost.

Moving to the next item: net other income in the third quarter was \$0.5 million compared to a net other expense of \$0.3 million in same period of 2021, with the improvement explained by reduced interest expense and amortization cost related to the new and improved capital structure.

Concluding on the P&L, net loss for the period was \$1.7 million compared to \$2.9 million in the same period last year, indicating a vital step in the right direction with cost reductions and the improved capital structure being the main drivers.

Moving to our cash flow and balance sheet. We ended the quarter with \$17.6 million in cash, down \$2.1 million from second quarter, with net cash used in operating and investment activities accounting for approximately \$1 million, and the remaining being loss on currency translation.

To summarize and reaffirm, we are committed to further improve our financial performance through incremental cost reductions, which together with improved product mix and pricing discipline will pave the way for a business in balance over the coming quarters from both a profitability, cash flow and capital structure perspective. We have during the course of 2022 stabilized and rightsized our business and it's evident that we are now well positioned to take the next step on our commercial and strategic journey.

Thanks for your continued support and interest in Liqtech, and over to you Fei.

Fei Chen

Thank you, Simon. Looking into quarter four, we have a busy quarter ahead of us as we focus on executing the various initiatives I mentioned today and delivering a number of systems that are currently in production. In the coming weeks, we will further define the growth strategy and substantiate our sales forecast and the budget for 2023. We will translate this into guidance and communicate with everyone at the appropriate time.

One final comment that I'd like to make, and that is to thank Alex for his leadership over the past six months. His steady hand and the guidance has helped to position the company going forward. It's never an easy task to assume the role as the interim CEO, but by all accounts, he handled it to perfection.

I am extremely excited to be leading this company, as I believe the better days are ahead of us. I thank you all for your time today. At this point, I would like to turn the call over to the operator to address any questions from audience. Mike, please proceed.

QUESTION AND ANSWER SESSION

Operator

Yes, ma'am. Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. If anytime a question has been addressed, you'd like to draw your question, please press star then two. Again, that's give star then one to ask a question. At this time, we will just pause momentarily to assemble our roster.

And the first question we have will come from Robert Brown of Lake Street Capital. Please go ahead.

Robert Brown

Good morning. Just quickly wondering about the pricing environment. I know you've taken some pricing actions. How has it impacted the different pipelines in different markets? I presume it depends on the market, but how is the pricing impact been able to be flowed through?

Simon Stadil

Hey, Robert, Simon here. I'll start out and then Fei can comment further. So clearly, if we focus on our products, plastics, DPF's, membranes, we haven't seen a price erosion, we have on the other side seen pricing being fairly stable in a very inflationary environment. Clearly, we have worked to increase our pricing to offset the cost inflation we have seen. And obviously, that's always a balancing act, but in terms of in terms of price competition and price deterioration, that's not on the agenda.

On the system side it's obviously a more complex picture where we are trying to leverage the value proposition and the value we're creating for our clients to basically increase our pricing and achieve high contribution margin process in this business going forward. Or at this point in time, I would say it's a fairly robust picture on pricing, and no price erosion.

Fei Chen

I think I would like to add on top of that, the new end markets, which were mentioned today, we really believe because our solution has a unique property there, so we might have a much better price in the future.

Robert Brown

Okay, thank you. And then just wondering if you can elaborate a little bit on your efforts to expand the distribution channels in water. What distribution environment is there and how have you seen that developed historically, and what's the opportunity in the water market with having a distribution relationships?

Fei Chen

We have a different end market, I'll just give you a concrete example. For example, for the pool and a spa market, definitely is a very much distributor driven market already in beforehand. So we just need to choose the right distributor, and grow close to them, and really get commitment from them and deliver what we need. So this is what we already been doing today, we just want to be further strength on the distribution side.

And the press produced the water I mentioned today, it's a new area, because we have a system, immediately a region is up and running. Now with this data in hand, we will be able to find the right partner to go into this region and really pushing out this application. So you will hear more from us, we are looking at the different market segments and choosing the right partner and really choosing our distribution channel.

Robert Brown

Okay, thank you. I'll turn it over.

Operator

The next question we have come from John Redman, investor.

John Redman

Good morning. Thanks for your time. Just a couple of questions on the \$7 (million) to \$8 million to breakeven, are we estimating that to get to that level we need to get back into the marine scrubber business? Or are you in the belief that the current businesses that we're generating revenue from in this quarter are substantial enough to get to that breakeven point for [audio skip] of the membrane to get to that?

Fei Chen

As I mentioned earlier, we have a strategy in two steps. We would like to really emphasize our recurring business and that means the pool and the spa, membrane and plastics, and also DPF areas we want to grow there. And on top of that, we have the different demands. We have marine scrubber will be one of the end market. So these are the two combinations we'll do together in order to achieve this \$7 (million) to \$8 million. And review with reoccurring business will give us a very solid foundation and build on top of the system delivery. So this is two legs strategy we are working on. And the marine scrubber will be contributing, but because of the delay of the registration, we do not expect big growth in that segment.

John Redman

Thank you. Thank you. And just another question, with the \$17.6 or so million in cash on the balance sheet, it's no small task for you to more than double your current sales to get to break even. Do you think that you have the ample liquidity to get to that breakeven level with the balance sheet you have today?

Simon Stadil

Yes, we have. I think it is a bigger picture here, John. First of all, you need to look at what we have achieved this year. I think the capital structure obviously is an important micro step getting the convertible note off our balance sheet, reducing our capex commitments and really using the capex we have spent this year to invest into the right machinery. We have significant capacity at our facilities

in Denmark, so we don't need capex over the coming years to grow our business, even significant growth, so that gives us a lot of comfort. And finally, with the cost reductions that we have achieved so far this year, down 30% on opex and fixed costs, since Q1, we don't have a long run rate to get to cash flow breakeven. And with \$17.6 million in the bank account, I'm very confident we are very confident that we have enough runway to get this company up to where it belongs.

John Redman

That's fantastic. One last question for some of the not so sophisticated investors, including myself, out there, if you do get to breakeven, the incremental revenue generated from these new applications, I'm not as familiar with in the pool space and some of these other verticals, what is the incremental contribution margin from these recurring revenues or new revenue applications? I'd assume pretty high margin and high contribution once you pass that chasm of getting to breakeven.

Simon Stadil

You're absolutely correct. I think one of the key mechanisms to achieve stability is obviously growing your top line or even better, also improving your contribution margin at the same time. And that's obviously a strategic focus of ours. I think a minimum of 40% we need to deliver on. We're striving higher than that. And even in Q1 this year and if you look into our Q3 numbers and adjusted some of the non-recurring items, we are about 40% and that's basically a focus of ours. So you can say for every million dollars of incremental revenue, we should have at least 40% fall through to EBITDA, and help us achieve that cash flow stability faster than then what we've guided you in the past.

And as also mentioned today, we guided to seven to eight, we're now confident in saying it's more seven. If we achieve higher and better pricing, maybe could go lower than that. But again, I'm very cautious about that in an environment where we have inflationary pressure on our costs. So the let's see how the world looks like in early next year and I'll provide more guidance on that.

John Redman

Sounds like we've got the right team there now. Thanks a lot, folks. We'll look forward to connecting in coming quarters.

Simon Stadil

Thanks, John.

Operator

Again, as a reminder, if you'd like to participate in today's Q&A, please press star then one on your touchtone phone. Again, that is star then one to ask a question. Again, we will just pause momentarily to assemble our roster.

CONCLUSION**Operator**

At this time, there are no further questions. We will go ahead and conclude today's question and answer session. I would now like to turn the conference back over to the management team for any closing remarks.



Fei Chen

Thank you, Mike.

I would like to close this conference call by saying thank you all very much for being with us today. We look forward to communicating with you soon in the new year. Thank you.

Operator

We thank you, ma'am, and to the rest of the management team for your time also today. Again, the conference call is now concluded. At this time, you may disconnect your lines. Take care, everyone, and have a wonderful and blessed day.

