



LIQTECH INTERNATIONAL, INC.
(NASDAQ: LIQT)

LIQTECH

**FOURTH QUARTER AND YEAR 2020
FINANCIAL RESULTS CONFERENCE CALL**

**Thursday, March 25, 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 day and welcome to LiqTech International Reports its Fourth Quarter and Year 2020 Financial Results. 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, press star then two. 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

Thank you very much, Tom. And good morning, everyone. Thank you for joining us today to discuss LiqTech International's fourth quarter and fiscal year 2020 financial results. As Tom mentioned, I'm Robert Blum of Lytham Partners, and I'll be the moderator for today's call. Joining us on the 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, and that a transcript of the call will be available on the investor relations section of the company's website shortly.

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 in judgment and 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 assumption is proven correct, 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 release in 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 the release in conference call.

That said, let me turn the call over to Sune Mathieson, CEO, LiqTech International. Sune, please proceed.

Sune Mathieson

Thank you very much, Robert. And good morning to all of you. And thank you for joining us today. I've been looking forward to speaking with you today. We made a couple of exciting announcements this morning and I've been looking forward to providing some more details on those.

The three primary drivers of growth we discussed during our Investor Day in January 2021—our rebound in the marine scrubber market, the launch of our water treatment solutions for our joint venture into the oil and gas market, and the black carbon reduction market, particularly within the Chinese marine industry—are all increasingly gaining traction and providing enhanced optimism. The fiscal 2021 will indeed see growth and a return to profitability for LiqTech.

This optimism has led us to make the decision to move forward with plans to build a new manufacturing facility in China, which we announced this morning. The manufacturing facility will service the estimated \$26 billion black carbon reduction market for ocean-going and inland vessels, and also function as a service center for our marine scrubber products.

Tightening legislation in the marine industry has created a new opportunity for our diesel particulate filters to reduce black carbon emissions from shipping. As you may recall, for 20 years LiqTech has been the leader in the development and production of DPF to remove particulate matter from the exhaust gas of internal combustion engines. We have now adapted this 20-year history in DPF, and have developed the product specifically for black carbon reduction within the marine sector, and have moved to commercialization with a very large potential pipeline.

As a background, China has taken a lead in reducing black carbon emissions from inland and ocean-going vessels. The new mandates in China have created a \$600 million opportunity for ocean-going vessels and a \$26 billion opportunity for inland vessels.

But this will longer-term not just be a China opportunity, as we have already seen new mandates in several European countries and the Arctic region. We ultimately believe the IMO is likely to implement a new global mandate.



Today's announcement to begin construction of a new manufacturing facility in China is an important and exciting step towards capturing a significant share of this market. The manufacturing facility will be majority owned and operated by LiqTech but we will also have local investors [ph]. We realize that in order to be successful in operating in China, it's important to understand the culture and to have good contacts to the authorities. It is therefore my great pleasure to welcome Hans Halskov to our team as Managing Director of our China Operations.

Hans is Danish but has been living and working in China for more than 15 years, amongst others, as Consulate General and Trade Commissioner for the Danish Foreign Ministry. For the last seven years he has successfully been running his own company with a focus on M&A, and advising companies on doing business in China. He speaks Chinese and he will be relocating to China when the construction starts. I'm convinced that Hans is the right person to lead our Chinese operations, and his experience will be important to keep the right balance between the western and Chinese cultures.

The new facility is ultimately expected to have a capacity of approximately 5 million liters of DPF. This compares to a current capacity of 1 million liters in our Copenhagen facility. We expect the first stage to be operational in 18 months to 24 months. The new facility in China comes on top of an already completed expansion in Copenhagen last year and a further capacity expansion we announced earlier this year.

And in all honesty, the obvious question is Sune, you just finished the year with \$22 million in savings. Why are you continuing to ramp up your manufacturing capacity? And the answer is hopefully quite simple. We see a pipeline, an expectation of significant orders that will lead to the need for this capacity across all aspects of our business. We did not enter into these transactions lightly. There was a thorough analysis and discussion, including risk to orders [ph] and other surrounding factors.

While there never is a crystal ball, I can assure everyone that we have a very high degree of confidence in the pipeline of all our various businesses and believe this was a highly prudent move to make to not only increase our Denmark capacity but to move forward with the China manufacturing facility as well. We look forward to keeping you all posted on our progress.

To aid in the financing of the thorough expansion, we entered into a \$15 million convertible note private placement with a single institutional investor. The note is convertible at 120% to market, and the note will mature on October 1, 2023 unless earlier repurchased, redeemed, or converted.

Let me now turn to our oil and gas segment for a moment. We gave a great amount of detail at our Investor Day so I'll keep my comments relatively short. From the comments I just made on capacity, it should come as no surprise that we continue to have high levels of optimism on our oil and gas joint venture, focused on deployment of water filtration systems being built based on LiqTech's proprietary silicon carbide technology and operated by the joint venture on the long-term water supply agreements with oil and gas producers in the Middle East.

Similar to China, the market in the Middle East continues to be driven by tightening legislation towards more sustainable solutions by water scarcity and production challenges along with oil technical issues presented by the underground structure in the region. As discussed at the Investor Day, while travel restrictions have made it difficult to conduct certain site assessments, which has caused a delay in the delivery of the first contract, we do maintain our confidence that oil and gas will be a significant contributor in 2021.

We're currently in the final stages on more than a handful of different projects totaling several hundred million dollars in potential revenue. Again, I look forward to updating many of you in the near future on our progress.

Now an update on the marine scrubber markets. Once again, we provided a significant amount of detail at our Investor Day, but let me just reiterate a few points. The marine scrubber market continues to show signs of improvement following the global economic effects of COVID-19. The price spreads between bunker fuel and low sulfur fuel, which remained lower than \$50 throughout much of 2020, have recently expanded and the spread is now consistently above \$100. The company believes the business case arguments supportive of marine scrub installations ranges between \$70 and \$80. Given the recent return to more normalized price spreads, we are now seeing a renewed interest in scrubbers.

Further, we continue to see a move towards closed-loop systems compared to open-loop systems. In November 2020, the European Parliament voted to outface [ph] and ultimately ban open-loop scrubber systems. To date, more than 120 ports worldwide have already banned open-loop discharge. And there are some important meetings in the IMO this week and in June to discuss a harmonization of open-loop discharge regulations. In other words, to discuss a global open-loop ban.

The company believes there are more than 4,000 vessels currently installed with open-loop scrubber systems that will ultimately need to be converted to closed-loop systems by adding a water filtration system. Further, the company believes there will be 4,000 to 6,000 new scrubbers installed through 2025 that will all likely be installed with closed-loop filtration systems such as the one supplied by LiqTech. Overall, this represents a potential market of up to \$4.8 billion.

Through 2020, the company believes that its systems are currently installed on approximately 50% of all closed-loop systems. There are still more inquiries in the market which provides us with confidence for a return to strong growth in our marine scrubber business.

To wrap things up, let me just say that our confidence in the future of LiqTech is as high as it has ever been. We are moving forward with important and exciting decisions to increase our manufacturing capacity in Denmark and to build a plant in China to handle the expected surge in demand for our filtration products we see across a variety of industries. The pandemic clearly made the revenue trajectory we were on, leading from 2019 into 2020, look somewhat disappointing. However, we used the year to put in place building blocks that should significantly alter the forward trajectory of LiqTech for the positive in the years to come.

We are no longer just a marine scrubber filtration company that will largely be dependent on just one industry. We are a diversified company with multiple multi-billion dollar addressable markets in a wide variety of industries. We have the technology, the products, the sales channels, the joint ventures, the environmental tailwinds, and the manufacturing capacity to hopefully achieve significant shares of these large markets. We look forward to 2021 with high enthusiasm.

And having said that, let me now turn the call over to your questions. Operator, please.





QUESTION AND ANSWER SESSION

Operator

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 are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, press star then two. At this time, we will pause momentarily to assemble our roster.

And the first question comes from Eric Stine with Craig-Hallum. Please go ahead.

Eric Stine

Good morning, Sune.

Sune Mathiesen

Good morning, Eric.

Eric Stine

Just curious if you could start with the facility in China. How important is it to signal to the market that you are bringing that online in terms of securing orders or commitments as that market develops? And then I'm just curious, obviously high level of confidence there. Is there a customer or customers, even that give you the visibility—maybe it's not an official contract or anything—but give you the visibility that that will be spoken for once it comes online?

Sune Mathiesen

Well it's obviously a huge decision to make plans to build a facility in China. That is a big investment and it's a huge decision to even do that. We have carefully evaluated the market. We have spoken with our customers and partners in the market. And yes, the answer's yes. We see orders in the market now, and yes it is essential that we will have local manufacturing. Not to secure the first orders, because we can deliver those from our Danish factory. But longer-term it would be instrumental for us to have local manufacturing. It is a demand from the government-owned companies that we'll be dealing with. There's no way around it.

Having said that, it also makes sense for other reasons. The manufacturing in China is low-cost, it will make us even more competitive, and it will increase our margins. It's a combination of all these considerations that have now led us to make the decision to establish this manufacturing facility.

Eric Stine

Got it. And then in terms of the cost of the facility, is it pretty safe to say that the convert, that that is earmarked for it? Is it kind of a one-to-one investment there? Or is that something that would be more supportive of some project financing, and then potentially it's a bigger [ph] capex number?

Sune Mathiesen

Yes. The total investment is a big investment. We have already secured local investors, as I mentioned in my prepared remarks. We are negotiating financing with, amongst others, the Danish government. There's a number of investors already in place, investors that we are still discussing with in financing

opportunities that we are now in the process of sorting out. But yes, it's a big investment. But we did a lot of work already. And it's an investment that we feel that we can handle.

Eric Stine

Okay. But quite a bit bigger it sounds like than what you announced today in terms of the convert?

Sune Mathiesen

Yes. It's bigger than the convert. That is right. And not necessarily our part of it though, but the total investment is bigger than the convert.

Eric Stine

Understood. Okay. And then the last one for me. You just mentioned that this black carbon opportunity you expect the potentially worldwide or regulations worldwide. Is that something that you think you would be able to supply from this facility that you're embarking on? Or would that be something that would require additional facilities around the world as it develops?

Sune Mathiesen

No. The plan is to supply from this facility. Or in other words, the long-term plan is to have this DPF facility in China where we have the low-cost manufacturing. And then turn our Danish facility more into a dedicated membranes [ph] facility. That will provide us with a number of let's say advantages in terms of the manufacturing. You can specialize the equipment, as the products are not the same, and it would be good for quality optimizations and cost optimizations.

The plan is to supply the global black carbon reduction market out of the China facility eventually. And we are seeing a lot of developments on the black carbon reduction market. We have seen several European countries now implement regulations on inland vessels. And we think we'll see more and more new mandates throughout the world. And eventually a global mandate from the IMO. A recent development is that the IMO implemented a black carbon reduction mandate in the Arctic region and we think that will spread out globally.

Eric Stine

Go it. Thank you.

Operator

The next question comes from Rob Brown with Lake Street Capital Markets. Please go ahead.

Rob Brown

Hi, Sune.

Sune Mathiesen

Hi, Rob.

Rob Brown

On the China facility expansion, what will that facility manufacture? Will it be product assembly? Or will it actually be membrane production as well? And maybe could you give us a sense of what the capital is going to go for? Is it furnaces? It is buildings? What's the sort of facility operations going to be?



Sune Mathiesen

Yes. There's basically three parts of our marine products. One is the DPF itself, the diesel particulate filter itself. That will be manufactured in China. Then there is a catalytic coating which will be manufactured in Denmark. And then there is the canning of the filter itself, which is basically bending and welding metal, which will be done in China as well.

We have no plans whatsoever to manufacture membranes in China. We are very protective of our IP. And that will continue to be work that we will do in Denmark.

Rob Brown

Okay. Okay, great. And then on the black carbon market, what's sort of a typical selling price per ship that you can get?

Sune Mathiesen

It depends obviously on the size of the ship and type of the ship. If you look at the inland vessels, which is the big part of it, it's around \$130,000 to \$140,000 ASP per vessel. And the ocean-going vessels are somewhat more.

Rob Brown

Okay. Okay, great. And then, just switching back to the scrubber market, how do you see that playing out this year? Have you seen orders ramp up at this point? Or are you still a little but uncertain as to timing but optimistic of the back half? But maybe help me understand the ramp rate of the scrubber market at this point.

Sune Mathiesen

So following the increase in the price spread between low sulfur and bunker fuel, we have seen more interest in scrubbers. We see more and more inquiries out there. We see orders in the market. And obviously all of this leads eventually to increased order activity.

But admittedly, the order activity still remains at a lower than pre-pandemic level. But given the inquiries we see in the market, the activity we see in the market, it leads us to believe that we see a more normalized situation in the second half of 2021.

Rob Brown

Okay. Thank you. I'll turn it over.

Sune Mathiesen

Thanks, Rob.

Operator

The next question comes from Cameron Lochridge with Stephens Incorporated. Please go ahead.

Cameron Lochridge

Hi. Good morning. Thanks for taking my questions.

Sune Mathiesen

Good morning.



Cameron Lochridge

I was hoping we could start, just circling back to oil and gas, it sounds like you're seeing a little bit maybe of a delay in some of the contracts or orders due to that JV that you have in the middle of [background noise]. Just going forward, how should we think about the timing of those orders for oil and gas? And does that mean that we might see some revenue that was maybe expected in '21 get pushed to '22?

And then secondarily, if you could just maybe [background noise] for us the opportunity of the potential pipeline in oil and gas, that will be helpful as well.

Sune Mathiesen

First of all, yes, there has been a delay in the expected orders from oil and gas. And the delay is related to COVID and to travel restrictions and the way people have been working from home, and so forth. There is no change in our revenue expectations for 2021 though.

The orders that we thought we were going to deliver this year, it still looks like we can do that. And the orders that we thought we would book, it still looks like we're going to book. In other words, we always knew that we were going to book some significant orders in 2021, which we still think we will.

We will see some revenue. But most of the revenue was always planned to be in 2022 and onwards. No changes there.

Cameron Lochridge

Okay, got it. Thank you. And then just in terms of the size of the potential pipeline there, I think I heard you say something about a few hundred million dollars in your prepared remarks. But if you could just maybe clarify that, that would be really helpful.

Sune Mathiesen

Yes. We're currently in the final stages, negotiating more than a handful of projects. And the total amount of those are several hundred million dollars. And how that breaks down into the individual years is a little bit difficult to say at this stage. In other words, it depends on when we actually booked them this year.

But it's for us very, very big orders. Some of them multi-year projects and I would say transformative for the company.

Cameron Lochridge

Got it. And then just if I could squeeze one more in. In terms of 1Q, could you just maybe help us frame expectations for what you expect revenue to be? Just qualitatively maybe flat up or down compared to 4Q. Anything you could offer there would be helpful.

Sune Mathiesen

Yes. We think that it looks pretty flat compared to the fourth quarter.

Cameron Lochridge

Got it. Got it. Alright. Thank you very much. I'll turn it back.



LiqTech International, Inc.

Q4 2020 Earnings Call

Conference Call Transcript

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Sune Mathiesen

Thanks, Cameron.

Operator

The next question comes from Liam Burke with B. Riley. Please go ahead.

Liam Burke

Thank you. Hi, Sune, and how are you doing?

Sune Mathiesen

I'm good. Hi Liam.

Liam Burke

Sune, there are a couple of things that you discussed on the call. The scrubber market interest is ramping. You're looking at a second half event [ph]. You expect the orders in oil and gas to track pretty much as you've laid out on your Investor Day. Now if I'm looking at actual revenue contribution, do you expect oil and gas to exceed the scrubber related sales in 2021?

Sune Mathiesen

Yes, we do.

Liam Burke

Okay, great. And there was a large scrubber manufacturer announced that they are developing carbon filtration through a modified scrubber system. Have you been in any discussions with them about using silicon carbide?

Sune Mathiesen

Yes. We know that a lot of companies are right now focused on black carbon reduction, as we are. And as we discussed in the past, there are several ways you can achieve the new limits. It can be done with diesel particulate filters, it could be done with EGR systems and many other technologies. It's a huge potential, \$26 billion alone in China, and we know that all of these technologies are probably going to have a place in the market.

We are focused on developing our technology together with our partners in China, with whom we've been working for several years. We think the solution that we have will be very competitive compared to other available technologies, and that we can demonstrate a lot of experience compared to other players in the market as well.

But to answer your question, Liam, we are focused on developing our technology together with our Chinese partners that we have been working with for scrubbers for the past three [ph] years.

Liam Burke

Great. Thank you, Sune.

Sune Mathiesen

Thanks, Liam.

Operator

As a reminder, if you have a question press star then one to be joined into the queue.

The next question comes from Dennis LaValle with Lantern. Please go ahead.

Dennis LaValle

Good afternoon, Sune. I have a question concerning the Chinese facility. Are you dealing with the same people that you were dealing with four years ago there?

Sune Mathiesen

No. Definitely not, Dennis. We learned a lot in China. And I think we got burned a few times in China. With the scrubber market, we had a new start in China. We got new relationships with very big shipyards, with big ship owners in China, and we have now successfully had the same partners in China for three years. And in fact China is our biggest market for marine scrubbers, and has been for the last few years.

We are doing this at a position of strength. Meaning that we will be the majority owner of this facility. We will operate the facility. We already found the managing director for this facility. And any investors that we might invite into this, they will not have any decision power but will be investing in the business case. But I can sincerely promise you that we are not looking to the same people as we did four years ago.

Dennis LaValle

Okay. And if I understand from your earlier commentary, all the IP and trade secrets will be kept in Copenhagen? And it'll basically be a job shop if you will in design of the systems, and have nothing to do with the silicon carbide production and manufacturing?

Sune Mathiesen

You're absolutely correct. The pieces we plan on manufacturing in China, they are commodities. It's bending of metal, it's welding of metal, it's the DPF filters, which are also a commodity. Where again the real IP will still be manufactured in Copenhagen and of course to protect the IP.

You're absolutely correct. We're very aware and very protective of our IP. We will take all precautions in making sure that we don't risk Chinese companies copying us on this.

Dennis LaValle

Okay. Very good. I thank you and I appreciate the fact that you're understanding concerns of China.

Sune Mathiesen

Thank you very much, Dennis.



CONCLUSION

Operator

As we have no further questions, this concludes our question and answer session. I would like to turn the conference back over to Sune Mathiesen for any closing remarks.

Sune Mathiesen

Thank you very much, operator. And thanks for everyone joining us on the call today. I look forward to speaking with many of you again already next week during our virtual presentation and one-on-ones. And I hope that we can all visit face-to-face again in the near future.

In the meantime, have a good day and stay safe. Thank you very much.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.