

LIQTECH INTERNATIONAL, INC.
(NASDAQ: LIQT)



First Quarter Fiscal Year 2019
Financial Results Conferen Call

Tuesday, May 14, 2019
9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Sune Mathiesen – Chief Executive Officer, LiqTech International
Robert Blum – Managing Partner, Lytham Partners

PRESENTATION

Operator

Good morning and welcome to the LiqTech Reports First Quarter Fiscal Year 2019 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 (*) then one (1) on your telephone keypad. To withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Mr. Robert Blum with Lytham Partners. Please go ahead, sir.

Robert Blum

Thank you very much, Nancy. Good morning, everyone, and thank you for joining us today as LiqTech discusses its first quarter 2019 financial results. I am Robert Blum of Lytham Partners, and I will be your moderator for today's call. Joining us on today's call from the Company is Sune Mathiesen, 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.

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 that may cause actual results to be materially different from those discussed during the conference call. The Company therefore urge 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 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 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, CEO of LiqTech International. Sune, please proceed.

Sune Mathiesen

Thank you very much, Robert, and good morning to all of you. Thank you for joining us today to discuss our first quarter 2019 results. I am excited to be speaking with you today.

The first quarter of 2019 was a significant turning point in the history of LiqTech. Not only did the Company report record quarterly revenues of \$7.4 million, but we also returned to profitability. The \$7.4 million in revenue was a 210% increase from the same period in 2018, and it was up 156% from the most recent fourth quarter. Adjusted for non-recurring costs, net income for the quarter was approximately \$450,000 compared to a loss of \$1.5 million in the same period in 2018. We have alluded to the first quarter of 2019 being the tipping point for us for about a year now, and I am happy to report that was exactly the case.

Even though it has just been a couple of weeks since we last spoke, there has been a couple of exciting developments at LiqTech that I would like to share with you. The first is that our customer order commitments continue to grow. They are now approximately double from where it was in January 2019 when we announced confirmed orders for more than 110 of our standardized water filtration systems. While we are moving away from providing specific numbers, rest assured that the backlog is extremely strong. Second, on April 16th we successfully completed the up-listing of our shares from the NYSE American to the NASDAQ. We are continuing to see a greater level of interest from institutional investors, and we believe that this transition will allow for greater investor participation, especially from larger funds who have restrictions against owning stocks on the NYSE American.

Third, we are now advancing our framework agreement announced in October 2018 with one of the world's largest marine scrubber manufacturers. We plan to showcase our jointly developed system for the treatment of marine scrubber wastewater at the Nor-Shipping Conference in Oslo, Norway this June. We are very excited to be moving this into full commercialization. Fourth, as earlier discussed we expect sequential growth throughout the year, and I am happy to report that we expect second quarter revenue to increase more than 20% sequentially from the first quarter revenue of \$7.4 million, mainly due to the continued momentum in scrubber sales. And, last but not least, we are seeing increased interest for our water treatment systems for power plants. We have booked several orders this year, and we have been specified for a number of projects in 2019 and 2020. The power plant industry is an important part of our growth strategy, and we are pleased to note this positive development. So, between the strong ramp in our marine scrubber order backlog, new interest in non-marine based applications, the commercial launch of our third framework agreement, and good visibility into the future, we feel very good about the business right now.



As many of you are familiar with IMO 2020 and the various regulations surrounding it, let me just abridge the key attributes for those that are newly following the Company. IMO 2020 mandates the reduction of Sulphur emissions from marine vessels and it leaves the ship owners with two options to comply with the new regulations. One is to switch to low-Sulphur fuel that is significantly more expensive than the bunker fuel they are using today. The second option is to install a scrubber system, which is a device that will spray water containing a solution of reagents over the emissions from the diesel engine and thereby capturing the harmful substances in the emissions and contain them in the water.

There are two basic types of scrubbers - an open-loop system and a closed-loop system. An open-loop scrubber will take in sea water and return it to the sea after the scrubber process without being cleaned, so including the before-mentioned harmful substances. In a closed-loop scrubber, there would be a water treatment system such as the one LiqTech provides. It will separate the harmful particles from the water and allow the now clean water to be discharged into the sea or reused in the process. Some scrubber systems are capable of operating in both open-loop and closed-loop, which means that they have a water treatment system. These scrubbers are called hybrid scrubbers.

Over the last number of months, some of the largest ports, including China and Singapore, have banned the discharge of water from open-loop scrubbers, and many in the industry expect this banning of open-loop scrubbers to continue throughout the world. As we have talked about over the last couple of calls, as countries such as China and Singapore ban the discharge of water from open-loop scrubbers, there has been an increasing movement towards closed-loop scrubbers.

Our ability to help ship owners address the most pressing concerns of the IMO 2020 regulation and the implementation of tougher environmental regulations by countries around the world has been a key driver in our order growth. We believe that we are uniquely positioned within this industry to benefit from accelerating demand amid regulatory and environmental tailwinds. We are seeing orders for our marine scrubber systems from the retrofitting of closed-loop scrubbers on the existing fleet, from the deployment of newbuilds where we are specked into the design of new ships, and from conversion of already installed open-loop scrubbers into closed-loop systems.

For those unfamiliar with the history of LiqTech, we originally made our name within the Diesel Particulate Filter industry. Since our founding in 2000, we have retrofitted nearly two million large vehicles with Diesel Particulate Filters, and we have been an important part of reducing the environmental impact of transportation. We are continuing developing products and solutions that improve the environment. One is a NOx reduction product for the marine industry that is based on the same Silicon Carbide Diesel Particulate Filter product we have been manufacturing for nearly 20 years. We believe that our long-term experience in the manufacturing of DPF's and our current success in the marine industry puts us in a unique position to take advantage of this new opportunity. We expect to have this new product ready for the market in the beginning of 2020.

Let me also just provide a bit of an update on our manufacturing ramp where the Company has done an excellent job in looking ahead to ensure we have capacity to meet the very strong demand we are experiencing. As we discussed recently, we anticipated this ramp-up in demand several quarters ago, and we placed orders for furnaces for our silicon carbide membrane manufacturing process. We also began the expansion of our systems manufacturing in Hobro, Denmark, where we will more than double our manufacturing and office space and will be improving our testing and laboratory facilities. The expansion is progressing according to plan and is expected to come on-line later this year, and we are



on track to meet current planned deliveries for 2019. We have already made down payments of \$1 million for the furnaces, and the expansion of the systems manufacturing in Hobro is without any Capex spending.

Before I turn the call over for questions, let me just say that transitioning a business from concept to product development to full commercialization is never easy. With our first quarter of shipments and installations of our marine scrubber applications now behind us, I can say confidently that we are extremely well positioned to execute on the go forward plan. Every day, we are gaining increased visibility into the intricacies of how orders will flow, how shipments and installations will occur, and how the manufacturing ramp will proceed. This experience, coupled with an increasing order backlog, provides me with strong confidence in our ability to establish ourselves as the market leader.

With that said, let me now turn the call over to any questions you might have. Operator, please?

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star (*) then one (1) on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. The first question comes from Eric Stine with Craig-Hallum. Please go ahead.

Eric Stine

Hi, Sune. Good morning.

Sune Mathiesen

Good morning, Eric.

Eric Stine

So, thank you. I do appreciate you giving the commentary on the orders and how it's trended since early in the year. Just wondering if you can talk about the makeup of that backlog between the two framework agreements that have been underway? And, then I'd also love your thoughts on kind of what the representative order is that you're seeing now. I know six months ago it might have been a handful, but it seems to me that it's progressing to where it's 10-plus, or it's a significant number, so any color there would be very helpful.

Sune Mathiesen

Yes. So, first of all, the two framework agreements are performing very well. One of them was for an expected 35 systems to be ordered in 2018 and 2019 and they are well on track to exceed that if not already exceeded, so they are performing very well. The other one was an expected 95 systems to be ordered in 2018 and 2019, and they are also well on track to meet those expectations and maybe even exceed those expectations. So, all of that is progressing according to plan. And, you're absolutely right in the size of the orders. If we go back 12 months, it was like one system here and one system there.



Now, it's more an order for 10 vessels here and 20 vessels here and 30 here, so an order size is significantly greater today than it was a year ago.

Eric Stine

Got it. And, the commentary on the third framework agreement that you're going to commercial launch or be at that trade show in June, maybe just some thoughts there in terms of how that's trending versus your expectations. I think previously you'd thought that it could be 80 to 100 systems in this calendar year and I'm curious, I know there was some talk that that customer might be moving away from using a centrifuge in that system and wondering if that changes the system size or the ASP for you.

Sune Mathiesen

ASP for this customer is a little bit shy of \$200,000 per system. We still expect to see a significant amount of orders this year. We said for a while that we expected to see orders come in this year and we expected to see meaningful revenue come out of the agreement in 2020 and we still believe that. Potentially, this could be our largest customer. They are a very big scrubber manufacturer, a lot of potential, and what we know is that they would be marketing our solution for closed-loop systems only.

Eric Stine

Got it, okay. And, last one for me, just more on the regulatory side. I'd love your thoughts on what's going on with open-loop scrubbers and ports banning it. In talking to people in the industry, it sounds like there are kind of diverging viewpoints whether the port bans, that forces the industry shift or whether the industry wants to wait until the IMO does a worldwide ban, which may take some time. So, just curious, it sounds like you're already seeing that shift but do you think that the ports banning it, is that really the key to adoption of the closed- and hybrid-loop systems?

Sune Mathiesen

So, last year in November we saw Singapore come out and ban the discharge from open-loop scrubbers in ports. We saw China come out this year in January and ban the discharge from open-loop scrubbers in ports. And, we know that more countries and ports have followed. There is a discussion right now about banning this worldwide. And, we think that it will eventually be banned worldwide, but of course at this point it's speculation. What we have seen, though, is a movement from open-loop scrubbers towards closed-loop scrubbers. We see a significantly greater part of the scrubbers placed today are closed-loop systems versus open-loop systems. So, that is progressing in our favor. We see new customers all the time, new ship owners but also new scrubber manufacturers who have previously been focusing on open-loop scrubbers but now given the market movement are also focusing on closed-loop scrubbers.

Eric Stine

Got it. Okay, thanks a lot.

Operator

Our next question comes from Rob Brown with Lake Street Capital Markets. Go ahead please.

Rob Brown

Hi, Sune. On the order book, could you give us a sense of how much of that order book is framework agreements and how much are other customers?



Sune Mathiesen

Well, it's about 50-50. So, a little bit shy of 50% in the order book right now comes from the framework agreements and a little bit more than 50% comes from other customers.

Rob Brown

Okay, thank you. That's very helpful. And, then thinking through the ramp for the rest of the year, how do you sort of view the order cadence? I know can you gave a nice step up in Q2, should that continue to increase throughout the year or do you hit a point where that levels off?

Sune Mathiesen

Well, we've seen a great move from the fourth quarter last year when we had revenues of \$3 million and to the first quarter this year where we had revenues of \$7.4 million. And, as I announced a little bit earlier, we expect more than 20% increase in the second quarter and so a very healthy increase. We do still expect sequential growth throughout the year and there nothing in our current order book and sales pipeline that tells us that growth should be slower.

Rob Brown

Okay, good. And, on the capacity expansion, could you remind us where you're - where you'll be at when your capacity comes online in the furnaces in terms of annual units and then in the Hobro expansion, what capacity is there? And, I think you mentioned no Capex on that, what's the financial commitment there?

Sune Mathiesen

So, we have put four furnaces on order right now, which is a financial commitment of approximately \$3.8 million. We already made down payments of \$1 million, which is included in the core. In terms of the expansion of our systems manufacturing, there is no Capex spending, we are losing the permits.

Rob Brown

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

Operator

Again, if you have a question please press star (*) then one (1). Our next question comes from Liam Burke with B. Riley FBR. Please go ahead.

Liam Burke

Thank you. Good morning, Sune. Sune, you've given us sequential growth of the revenue side. Your gross margin step-up sequentially was significant. Can we expect sequential improvement as gross margins based on just the higher expected volume?

Sune Mathiesen

We are expecting to see sequential growth in our gross margins with increased volume but also with the elimination of non-recurring costs that we had in the first quarter. It's still a journey. So, the better or the more you do things the better you get, and I guess it's the same for us. We will improve in the second quarter, and we are likely to improve in the third and fourth quarters as well. So yes, we are expecting to see that improvement throughout the year.



Liam Burke

Okay. And, you gave us the gross revenue number. How did your traditional DPF product do in the quarter? I mean, not looking at it as a legacy product, but it is an important steppingstone to some of your future air filtration applications.

Sune Mathiesen

Yes, we actually had a pretty healthy quarter on the DPFs. We expect to see revenues of approximately \$6 million for DPFs this year. But, you are exactly right. We are developing new products around the DPF product. We are developing this NOx product for the Marine industry. We expect to have that product ready in 2020 and should see an increase in DPF sales from that. But, for this year we are expecting about \$6 million of revenue from DPF.

Liam Burke

Okay. And, if I look at backlog, or how are you looking at orders past 2020? Are you looking at a mix of newbuild and retrofits, but how is the waiting now or how do you see the waiting going forward, however you want to look at it?

Sune Mathiesen

So, we are seeing three types of orders. We're seeing retrofits for the existing fleet, we are seeing newbuilds, and we are seeing upgrades of open-loop scrubbers into closed-loop systems. 12 months ago, it was all retrofits. Now, we're seeing more and more newbuilds; that is developing very well. And, we are also seeing more and more open-loop conversion. Going forward, we would expect to see a lot of open-loop conversions, hopefully, and even more newbuilds, but of course also the retrofits.

Liam Burke

Good. Thank you.

Operator

The next question comes from John Henderson from Kershner Trading Group. Please go ahead. Mr. Henderson? Mr. Lester, your line is open.

Andrew Lester

Congratulations on the strong quarter and strong backlog. Just a lingering question is in light of the growth of the backlog and sort of these, you know, sort of unexpected or one-time charges coming forward, there continue to be sort of rumors of analysts out there guiding that the Company might have to do a capital raise and you had previously stated that that would not be an issue. I was hoping that for clarification purposes you might be able to say whether or not you think there would be a need to raise any money? I think that if there's not that would help things significantly.

Sune Mathiesen

It's always the question of seeing how your business develops. We are pleased to see the Company turning profitable, which certainly helps on your cash needs. If we, if you take our current cash position, we have done a prepayment of the furnaces of \$1 million in the first quarter. If you add that to our current cost cash position, our cash position has actually been unchanged since June last year, which means that the Company is cash flow neutral and has been cash flow neutral for nine months now. Our profitability should be improving throughout the year, and so we think we're in good shape.



Andrew Lester

Thank you. That's very helpful. Keep up the good work.

Operator

The next question comes from John Henderson with Kershner Trading Group. Please go ahead.

John Henderson

Hey, Sune, I'll try that again. Quick question in terms of your visibility. The conversations you're having with shipbuilders directly, I mean, how far those do those extend for you guys? Is that kind of a 2020 conversation or did they extended it to 2021? Just trying to get some color on that front? Thanks.

Sune Mathiesen

Yes, they actually extended into 2021. These are major investments for a lot of ship owners, and they have big programs. So, they plan well ahead. So, we're getting more and more visibility on 2019 and 2020, and discussions we are having even extend into 2021.

John Henderson

Great. Thanks.

Operator

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

Roger Liddell

Hi, this is Roger Liddell sitting in for Jeb. Good morning, Sune. Could you clarify the scrubber market for power plants and other industrial facilities? We read again and again of heavy precipitation events causing overflows in ash lagoons and scrubber waste lagoons. This just appears to be an ascending problem, so it ought to be a significant opportunity, but can you shed any light on ASPs, timeframes, when might the rhetoric actually begin to impact the revenue line?

Sune Mathiesen

Absolutely. So, since we readdressed our business strategy in 2014, we have done or we have been successful in getting last year references in a number of industries. We have done installations in the mining industry, in oil and gas, in drinking water, and in power plants just to name some of them. What we are seeing now in the marine scrubber industry is the first industry really embracing our unique technology and a reason for that, the driver for that is legislation, tightened legislation. We see some of the same things are happening now in the power plant market, and we see tightened legislation really across the world. We've been successful in getting some really good references in the market in Finland and Germany and other countries and we now see that we are getting more and more orders and more importantly we have been specified for more and more projects. So, we're trying to attack this one industry at a time. So, now we're successful in marine scrubbers. We are now attacking the power plant market, which looks like it is successful. And, when we see legislation as a driver in some of the other industries where we already proved our products, we will work trying to break into that as well. And, so first things first, we are laser focused on the marine scrubber market right now. We are starting to dedicate more and more focus into the power plant industry. And, when that really develops and unfolds, we will look into the next industry.



Roger Liddell

All right. Thank you.

Operator

Again, if you have a question, please press star (*) then one (1). Our next question comes from Shawn Boyd from Next Mark Capital. Please go ahead.

Shawn Boyd

Thanks for taking the question and congrats on the quarter here, Sune. Going back to DPF for one second, I heard you expect that to be over \$6 million in the year, but what exactly was that in the quarter?

Sune Mathiesen

You broke up, sorry, can you repeat?

Shawn Boyd

Just in terms of revenue breakdown, I'm trying to understand what the diesel particulate filters revenue was in the quarter. I heard over \$6 million still expected for the year but didn't get it for the quarter?

Sune Mathiesen

It was roughly \$2 million for the quarter. So, a little bit higher than usual, but we're still expecting \$6 million for the full calendar year.

Shawn Boyd

Got it, okay. And, going out to when we start to see traction on the power plants. Is that the kind of business that we could see that double, triple in the first year or two or is it 10% to 20% growth? I know the earlier caller was trying to get a little more color there, and I think it would help all of us if we could just quantify this little bit more.

Sune Mathiesen

Yes, it's still very early stages in the power plant industry. We are seeing now outside legislation, especially in Europe and we know that it will come also in Asia and in North America. We have recognized that, we have a great solution. We have been proving our product in this industry for several years now, which is why we are now starting to get traction. So, while we are still laser focused on taking advantage of the marine scrubber opportunity, we are trying to develop this market for the future. Potentially, it's a huge industry and could be a similar sized opportunity as the marine scrubber opportunity.

Shawn Boyd

Very good. Okay. And, just to be clear, the driver on this business actually before the power plants would be the NOx product for ships, as that starts to ramp in potentially 2020.

Sune Mathiesen

We are hoping to see them develop simultaneously. We know there is a market for the NOx reduction product, which is why we're developing it. We are already starting to see business come out of the power plant industry. So, those two will be hopefully developing simultaneously.



Shawn Boyd

Okay. Very, helpful. Last question is going back to what is all near and dear to our hearts right now, in terms of the liquid filters and the opportunity on the scrubbers. You mentioned visibility, I think you talked about visibility for shipbuilders and discussions going out to 2021, but maybe you can just talk more about lead times, whether it be a retrofit or a newbuild ship, just where you stand right now on different lead times and maybe also kind of related to the framework agreements versus business that you're booking outside of the framework agreements? If someone were to come to you today with a new order, what is delivery, how far out would that be, etcetera? Thank you.

Sune Mathiesen

Yes. So, we actually just booked an order yesterday for August. So, I guess the shortest lead time we can do right now it's about three months. We're trying not to be that short. So, hopefully we can book orders with a little better lead times to allow us to ramp our business in a better way. But, let's say we have four to five months on average lead time right now. We are getting more and more visibility on 2019, well, we have very, very good visibility on 2019. We're getting more and more visibility on 2020, and we are having early discussions with ship owners for their 2021 needs right now.

Shawn Boyd

Got it. Great. Keep it up. Thank you.

Operator

The next question comes from Jake Oelbaum from Black Gold Investors. Please go ahead.

Jake Oelbaum

Hi, Sune. Thank you for your time, and congratulations on a great quarter. Just a quick question on your backlog. Can you give us some color on the percentage of small units and large units?

Sune Mathiesen

It's a nice mix, I would say. We have a lot of large units in there and we have some smaller units, but it's a nice mix and per vessel it's very close to the ASP of around \$400,000 we have discussed previously.

Jake Oelbaum

Okay. Thank you, and keep up the good work.

Operator

This concludes our question-and-answer session. I would like to now turn the conference back over to Sune Mathiesen, CEO, for any closing remarks.



CONCLUSION

Sune Mathiesen

Thank you very much, Nancy, and thanks everyone for joining us on the call today. I would like to remind everybody about our Investor Day in New York on June 3rd. Should you wish to participate, please reach out to Robert Blum of Lytham Partners. We look forward to seeing some of you there and to speaking with you again soon. Thank you.

Operator

This conference has now been concluded. Thank you for attending today's presentation. You may now disconnect and have a great day.

