

**LIQTECH INTERNATIONAL, INC.**  
**NYSE American: LIQT**



## **Investor Update Conference Call**

**Wednesday, October 24, 2018**  
**10:00 a.m. Eastern**

## **CORPORATE PARTICIPANTS**

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

## **PRESENTATION**

### **Operator**

Good day, and welcome to the LiqTech International Investor Update Conference Call. All participants will be in listen-only mode. Should you need operator assistance, please signal a conference specialist by pressing the Star key, followed by 0.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press Star, then 1 on your touchtone phone. To withdraw your question, please press Star, then 2. Please note this conference is being recorded.

I now would like to turn the conference over to Robert Blum. Mr. Blum, please go ahead.

### **Robert Blum**

Thank you, Keith. Good morning, everyone, and thank you for joining us today, as LiqTech International provides an update to investors.

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 CEO, Sune Mathiesen and CFO, Claus Toftegaard. 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 website shortly.

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 of this 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 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 very much for joining us today.

Over the past week, there's been a tremendous amount of activity and discussion surrounding the implementation of IMO 2020. Following this discussion, we felt it was important to provide an update to our investors regarding LiqTech's most up-to-date outlook and the role we are playing to help shippers meet the new IMO 2020 standards.

First off all, LiqTech plays an important role in the successful implementation of IMO 2020. Our ability to effectively filter the dirty water from the scrubber process through our proprietary silicon carbide filtration system and meeting the IMO 2020 standards for discharge is critical to the success of the scrubber industry in providing an alternative solution to purchasing the higher priced low-sulfur fuels. We believe that the agreements we have signed with some of the world's largest scrubber manufacturers confirms the importance of LiqTech's role. I will spend a few minutes going into the exciting agreement we signed earlier this month momentarily.

Following the comments by the White House last week, the International Maritime Organization said yesterday that they will not delay implementing the new lower cap on sulfur emissions in 2020.

Edmund Hughes, the head of air pollution and energy efficiency at the IMO said that--said during the Asia Pacific Petroleum Conference in Singapore, "I can categorically say that there will not be a delay."

Frederick Kenney, director of legal affairs and external relations with the IMO, said separately that even if a motion was proposed by member states to change the implementation date, it would take 24--22 months for any amendments to take effect, which would run beyond 2020. He further mentioned, and I paraphrase, "You have to look at how strong the majority was to implement 2020 and it would be up to the proponents of any change to change that consensus."

At LiqTech, we appreciate and support the continued commitment from the IMO to continue the implementation of IMO 2020 as planned.

I think that an important item to note is that the LiqTech technology allows the shippers to continue to use the lower cost bunker fuel by installing a scrubber. Our technology provides an economic and environmentally friendly solution to dirty--to filter the dirty water from the scrubber process and the discharge from our system is guaranteed to meet discharge limits. As I said on the last conference call, the business case to install a scrubber and filtration system is highly attractive with a relatively quick investment payback. It is this very reason that analysts in the industry are continuing to increase their target adoption rates for scrubbers, and you see more and more vessel operators making the decision to install scrubbers. The industry is certainly dynamic and changing all the time, but the trends all seem to be favoring LiqTech.

While I am sure there will be continued press and further analysis surrounding this event, what I can tell you from the ground level is: an increasing number of shippers are placing orders for scrubber systems. Those scrubber systems are increasingly transitioning to hybrid-based systems that requires water treatment. Recently, we have seen some of the largest ship owners announce that they are installing scrubbers. And most importantly, LiqTech is receiving orders under our framework agreements with the largest marine scrubber manufacturers in the world, as well as from other scrubber manufactures.

Let's dive a bit further into the current state of our business. Although early stages, our revenues from the marine industry continues to improve. We currently have firm standing orders that provides us good visibility on 2019. We are continuing to receive new orders and we are in negotiations for several new contracts. On the framework agreement signed October 1st, we are likely to generate 80 to 100 systems in 2019, ramping up to several hundred systems in the following years. In addition to this, we already have firm standing orders from our other framework agreements for delivery in 2019 as well as orders from other scrubber manufactures. This is certainly an exciting time for LiqTech.

One of the important questions that comes up frequently is our ability to meet this demand with our working capital position. We have positioned ourselves as efficiently as possible from a working capital perspective and I am pleased to report that our current cash balance today is higher than the cash position we reported on June 30. We will have our detailed financial results released on November 14.

Based on the current order flow we have and timing of shipments to end users, I'm pleased to announce that we expect to be profitable in the first quarter of 2019 and onwards. We do not expect significant cash burn for the rest of 2018. We are currently estimating that revenue for the third quarter will be approximately \$3.3 million, up 32 percent from the same quarter 2017.

As I mentioned before, we are currently experiencing a significant ramp in our order book. We are busier than ever, and we have recently suspended all planned vacation in the fourth quarter. The first quarter of 2019 is likely to be a new record for the Company and will put the Company solidly profitable. As I mentioned before, we do not see any significant cash burn for the rest of 2018.

Let me also spend a few minutes providing some details on the framework agreement we announced at the beginning of this month.

The agreement, which is with one of the world's largest marine scrubber manufacturers, is to develop a new product for the treatment of Marine Scrubber Wastewater. The new product will offer marine vessels guaranteed compliance with 2020 IMO regulations, while providing attractive returns on capital and operating expenses.



LiqTech will be providing only certain key filtration components of the system, so the revenue component will be less per system, more specifically around \$230,000 per system. But, the components we are supplying are the mission critical components, and thus carry higher margins than our normal systems.

As I mentioned earlier, we are likely to generate 80 to 100 systems in 2019 from this new framework agreement announced on October 1<sup>st</sup>, 2018 and ramping up to several hundreds in the following years.

I know it's a bit unusual to jump on a call just weeks before our formal quarterly results are to be announced, but we felt it was important to communicate with you. I am now happy to take any questions that there might be. Operator, please.

## QUESTION AND ANSWER

### Operator

Yes, thank you. We will now begin the question and answer session. To ask a question, you may press Star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up the handset before pressing the keys. If at any time your question's been addressed and you would like to withdraw it, please press Star, then 2.

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

And, the first question comes from Eric Stine with Craig Hallum.

### Eric Stine

Good morning, Sune.

### Sune Mathiesen

Good morning, Eric.

### Eric Stine

So, I appreciate the color on your third framework agreement for 2019 and beyond, and it sounds like you're getting orders from the other two that you have in hand. So, I guess, first part of the question would be are you able to quantify, or give any thoughts on what those might look like for 2019? And, then secondly, just curious, I mean, you're clearly getting orders from other scrubber OEMs, so maybe what do those conversations look like? And, do you expect that you'll eventually have framework agreements with those companies as well?

### Sune Mathiesen

Yeah, so we have these three framework agreements in place, the two that we signed in the spring of 2018 and the one we announced on October 1<sup>st</sup>, 2018. You are actually correct, we are starting to see orders come out of the first two framework agreements. We are very pleased to see that development, and it seems like we are on track. So, we meet the expectations from those agreements.

Also, as I mentioned, the October 1<sup>st</sup> framework agreement we are likely to see significant revenue come out of that in 2019. So, things are developing very well. As to other scrubber manufacturers, we are now currently working with seven of the top ten scrubber manufacturers in the world, and it seems



like these other customers will just be placing orders. So, we have no intentions to do further framework agreements. We are just receiving orders from these other players.

**Eric Stine**

Got it. And, it sounds like I had a little bit of a phone issue, so missed some of that, but we can follow up on that later. Maybe just, you mentioned the IMO and everything going on this week and that that January 2020 date is going to hold. I know right now, a lot of the discussion is around an experience building phase in EBP. Just curious your thoughts on that. I mean, to me, it wouldn't seem like that changes your outlook much, just given scrubbers are in high demand and sold out for a number of years, but any thoughts you have on an EBP if that were to be put in place, that'd be great.

**Sune Mathiesen**

Yes, so first of all, it seems like the IMO is pretty firm on staying with the January 1<sup>st</sup>, 2020 date. Should it be that we'll see this experience building period being implemented, we really don't think it changes a lot. I've had the chance to speak with one, the very large ship owner, as to what would happen in their implementation if such a period was to be implemented, and the response from them was, "We are continuing to install scrubbers." They would see it as a positive because then it would allow them more time to get more ships ready for whatever the deadline then would be.

But, I think our expectation is, there will be no extension, and should there be an extension, it seems like ship owners will just proceed installing scrubbers and be happy that they can get more ships ready for the new deadline.

**Eric Stine**

Got it, okay. Maybe just a last one for me, you gave the commentary around expected revenues in 3Q, and maybe just more from a high level, but it seems like a lot of your commentary obviously is really about 2019. I mean, is 4Q, should we think about that as a little bit of a similar way as you build to first quarter? Just how would we think about that?

**Sune Mathiesen**

Yeah, what we see now is that the turning point for when we turn the company profitable will be the first quarter next year. We have enough visibility to say that. We also have the visibility to say that first quarter of 2019 will be a new record for the company, and we should be very nicely profitable.

With what we see going on with our recent activity, we have a reason to believe that we'll see a continuous ramp in the quarters to follow. And, the hope is to be at full capacity in the fourth quarter of 2019.

**Eric Stine**

Got it. Okay, thanks a lot.

**Sune Mathiesen**

Thanks, Eric.

**Operator**

Thank you. And, as there are no more questions at the present time, I would like to return the floor to management for any closing comments.



## CONCLUSION

**Sune Mathiesen:**

Thank you, Operator, and thank you for everyone joining us today on the call. We look forward to speaking with you again soon on November 14 for our normally scheduled third quarter conference call. A great day to you.

**Operator**

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

