

LiqTech International Announces Second Quarter 2022 Financial Results

BALLERUP, Denmark, Aug. 11, 2022 — **LiqTech International, Inc.** (NASDAQ: LIQT) ("**LiqTech**"), a clean technology company that manufactures and markets highly specialized filtration technologies, today announced its financial results for the second quarter of 2022.



Q2 2022 Highlights

- Q2 2022 revenue of \$5.0 million, an increase of 25% from Q2 2021.
- Gross margin of 3.0%, compared to 8.0% in Q2 2021.
- Net loss of \$(6.5) million that included \$3.8 million of non-recurring costs.
- Strong ending cash balance of \$19.7 million.
- Raised \$26.5 million in a public offering and placed \$6 million of senior notes.
- Repaid \$15 million convertible note due in 2023.
- Implemented aggressive cost reduction program to preserve capital.
- Commissioned first water filtration system for the Middle East oil & gas market.
- Commissioned first acid filtration system for the U.S. market.

Highlights Subsequent to Q2 2022

- Appointed Fei Chen as President and Chief Executive Officer.
- Received new marine scrubber orders in July 2022 for delivery by year-end 2022.
- Received first order for marine black carbon reduction in China.

Management Commentary

Alex Buehler, Interim CEO, stated, "Over the past quarter, we focused on organizational, financial, operational, and commercial imperatives to stabilize the business and position it for growth. Notable achievements included a successful CEO transition, organizational realignment, restructuring and cost reduction, capital expenditure rationalization, equity raise, debt refinancing, and targeted commercial and operational initiatives."

"We delivered and commissioned our first, commercial-scale oil & gas system in the Middle East through Baker Hughes and commissioned our first acid filtration system for the U.S. market. Additionally, we received new orders for the marine scrubber market and our first order for the marine black carbon reduction market in China. Each of these markets represents significant growth opportunities for LiqTech."

“Furthermore, we implemented measures to significantly reduce our fixed cost structure and to stabilize our manufacturing operations. We also worked diligently to enhance pricing discipline, optimize our product mix, and improve operational efficiencies to return the business to profitability. I am extremely proud of the way the team has come together during this transitional period to position LiqTech for future success. With Ms. Fei Chen set to take over as CEO later this year, I believe that the foundation is in place for her to elevate LiqTech to the next level.”

“While the Company remains increasingly optimistic about its prospects for 2022 and beyond, we must also cautiously acknowledge the reality of the current business environment, where geopolitical tensions, supply chain disruption, market volatility, and economic uncertainty create delays in client decision-making and extend lead times for critical raw materials. Considering such elevated uncertainty, along with the currency headwinds arising from the appreciation of the U.S. Dollar against the Euro, the Company believes it is appropriate to revise the full-year guidance for 2022 to a range of \$20 to \$25 million, with the third quarter anticipated to closely approximate the second quarter in revenue. Despite the downward revision, the Company remains confident with respect to its long-term growth trajectory and commercial success.”

Q2 2022 Financial Results

Revenue for the second quarter of 2022 was \$5.0 million compared to \$4.0 million in the second quarter of 2021, representing an increase of 25%. Revenue for the second quarter reflected an increase in sales of liquid filters and water treatment systems, offset by unfavorable currency impacts caused by a stronger U.S. Dollar. Sales of DPF filters and plastics components were comparable to the same period in 2021, reflecting stable activity despite volatile market conditions from continued disruption in global supply chains and more recently, geopolitical unrest and macroeconomic uncertainty.

Gross profit for the second quarter of 2022 was \$0.1 million, reflecting a gross profit margin of 3.0%, compared to \$0.3 million, or a gross profit margin of 8.0%, for the same period in 2021. The decrease in gross profit margin was caused by reduced profitability in our Ceramics business driven by unfavorable mix from lower sales of higher-margin ceramic membranes, lost productivity from manufacturing quality issues, and the negative impacts from rising input cost inflation. Gross profit for the quarter was also impacted by decreased commissioning activities for systems and the delivery of a significant system order at a comparatively lower margin, the full margin for which should be achieved through subsequent leasing and commissioning revenue.

Total operating expense for the second quarter of 2022 was \$4.7 million compared to \$2.9 million in the second quarter of 2021. The increase was almost entirely attributable to restructuring costs of \$1.8 million and non-recurring costs related to the CEO and CFO

transitions recognized during the current quarter.

Other Income (Expense) in the second quarter of 2022 was \$(1.9) million compared to \$(0.5) million in the second quarter of 2021. This unfavorable change resulted mainly from the repayment of the Convertible Note issued in April 2021, with \$1.9 million of amortization discount and \$0.2 million of interest expense. Other Income (Expense) was positively affected by the receipt of COVID-19 grants and the gain related to the closing of the China manufacturing plant, offset by a loss on currency transactions due to a less favorable DKK/USD exchange rate during the period.

The Net Loss in the second quarter of 2022 was \$(6.5) million compared to \$(3.1) million in the second quarter of 2021 due to non-recurring restructuring costs of \$(1.8) million and other expenses related to the repayment of the Convertible Note of \$(1.9) million.

Cash on hand (including restricted cash) on June 30, 2022, was \$19.7 million compared to \$17.5 million on December 31, 2021. To shore up the balance sheet and position the business for future growth, the Company successfully completed a \$26.5 million public offering of common stock and pre-funded warrants in May 2022. A portion of these proceeds, along with the issuance of \$6 million of new Senior Promissory Notes due in June 2024, allowed the Company to refinance its \$15 million Convertible Note that was due in 2023.

Leadership Transition

On July 29, 2022, the Company announced the appointment of Ms. Fei Chen as President and Chief Executive Officer, with a start date on or before November 1, 2022. Effective as of her start date, Ms. Chen will also be appointed a member of the Company's Board of Directors. Alexander J. Buehler, a member of LiqTech's Board and currently serving as Interim CEO since March 2022, will resign as Interim CEO when Ms. Chen starts her employment, but he will continue to serve as a member of the Board of Directors.

Commercial Update

Marine Black Carbon Reduction. The Company recently received its first order for its proprietary silicon carbide ceramic filters designed to address a new and growing market for emissions reduction of black carbon in China. The order was received in collaboration with our Chinese-based marine partner with delivery expected before year-end 2022. The Company will fulfill the order from its existing facilities in Denmark following the termination of the lease agreement associated with the Company's China manufacturing facility. The Company remains in detailed discussions with its partners in China regarding new orders for marine scrubber and black carbon reduction applications, and the Company continues to believe that the marine black carbon reduction market represents a significant growth opportunity.

Marine Scrubbers. In June 2022, the Company received a new order for the marine scrubber market, leveraging the Company's proprietary water filtration system technology. The order, which covers two separate marine vessels, is expected to be delivered before the end of 2022. Additionally, the Company received another marine scrubber order in July, with these systems also expected to ship to China in the current year. These new orders represent proof of life in a strategic market after a prolonged malaise. Importantly, the Company continues to observe a notable increase in quotation activity for marine scrubber systems, which it believes is reflective of a recovering market.

Oil & Gas. The Company successfully delivered and commissioned its first order from Baker Hughes for a strategic oil & gas customer in the Middle East through its local partner. As previously announced, under the terms of the contract, the customer will lease LiqTech's water filtration systems for a fixed monthly rental fee. LiqTech will recognize a portion of the profits over the rental term, as well as revenue and profit from the upfront system sale, the latter of which was recorded in the second quarter of 2022. This is a significant milestone for the Company-opening new applications in an attractive end market-and we are in active discussions with this customer and others for new opportunities to leverage our differentiated technology and compelling value proposition in the oil & gas market.

Acid Filtration. In the second quarter of 2022, the Company commissioned its first system for the acid filtration market in the U.S. This \$2.2 million system was originally recognized as revenue in the fourth quarter of 2021. Additionally, the Company received a meaningful spare parts order in August to support this system. The Company is currently in active discussions with the customer regarding a second system deployment at another site and is also working to generate additional opportunities for this customer at other sites and for new customers.

Balance Sheet Improvement, Cost Reduction, and Capital Rationalization

In May 2022, the Company raised \$26.5 million through a public offering of common stock and pre-funded warrants. In June 2022, the Company also completed a private placement of senior notes in an aggregate principal amount of \$6 million and warrants to purchase shares of LiqTech common stock. Proceeds from the note and equity raise were used to repay the outstanding balance of \$13.5 million under the Company's convertible note due in 2023. Following the repayment, the Company had approximately \$19.7 million in cash on June 30, 2022, with \$6 million in debt. The senior notes have a term of 24 months and will not bear interest during the two-year period.

As previously noted, the Company implemented an aggressive plan to reduce costs and preserve capital, while maintaining its ability to effectively service its customers and pursue growth opportunities. The Company has successfully reduced its headcount and labor costs by nearly 25%, excluding non-cash compensation. Additionally, the Company has reduced

and suspended planned capital investments, including the Company's program to build a manufacturing and service center in China to address the black carbon and NOx reduction markets.

Mr. Buehler commented, "We have made notable progress over the last several months with respect to our organizational, financial, operational, and commercial priorities, and today we have a much stronger business, approaching breakeven profitability with a fresh balance sheet. As we address large end markets with differentiated technologies and a strong value proposition, we are poised for meaningful growth, and we look forward to our new CEO, Ms. Fei Chen, leading the Company through its next chapters."

Conference Call Details

Date and Time: Thursday, August 11, 2022, at 9:00 a.m. ET

Call-in Information: Interested parties can access the conference call by dialing (833) 535-2206 or (412) 902-6741.

Webcast: Interested parties can access the conference call via a live webcast, which is available in the Investor Relations section of the Company's website at <https://www.liqtech.com/investor-relations/> or at <https://app.webinar.net/zp5L8wqxbkM>.

Replay: A teleconference replay of the call will be available until August 18, 2022, at (877) 344-7529 or (412) 317-0088, confirmation #2393616.

About LiqTech International Inc.

LiqTech International, Inc., a Nevada corporation, is a clean technology company that provides state-of-the-art ceramic silicon carbide filtration technologies for gas and liquid purification. LiqTech's silicon carbide membranes are designed to be used in the most challenging water purification applications, and its silicon carbide filters are used to control diesel exhaust soot emissions. Applying nanotechnology, LiqTech develops products using its proprietary silicon carbide technology, resulting in a wide range of component membranes, membrane systems, and filters for both microfiltration and ultrafiltration applications. By incorporating LiqTech's SiC liquid membrane technology with the Company's extensive systems design experience and capabilities, LiqTech offers unique, turnkey solutions for the most difficult water purification applications.

For more information, please visit www.liqtech.com

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Forward-Looking Statement

This press release contains “forward-looking statements.” Although the forward-looking statements in this release reflect the good faith 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 in these forward-looking statements. Readers are urged to carefully review and consider the various disclosures made by us in the reports filed with the Securities and Exchange Commission, including the risk factors that attempt to advise interested parties of the risks that may affect our business, financial condition, results of operation, and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this release.

We assume no obligation to update any forward-looking statements to reflect any event or circumstance that may arise after the date of this release.

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2022 (Unaudited)	As of December 31, 2021
Assets		
Current Assets:		
Cash and restricted cash	\$ 19,695,722	\$ 17,489,380
Accounts receivable, net of allowance for doubtful accounts of \$152,311 and \$409,076 at June 30, 2022 and December 31, 2021, respectively	2,420,968	1,957,579
Inventories, net of allowance for excess and obsolete inventory of \$419,985 and \$268,470 at June 30, 2022 and December 31, 2021, respectively	5,445,413	5,421,027
Contract assets	2,786,063	1,906,510
Prepaid expenses and other current assets	3,434,607	1,292,285
Total Current Assets	33,782,773	28,066,781
Long-Term Assets:		
Property and equipment, net of accumulated depreciation of \$7,950,015 and \$7,554,803 at June 30, 2022 and December 31, 2021, respectively	7,209,565	8,858,993
Operating lease right-of-use assets	3,468,258	6,925,807
Deposits and other assets	582,963	628,109
Intangible assets, net of accumulated amortization of \$376,674 and \$357,231 at June 30, 2022 and December 31, 2021, respectively	257,252	334,743
Goodwill	220,105	240,259
Total Long-Term Assets	11,738,143	16,987,911
Total Assets	\$ 45,520,916	\$ 45,054,692

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

As of
June 30,
2022
(Unaudited)

As of
December 31,
2021

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable	\$ 1,920,886	\$ 1,646,662
Accrued expenses	4,485,000	4,685,665
Current portion of finance lease obligations	344,528	373,824
Current portion of operating lease liabilities	552,400	846,544
Current portion of Convertible Note payable	-	8,400,000
Contract liabilities	595,150	914,828
Total Current Liabilities	7,897,964	16,867,523
Deferred tax liability	178,389	224,779
Other liabilities, net of current portion	-	346,939
Finance lease obligations, net of current portion	2,117,126	2,499,591
Operating lease liabilities, net of current portion	2,915,857	6,154,064
Senior Promissory Notes, net	5,342,187	-
Convertible Note payable, less current portion	-	6,186,936
Total Long-term Liabilities	10,553,559	15,412,309
Total Liabilities	18,451,523	32,279,832

Stockholders' Equity:

Preferred stock; par value \$0.001, 2,500,000 shares authorized, 0 shares issued and outstanding at June 30, 2022 and December 31, 2021	-	-
Common stock; par value \$0.001, 100,000,000 shares authorized, 43,888,538 and 21,285,706 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	43,888	21,285
Additional paid-in capital	96,406,781	70,910,902
Accumulated deficit	(63,435,411)	(53,181,928)
Accumulated other comprehensive loss	(5,945,865)	(4,975,399)
Total Stockholders' Equity	27,069,393	12,774,860
Total Liabilities and Stockholders' Equity	\$ 45,520,916	\$ 45,054,692

LIQTECH INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 5,018,292	\$ 4,016,563	\$ 8,655,528	\$ 8,014,440
Cost of Goods Sold	4,870,152	3,695,853	8,261,847	7,579,115
Gross Profit	148,140	320,710	393,681	435,325
Operating Expenses:				
Selling expenses	1,196,513	1,202,586	2,256,461	2,212,084
General and administrative expenses	1,265,543	1,247,132	3,182,060	2,721,802
Research and development expenses	490,836	434,629	1,093,573	872,236
Restructuring costs	1,788,827	-	1,788,827	-
Total Operating Expense	4,741,719	2,884,347	8,320,921	5,806,122
Loss from Operations	(4,593,579)	(2,563,637)	(7,927,240)	(5,370,797)
Other Income (Expense)				
Interest and other income	342,624	-	342,723	-
Interest expense	(159,557)	(215,598)	(366,018)	(256,017)
Amortization discount on Notes	(1,922,618)	(251,804)	(2,219,956)	(251,804)
Gain (Loss) on currency transactions	(342,202)	(83,696)	(266,209)	287,988
Gain on lease termination	153,575	-	153,575	-
Gain on sale of fixed assets	661	1,134	661	1,134
Total Other Income (Expense)	(1,927,517)	(549,964)	(2,355,224)	(218,699)

Loss Before Income Taxes	(6,521,096)	(3,113,601)	(10,282,464)	(5,589,496)
Income Tax Benefit	(14,037)	(15,493)	(28,981)	(31,959)
Net Loss	\$ (6,507,059)	\$ (3,098,108)	\$ (10,253,483)	\$ (5,557,537)
Basic and Diluted Loss Per Share	\$ (0.20)	\$ (0.14)	\$ (0.38)	\$ (0.26)
Basic and Diluted Weighted Average Common Shares Outstanding	32,097,495	21,769,461	26,753,663	21,723,578

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