

Evoqua Water Technologies Reports Second Quarter 2020 Results

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Second Quarter 2020 Financial Highlights:

- *Consolidated revenues of \$351.7 million, an increase of 0.9% over the prior year period*
- *Net income of \$7.9 million compared to net income of \$1.6 million in the prior year period*
- *Adjusted EBITDA of \$56.7 million, consistent with the prior year period*

PITTSBURGH--(BUSINESS WIRE (1))--Evoqua Water Technologies (NYSE:AQUA), an industry leader in mission-critical water treatment solutions, today reported results for its second quarter ended March 31, 2020.

Revenues for the second quarter of fiscal 2020 were \$351.7 million, an increase of 0.9% as compared to the prior year period. The revenue increase was driven primarily by organic revenue growth of 3.4%, offset by a net decline from revenues related to acquisitions and divested product lines of (2.0)%, in addition to a minimal impact from negative currency translation. Net income for the quarter was \$7.9 million, resulting in diluted earnings per share ("EPS") of \$0.06 as compared to \$0.01 in the prior year period. Net income for the quarter includes an additional net pre-tax benefit on the sale of the Memcor product line of \$9.0 million based on the finalization of net working capital adjustments, as well as non-cash foreign currency translation losses related to intercompany loans of \$8.1 million in the current quarter as compared to a loss of \$0.3 million in the prior year period. Adjusted EBITDA for the quarter was \$56.7 million, which is consistent with the prior year period. Adjusted EPS was \$0.14 in both the current and prior year period. See the "Use of Non-GAAP Measures" section below for additional information regarding Adjusted EBITDA and Adjusted EPS.

"The challenges posed by COVID-19 have impacted every facet of how we conduct our daily lives and how businesses adapt to significant demand shifts and maintain supply chain integrity. Evoqua personnel servicing the front-line health care and other essential service professionals are responding by conducting their daily activities with a sense of duty and courage, and we extend them our sincere appreciation. I am very proud of all of our employees for stepping up and being responsive, particularly in this dynamic environment," said Mr. Ron Keating, Evoqua's CEO.

Mr. Keating continued, "Our top priority is to protect the health and safety of our employees, customers and supply chain partners. We are focused on maintaining customers' operating uptime while ensuring our business resiliency, liquidity and financial strength. Our digital business offerings and capabilities have never been more important, as face-to-face interaction becomes restricted."

Mr. Keating stated, "Looking forward, we will continue to align our cost structure as we experience demand changes across the business. Initial cost actions have been taken to preserve liquidity, and resources are being reallocated to maintain productivity levels. We have a diversified and balanced set of served end markets which generated solid order growth along with revenues and Adjusted EBITDA above the previously communicated range for the second quarter. We also continue to have a growing pipeline, for outsourced water opportunities and as we gain traction in treatment solutions for emerging contaminants such as PFAS."

As announced on April 14, 2020, the Company withdrew its previously communicated full-year fiscal 2020 guidance due to uncertainty regarding the duration and impact of COVID-19.

Second Quarter Segment Results

Evoqua has two reportable operating segments - Integrated Solutions and Services and Applied Product Technologies. The results of our segments for the second quarter are as follows:

Integrated Solutions and Services

Segment revenues increased \$11.1 million, or 4.9%, to \$237.9 million in the second quarter of fiscal 2020. Organic revenues increased approximately 4.5% as compared to the same period in the prior year -

- Capital revenue increased by \$7.7 million, exclusive of acquisitions, as compared to the prior year. The increase was primarily driven by strong demand in the microelectronics end market.
- Service revenue increased by \$2.8 million, driven by both volume increases and price realization.
- Aftermarket revenue was relatively flat compared to the prior year, declining slightly by \$0.5 million.
- The recent investment in Frontier Water Systems, LLC contributed \$1.1 million of revenue in the period.
- The ISS segment saw stable but uneven demand as a result of the COVID-19 pandemic during the latter half of March. The segment saw increases in volume in healthcare related end markets, partly offset by declines in the refining and oil and gas end markets. Demand in the power, microelectronics, food & beverage and municipal end markets remained stable through the period.

Operating profit decreased slightly by \$0.3 million, or 0.8%, to \$36.7 million in the second quarter of fiscal 2020 as compared to the prior year period -

- Segment profitability improved \$6.5 million in the period driven by increased revenue volume and price, along with the leverage of

revenue volume and mix.

- Negative drivers to profitability included increased employee related expenses of \$3.8 million and higher depreciation and amortization expense of \$3.0 million as the segment continues to invest in revenue generating assets.

Segment Adjusted EBITDA increased \$2.7 million, or 5.3%, to \$54.1 million in the second quarter of fiscal 2020 as compared to the prior year period. The increase in segment Adjusted EBITDA resulted from the same factors which impacted operating profit, other than the change in depreciation and amortization.

Applied Product Technologies

Revenues decreased by \$8.0 million, or 6.6%, to \$113.8 million in the second quarter of fiscal 2020 as compared to the same period in the prior year -

- Organic revenue grew 1.3%, or \$1.5 million, driven primarily by the aquatics and electrochlorination product lines in the EMEA and Americas regions, partially offset by modest declines in Asia Pacific mainly due to COVID-19 related slow down and delays in demand.
- The impact from the divestiture of the Memcor product line and the acquisition of ATG UV Technology Ltd. resulted in a net reduction in revenue of \$8.1 million.
- The impact of foreign currency translation was a reduction to revenue of \$1.4 million.

Operating profit increased \$12.5 million to \$23.8 million for the second quarter of fiscal 2020 as compared to the same prior year period -

- Increased operating profit was primarily driven by additional funds received as a result of the net working capital settlement related to the sale of the Memcor product line of \$9.0 million.
- Additionally, operating profit improved \$6.4 million driven by volume and mix performance, augmented by improved pricing.
- The net benefit to operations from the divestiture of the Memcor product line and the acquisition of ATG UV Technology Ltd. was \$0.5 million, and segment operating profit also includes the positive impact of \$1.0 million of lower depreciation expense.
- These increases were offset by operational variances of \$2.6 million, increased employee related expenses of \$0.8 million, and \$0.3 million of unfavorable foreign currency translation as compared to the prior year period.
- Further net operating profit decrease of \$0.7 million was attributable to the change in other non-recurring charges or benefits as compared to the prior year period.

Segment Adjusted EBITDA increased \$0.5 million, or 2.4%, to \$21.7 million in the second quarter of fiscal 2020 as compared to \$21.2 million in the same period of the prior year. The increase in segment Adjusted EBITDA was driven by the same factors which impacted segment operating profit, other than the change from depreciation and amortization, and for this segment also excludes -

- Restructuring and other activity incurred in the current year that net reduces Adjusted EBITDA by \$5.6 million, including the additional net pre-tax benefit on the sale of the Memcor product line of \$9.0 million, as compared to restructuring and other non-recurring activity that was a net increase to Adjusted EBITDA of \$5.4 million in the prior year.

Second Quarter Earnings Call and Webcast

The Company will hold its second quarter of fiscal 2020 earnings conference call Wednesday, May 6, 2020, at 10:00 a.m. E.T. The live audio webcast and presentation slides for the call will be accessible via Evoqua's Investor Relations website, <http://aqua.evoqua.com/>. The link to the webcast replay as well as the presentation slides will also be posted on Evoqua's Investor Relations website.

About Evoqua Water Technologies

Evoqua Water Technologies is a leading provider of mission critical water and wastewater treatment solutions, offering a broad portfolio of products, services and expertise to support industrial, municipal and recreational customers who value water. Evoqua has worked to protect water, the environment and its employees for more than 100 years, earning a reputation for quality, safety and reliability around the world. Headquartered in Pittsburgh, Pennsylvania, the company operates in more than 160 locations across ten countries. Serving more than 38,000 customers and 200,000 installations worldwide, our employees are united by a common purpose: Transforming Water. Enriching Life.

EVOQUA WATER TECHNOLOGIES CORP. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Revenue	\$ 351,663	\$ 348,628	\$ 697,768	\$ 671,630
Cost of product sales and services	(240,457)	(253,017)	(480,847)	(487,289)
Gross profit	111,206	95,611	216,921	184,341
General and administrative expense	(62,130)	(48,215)	(107,900)	(103,046)
Sales and marketing expense	(33,976)	(35,435)	(71,990)	(71,587)
Research and development expense	(3,189)	(3,957)	(6,873)	(8,103)
Total operating expenses	(99,295)	(87,607)	(186,763)	(182,736)
Other operating income, net	9,244	3,464	60,689	3,504
Income before interest expense and income taxes	21,155	11,468	90,847	5,109
Interest expense	(13,252)	(14,474)	(26,835)	(28,917)
Income (loss) before income taxes	7,903	(3,006)	64,012	(23,808)
Income tax benefit (expense)	7	4,579	(2,596)	9,093
Net income (loss)	7,910	1,573	61,416	(14,715)
Net income attributable to non-controlling interest	98	189	459	631
Net income (loss) attributable to Evoqua Water Technologies Corp.	\$ 7,812	\$ 1,384	\$ 60,957	\$ (15,346)
Basic income (loss) per common share	\$ 0.07	\$ 0.01	\$ 0.52	\$ (0.13)
Diluted income (loss) per common share	\$ 0.06	\$ 0.01	\$ 0.50	\$ (0.13)

EVOQUA WATER TECHNOLOGIES CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except per share amounts)

	March 31, 2020	September 30, 2019
ASSETS		
Current assets	\$ 609,831	\$ 637,293
Cash and cash equivalents	108,495	109,881
Receivables, net	243,418	257,585
Inventories, net	151,427	137,164
Contract assets	81,249	73,467
Other current assets	25,242	21,940
Assets held for sale	—	37,256
Property, plant, and equipment, net	344,918	333,584
Goodwill	388,881	392,890
Intangible assets, net	323,740	314,767
Operating lease right-of-use assets, net	42,885	—
Other non-current assets	29,638	28,505
Non-current assets held for sale	—	30,809
Total assets	\$ 1,739,893	\$ 1,737,848
LIABILITIES AND EQUITY		
Current liabilities	\$ 322,490	\$ 322,221
Accounts payable	151,107	144,247
Current portion of debt	14,241	13,418
Contract liabilities	33,691	39,051
Accrued expenses and other liabilities	112,091	101,839
Other current liabilities	11,360	9,458
Liabilities held for sale	—	14,208
Non-current liabilities	994,900	1,049,805
Long-term debt, net of deferred financing fees	854,981	951,599
Obligation under operating leases	34,033	—
Other non-current liabilities	105,886	94,541
Non-current liabilities held for sale	—	3,665
Total liabilities	1,317,390	1,372,026
Shareholders' equity		
Common stock, par value \$0.01: authorized 1,000,000 shares; issued 119,070 shares, outstanding 116,876 at March 31, 2020; issued 116,008, outstanding 114,344 shares at September 30, 2019	1,185	1,154
Treasury stock: 2,194 shares at March 31, 2020 and 1,664 shares at September 30, 2019	(2,837)	(2,837)
Additional paid-in capital	573,745	552,422
Retained deficit	(115,356)	(174,976)
Accumulated other comprehensive loss, net of tax	(36,306)	(13,004)
Total Evoqua Water Technologies Corp. equity	420,431	362,759
Non-controlling interest	2,072	3,063
Total shareholders' equity	422,503	365,822
Total liabilities and shareholders' equity	\$ 1,739,893	\$ 1,737,848

EVOQUA WATER TECHNOLOGIES CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN CASH FLOWS (Unaudited)
(In thousands)

	Six Months Ended March 31,	
	2020	2019
Operating activities		
Net income (loss)	\$ 61,416	\$ (14,715)
Reconciliation of net income (loss) to cash flows provided by operating activities:		

Depreciation and amortization	52,514	47,252
Amortization of debt related costs (includes \$1,795 and \$0 write off of deferred financing fees)	3,103	1,231
Deferred income taxes	(1,209)	(11,411)
Share-based compensation	5,984	9,270
Loss (gain) on sale of property, plant and equipment	170	(122)
Gain on sale of business	(68,051)	—
Foreign currency exchange losses on intercompany loans and other non-cash items	1,514	5,228
Changes in assets and liabilities	(33,458)	(9,389)
Net cash provided by operating activities	<u>21,983</u>	<u>27,344</u>
Investing activities		
Purchase of property, plant and equipment	(38,759)	(40,682)
Purchase of intangibles	(622)	(2,898)
Proceeds from sale of property, plant and equipment	271	2,875
Proceeds from sale of business, net of cash of \$12,117	118,894	—
Acquisitions, net of \$0 cash received	(11,164)	2,048
Net cash provided by (used in) investing activities	<u>68,620</u>	<u>(38,657)</u>
Financing activities		
Issuance of debt, net of deferred issuance costs	8,212	10,663
Borrowings under credit facility	2,597	115,000
Repayment of debt	(109,333)	(120,856)
Repayment of capital lease obligation	(6,694)	(4,925)
Payment of earn-out related to previous acquisitions	(175)	(461)
Proceeds from issuance of common stock	15,370	341
Taxes paid related to net share settlements of share-based compensation awards	—	(936)
Cash paid for interest rate cap	—	(2,235)
Distribution to non-controlling interest	(1,450)	(600)
Net cash used in financing activities	<u>(91,473)</u>	<u>(4,009)</u>
Effect of exchange rate changes on cash	<u>(516)</u>	<u>(293)</u>
Change in cash and cash equivalents	<u>(1,386)</u>	<u>(15,615)</u>
Cash and cash equivalents		
Beginning of period	109,881	82,365
End of period	<u>\$ 108,495</u>	<u>\$ 66,750</u>

Use of Non-GAAP Measures

Adjusted EBITDA

We use the non-GAAP financial measure “Adjusted EBITDA” in evaluating our past performance and future prospects. Adjusted EBITDA is defined as net income (loss) before interest expense, income tax benefit (expense) and depreciation and amortization, adjusted for the impact of certain other items, including restructuring and related business transformation costs, purchase accounting adjustment costs, non-cash share-based compensation, transaction costs and other gains, losses and expenses.

Adjusted EBITDA is one of the primary metrics used by management to evaluate the financial performance of our business. We present Adjusted EBITDA, which is a non-GAAP financial measure, because we believe it is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. Further, we believe it is helpful in highlighting trends in our operating results and provides greater clarity to management and our investors regarding the operational impact of long term strategic decisions regarding capital structure, the tax jurisdictions in which we operate and capital investments. Management uses Adjusted EBITDA to supplement GAAP measures of performance as follows:

- to assist investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance;
- in our management incentive compensation which is based in part on components of Adjusted EBITDA;
- in certain calculations under our senior secured credit facilities, which use components of Adjusted EBITDA;
- to evaluate the effectiveness of our business strategies;
- to make budgeting decisions; and
- to compare our performance against that of other peer companies using similar measures.

In addition to the above, our chief operating decision maker uses EBITDA and Adjusted EBITDA of each reportable operating segment to evaluate the operating performance of such segments. EBITDA and Adjusted EBITDA of the reportable operating segments do not include certain charges that are presented within corporate activities. These charges include certain restructuring and other business transformation charges that have been incurred to align and reposition the Company to the current reporting structure, acquisition related costs (including transaction costs, integration costs and recognition of backlog intangible assets recorded in purchase accounting) and share-based compensation charges.

You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. In addition, in evaluating Adjusted EBITDA, you should be aware that in the future, we may incur expenses similar to the adjustments in the presentation of Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. In addition, Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in our industry or across different industries.

Adjusted Net Income and Adjusted Earnings Per Share (“EPS”)

Adjusted Net Income is a non-GAAP financial measure that is calculated as net income (loss) adjusted to exclude restructuring and related business transformation costs, share-based compensation, transaction costs, and other (gains) losses and expenses as discussed in the “Adjusted EBITDA” section above, as well as extraordinary interest charges plus or minus the related changes in provision for income taxes.

We present Adjusted Net Income and Adjusted EPS because we believe they are frequently used by analysts, investors and other interested parties in evaluating companies in our industry. Further, we believe they provide greater clarity and comparability period over period to management and our investors regarding ongoing operating performance and highlighting related operating trends.

The following is a reconciliation of our Net income (loss) to Adjusted EBITDA (unaudited):

<i>(In millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Net income (loss)	\$ 7.9	\$ 1.6	\$ 61.4	\$ (14.7)
Income tax expense (benefit)	—	(4.6)	2.6	(9.1)
Interest expense	13.3	14.5	26.8	28.9
Operating profit	21.2	11.5	90.8	5.1
Depreciation and amortization	27.3	24.2	52.5	47.3
EBITDA	48.5	35.7	143.3	52.4
Restructuring and related business transformation costs (a)	6.2	8.3	7.9	14.0
Share-based compensation (b)	2.3	4.7	6.0	9.3
Transaction costs (c)	0.5	2.4	0.7	4.5
Other (gains) losses and expenses (d)	(0.8)	5.6	(57.6)	14.9
Adjusted EBITDA	\$ 56.7	\$ 56.7	\$ 100.3	\$ 95.1

(a) **Restructuring and related business transformation costs**

Adjusted EBITDA is calculated prior to considering certain restructuring or business transformation events. These events may occur over extended periods of time, and in some cases it is reasonably possible that they could reoccur in future periods based on reorganizations of the business, cost reduction or productivity improvement needs, or in response to economic conditions. For the periods presented such events include the following:

- (i) Certain costs and expenses in connection with various restructuring initiatives, including severance costs, relocation costs, recruiting expenses, and third-party consultant costs to assist with these initiatives. This includes:
 - (A) amounts related to the Company’s restructuring initiatives to reduce the cost structure and rationalize location footprint following the sale of the Memcor product line;
 - (B) amounts related to the Company’s transition from a three-segment structure to a two-segment operating model designed to better serve the needs of customers worldwide; and
 - (C) amounts related to various other initiatives implemented to restructure and reorganize our business with the appropriate management team and cost structure.

<i>(In millions)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Post Memcor divestiture restructuring ⁽¹⁾	\$ 3.7	\$ —	\$ 3.7	\$ —
Cost of product sales and services (“Cost of sales”)	2.9	—	2.9	—
S&M expense	0.1	—	0.1	—
G&A expense	0.7	—	0.7	—
Two-segment restructuring ⁽²⁾	\$ 0.3	\$ 5.1	\$ 1.3	\$ 7.0
Cost of sales	0.3	2.5	0.6	2.7
R&D expense	—	0.1	—	0.1
S&M expense	—	0.4	—	0.6
G&A expense	0.4	2.1	0.7	3.6
Other operating (income) expense	(0.4)	—	—	—
Various other initiatives ⁽³⁾	\$ 0.3	\$ 0.2	\$ 0.5	\$ 0.7
Cost of sales	0.3	0.2	0.4	0.5
G&A expense	—	—	0.1	0.2

Total	\$ 4.3	\$ 5.3	\$ 5.5	\$ 7.7
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- (1) all of which is reflected in restructuring charges in Note 13, "Restructuring and Related Charges" to our Consolidated Financial Statements to be included in our Quarterly Report on Form 10-Q for the three and six months ended March 31, 2020 (the "Restructuring Footnote") in the six months ended March 31, 2020 and 2019, respectively.
- (2) of which \$1.2 million and \$7.0 million is reflected in the Restructuring Footnote in the six months ended March 31, 2020 and 2019, respectively.
- (3) all of which is reflected in the Restructuring Footnote for the six months ended March 31, 2020 and 2019, respectively.

- (ii) legal settlement costs and intellectual property related fees associated with legacy matters prior to the AEA Acquisition, including fees and settlement costs related to product warranty litigation on Memcor products and certain discontinued products. This includes:

(In millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Cost of sales	\$ 0.1	\$ —	\$ 0.2	\$ 0.1
G&A expense	0.2	0.2	0.2	0.5
Total	\$ 0.3	\$ 0.2	\$ 0.4	\$ 0.6

- (iii) expenses associated with our information technology and functional infrastructure transformation subsequent to the AEA Acquisition, including activities to optimize information technology systems and functional infrastructure processes. This includes:

(In millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Cost of sales	\$ —	\$ —	\$ 0.1	\$ 0.1
G&A expense	0.4	2.3	0.7	5.0
Total	\$ 0.4	\$ 2.3	\$ 0.8	\$ 5.1

- (iv) costs associated with the March 2020 secondary public offering of common stock held by certain shareholders of the Company, as well as costs incurred by us in connection with establishment of our public company compliance structure and processes, including consultant costs. This includes:

(In millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
G&A expense	\$ 1.2	\$ 0.5	\$ 1.2	\$ 0.6
Total	\$ 1.2	\$ 0.5	\$ 1.2	\$ 0.6

(b) **Share-based compensation**

Adjusted EBITDA is calculated prior to considering non-cash share-based compensation expenses related to equity awards. See Note 16, "Share-Based Compensation" to our Consolidated Financial Statements to be included in our Quarterly Report on Form 10-Q for the three and six months ended March 31, 2020 for further detail.

(c) **Transaction related costs**

Adjusted EBITDA is calculated prior to considering transaction, integration and restructuring costs associated with business combinations because these costs are unique to each transaction and represent costs that were incurred as a result of the transaction decision. Such costs may include, without limitation, consulting and legal costs associated with due diligence and closing a transaction, restructuring and integration costs such as severance, facility consolidation costs, product rationalization or inventory obsolescence charges, system integration or conversion costs, fair value changes associated with contingent consideration, and costs associated with any litigation matters that arise subsequent to our acquisition of a business for which the matter in question preceded the transaction, but was not known, not probable or unresolved at the date of acquisition. We believe that viewing earnings prior to considering these charges provides investors with useful additional perspective because the significant costs incurred in connection with business combinations result primarily from the need to eliminate duplicate assets, activities or employees - a natural result of acquiring or disposing a fully integrated set of activities. Integration and restructuring costs associated with a business combination may occur over several years. This includes:

(In millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Cost of sales	\$ (0.3)	\$ 1.1	\$ (0.2)	\$ 1.3
G&A expense	0.5	1.3	0.9	3.2
Other operating (income) expense	0.3	—	—	—
Total	\$ 0.5	\$ 2.4	\$ 0.7	\$ 4.5

(d) **Other (gains), losses and expenses**

Operating Profit	\$ 36.7	\$ 23.8	\$ 37.0	\$ 11.3	\$ 69.8	\$ 86.9	\$ 64.9	\$ 15.8
Depreciation and amortization	17.3	3.5	14.3	4.5	33.0	7.1	28.3	8.8
EBITDA	\$ 54.0	\$ 27.3	\$ 51.3	\$ 15.8	\$ 102.8	\$ 94.0	\$ 93.2	\$ 24.6
Restructuring and related business transformation costs (a)	0.1	3.3	0.1	0.2	0.1	4.0	0.4	0.5
Transaction costs (b)	—	—	—	—	—	(1.3)	0.5	0.7
Other losses (gains) and expenses (c)	—	(8.9)	—	5.2	—	(59.2)	0.2	9.3
Adjusted EBITDA (d)	\$ 54.1	\$ 21.7	\$ 51.4	\$ 21.2	\$ 102.9	\$ 37.5	\$ 94.3	\$ 35.1

- (a) Represents costs and expenses in connection with restructuring initiatives distinct to our Integrated Solutions and Services and Applied Product Technologies segments. Such expenses are primarily composed of severance and relocation costs.
- (b) Represents costs associated with a change in the current estimate of certain acquisitions achieving their earn-out targets, which resulted in a (decrease) increase to the fair valued amount of the earn-out recorded upon acquisition, distinct to our Integrated Solutions and Services and Applied Product Technologies segments.
- (c) Other losses, (gains) and expenses distinct to our Integrated Solutions and Services and Applied Product Technologies segments include the following:

	Three Months Ended March 31,				Six Months Ended March 31,			
	2020		2019		2020		2019	
	ISS	APT	ISS	APT	ISS	APT	ISS	APT
<i>(In millions)</i>								
Net pre-tax benefit on sale of the Memcor product line	\$ —	\$ (9.0)	\$ —	\$ —	\$ —	\$ (58.0)	\$ —	\$ —
Remediation of manufacturing defects	—	(0.1)	—	0.3	—	(1.5)	—	1.3
Product rationalization in electro-chlorination business	—	0.2	—	(0.1)	—	0.3	—	3.0
Expenses related to maintaining non-operational business locations	—	—	—	—	—	—	0.2	—
Write-off of inventory	—	—	—	5.1	—	—	—	5.1
Foreign exchange impact related to headquarter allocations	—	—	—	(0.1)	—	—	—	(0.1)
Total	\$ —	\$ (8.9)	\$ —	\$ 5.2	\$ —	\$ (59.2)	\$ 0.2	\$ 9.3

Revenue by Source

Information regarding revenues disaggregated by source of revenue and segment is as follows:

	Three Months Ended March 31,							
	2020				2019			
	Integrated Solutions and Services	Applied Product Technologies	Total	% Growth Total	Integrated Solutions and Services	Applied Product Technologies	Total	% Growth Total
<i>(In thousands)</i>								
Revenue from capital projects	\$ 66,092	\$ 75,214	\$ 141,306	5.5%	\$ 57,631	\$ 76,271	\$ 133,902	5.5%
Revenue from aftermarket	31,901	32,762	64,663	(11.4)%	32,474	40,492	72,966	(11.4)%
Revenue from service	139,892	5,802	145,694	2.8%	136,759	5,001	141,760	2.8%
Total	\$ 237,885	\$ 113,778	\$ 351,663	0.9%	\$ 226,864	\$ 121,764	\$ 348,628	0.9%

Net Sales Growth by Driver

The following is a reconciliation of net sales growth by driver for the three months ended March 31, 2020. Organic revenue growth is defined as the year-over-year rate of change in revenues excluding the impact of foreign exchange, acquisitions and divestitures.

	Q2'20 Net Sales Growth % Change			
	GAAP Reported	Currency	Acquisitions/Divestitures	Organic
Evoqua Water Technologies	0.9%	(0.5)%	(2.0)%	3.4%
Integrated Solutions & Services	4.9%	(0.1)%	0.5%	4.5%
Applied Product Technologies.	(6.6)%	(1.2)%	(6.6)%	1.3%

Adjusted Net Income

Three Months Ended March 31, 2020

<i>(In millions, except per share amounts)</i>	GAAP Reported	Restructuring and Related Business Transformation Costs (b)	Share-based Compensation (b)	Transaction Costs (b)	Other (gains) losses (b)	Extraordinary interest expense (c)	Non-GAAP Adjusted
Revenue	\$ 351.7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 351.7
Cost of product sales and services	(240.5)	3.6	—	(0.3)	0.5	—	(236.7)
Gross profit	111.2	3.6	—	(0.3)	0.5	—	115.0
General and administrative expense	(62.1)	2.9	2.3	0.5	7.0	—	(49.4)
Sales and marketing expense	(34.0)	0.1	—	—	—	—	(33.9)
Research and development expense	(3.2)	—	—	—	—	—	(3.2)
Other operating income (expense), net	9.3	(0.4)	—	0.3	(8.3)	—	0.9
Interest expense	(13.3)	—	—	—	—	1.8	(11.5)
Income (loss) before income taxes	7.9	6.2	2.3	0.5	(0.8)	1.8	17.9
Income tax (expense) benefit (a)	—	(0.2)	(0.1)	—	(0.3)	(0.1)	(0.7)
Net income (loss)	7.9	6.0	2.2	0.5	(1.1)	1.7	17.2
Net income attributable to non-controlling interest	0.1	—	—	—	—	—	0.1
Net income (loss) attributable to Evoqua Water Technologies Corp	<u>\$ 7.8</u>	<u>\$ 6.0</u>	<u>\$ 2.2</u>	<u>\$ 0.5</u>	<u>\$ (1.1)</u>	<u>\$ 1.7</u>	<u>\$ 17.1</u>
Basic income (loss) per common share	\$ 0.07	\$ 0.05	\$ 0.02	\$ —	\$ (0.01)	\$ 0.02	\$ 0.15
Diluted income (loss) per common share	\$ 0.06	\$ 0.05	\$ 0.02	\$ —	\$ (0.01)	\$ 0.02	\$ 0.14
Basic # of shares (in millions)	116.5						
Diluted # of shares (in millions)	120.9						

Three Months Ended March 31, 2019

<i>(In millions, except per share amounts)</i>	GAAP Reported	Restructuring and Related Business Transformation Costs (b)	Share-based Compensation (b)	Transaction Costs (b)	Other (gains) losses (b)	Non-GAAP Adjusted
Revenue	\$ 348.6	\$ —	\$ —	\$ —	\$ —	\$ 348.6
Cost of product sales and services	(253.0)	2.7	—	1.1	5.1	(244.1)
Gross profit	95.6	2.7	—	1.1	5.1	104.5
General and administrative expense	(48.2)	5.1	4.7	1.3	0.5	(36.6)
Sales and marketing expense	(35.4)	0.4	—	—	—	(35.0)
Research and development expense	(4.0)	0.1	—	—	—	(3.9)
Other operating income, net	3.5	—	—	—	—	3.5
Interest expense	(14.5)	—	—	—	—	(14.5)
(Loss) income before income taxes	(3.0)	8.3	4.7	2.4	5.6	18.0
Income tax benefit (expense) (a)	4.6	(2.2)	(1.2)	(0.6)	(1.5)	(0.9)
Net income	1.6	6.1	3.5	1.8	4.1	17.1
Net income attributable to non-controlling interest	0.2	—	—	—	—	0.2
Net income attributable to Evoqua Water Technologies Corp.	<u>\$ 1.4</u>	<u>\$ 6.1</u>	<u>\$ 3.5</u>	<u>\$ 1.8</u>	<u>\$ 4.1</u>	<u>\$ 16.9</u>
Basic income per common share	\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.02	\$ 0.04	\$ 0.15
Diluted income per common share	\$ 0.01	\$ 0.05	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.14
Basic # of shares (in millions)	114.5					
Diluted # of shares (in millions)	118.7					

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- (a) The blended statutory tax rate was 26% for all periods presented. The blended annual projected tax rate on Non-GAAP adjustments to net income was 3.9% and 26.0% for the three months ended March 31, 2020 and 2019, respectively.
- (b) Refer to adjustments on the Adjusted EBITDA reconciliation included in the “Use of Non-GAAP Measures” section above.
- (c) In January 2020, the Company utilized \$100 million of the proceeds from the sale of the Memcor product line to repay a portion of the Company’s First Lien Term Loans. As a result of the prepayment, the Company wrote off \$1.8 million of deferred financing fees during the three months ended March 31, 2020.

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All of these forward-looking statements are based on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements, or could affect our share price. Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include among other things, general global economic and business conditions, including related to the impact of COVID-19 and disruptions in the global oil markets; our ability to execute projects in a timely manner; our ability to accurately predict the timing of contract awards; material and other cost inflation and our ability to mitigate the impact of inflation by increasing selling prices and improving our productivity efficiencies; our ability to achieve the expected benefits of our restructuring actions and restructuring of our business into two segments; our ability to compete successfully in our markets; our ability to continue to develop or acquire new products, services and solutions and adapt our business to meet the demands of our customers, comply with changes to government regulations and achieve market acceptance with acceptable margins; our ability to implement our growth strategy, including acquisitions and our ability to identify suitable acquisition targets; our ability to operate or integrate any acquired businesses, assets or product lines profitably or otherwise successfully implement our growth strategy; delays in enactment or repeals of environmental laws and regulations; the potential for us to become subject to claims relating to handling, storage, release or disposal of hazardous materials; risks associated with product defects and unanticipated or improper use of our products; the potential for us to incur liabilities to customers as a result of warranty claims or failure to meet performance guarantees; our ability to meet our customers’ safety standards or the potential for adverse publicity affecting our reputation as a result of incidents such as workplace accidents, mechanical failures, spills, uncontrolled discharges, damage to customer or third-party property or the transmission of contaminants or diseases; litigation, regulatory or enforcement actions and reputational risk as a result of the nature of our business or our participation in large-scale projects; seasonality of sales and weather conditions; risks related to government customers, including potential challenges to our government contracts or our eligibility to serve government customers; the potential for our contracts with federal, state and local governments to be terminated or adversely modified prior to completion; risks related to foreign, federal, state and local environmental, health and safety laws and regulations and the costs associated therewith; risks associated with international sales and operations, including our operations in China; our ability to adequately protect our intellectual property from third-party infringement; our increasing dependence on the continuous and reliable operation of our information technology systems; risks related to our substantial indebtedness; our need for a significant amount of cash, which depends on many factors beyond our control; AEA’s influence over us; and other factors described in the “Risk Factors” section included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, as filed with the SEC on November 25, 2019, to be included in our Quarterly Report on Form 10-Q for the three months ended March 31, 2020, and in other periodic reports we file with the SEC. All statements other than statements of historical fact included in this press release are forward-looking statements including, but not limited to, expectations for fiscal 2020 and statements related to COVID-19, the impact of which remains inherently uncertain. Additionally, any forward-looking statements made in this press release speak only as of the date of this release. We undertake no obligation to update or revise, or to publicly announce any update or revision to, any of the forward-looking statements made herein, whether as a result of new information, future events or otherwise. These forward-looking statements should not be relied upon as representing the Company’s views as of any date subsequent to the date of this release.

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