

# Annual General Meeting of Shareholders

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November 24, 2020



An Innovative Technology Company Providing Custom Energy and Emission Reduction Solutions

TSX-V: TMG | [enq@thermalenergy.com](mailto:enq@thermalenergy.com) | [www.thermalenergy.com](http://www.thermalenergy.com)

# Agenda

- Call to order
- Chairman's remarks
- Appointment of scrutineer
- Notice of meeting and quorum
- Voting procedure
- Election of Directors
- Appointment of auditors
- Close of formal proceedings
- Management presentation
- Question & answer



# Directors and auditors

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## Nominated board members

- William Crossland
- John B. Kelly
- William Ollerhead
- Michael Williams
- David Spagnolo
- William B. White

## Auditors

- KPMG LLP



# Management Presentation

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# Forward-looking statements

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This presentation includes “forward-looking information”. For example, statements about the opportunities for repeat business; the possibility or expectation of additional orders; growth in existing markets; entry into new markets; order backlog; introduction of new products and services; establishment and growth of new distribution channels; growth opportunities and strategies; conversion of existing orders into revenues; are all forward looking information. Such forward looking information reflects Thermal Energy International’s (“TEI”) current expectations with respect to future events and are based on information currently available to management. Forward-looking information involves significant known and unknown risks, uncertainties and assumptions. For example, existing and new customers may not place orders for any number of reasons; fulfilment of orders, installation of product and activation of product could all be delayed for a number of reasons, some of which are outside of TEI’s control, which would result in anticipated revenues from such projects being delayed or in the most serious cases eliminated; TEI may not be successful in identifying and developing new products and our new or existing products may not result in new orders or gain acceptance in new geographical or industrial markets; we may not be successful in establishing new distribution channels or such new channels may not be successful; our growth strategies may not be successful or result in the anticipated growth and orders received by TEI may not turn into revenue in the time frame anticipated, or at all, due to many factors, some of which are outside of TEI’s control, including but not limited to TEI’s ability to deliver products on time and in accordance with specifications and the continuing financial viability of the customer. Readers are also referred to the risk factors outlined in our management’s discussion and analysis available at [www.SEDAR.com](http://www.SEDAR.com). Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking information contained in this presentation.

Readers should not place undue reliance on forward-looking information. The forward-looking information is made as of the date of this presentation and TEI does not assume any obligation to update or revise it to reflect new events or circumstances, except as required by law.

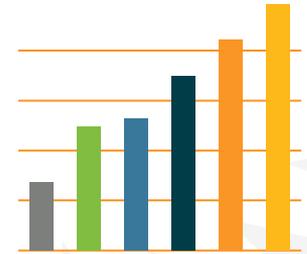
The term “EBITDA” as used in this presentation is not a recognized measure under IFRS, does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other companies. This measure is provided as additional information to complement IFRS measures by providing further understanding of the Company’s results of operations from management’s perspective and should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. Please refer to our management’s discussion and analysis for the applicable period for a reconciliation of EBITDA to Net income (loss).

# Strategic Plan

Growing the business & getting the story out

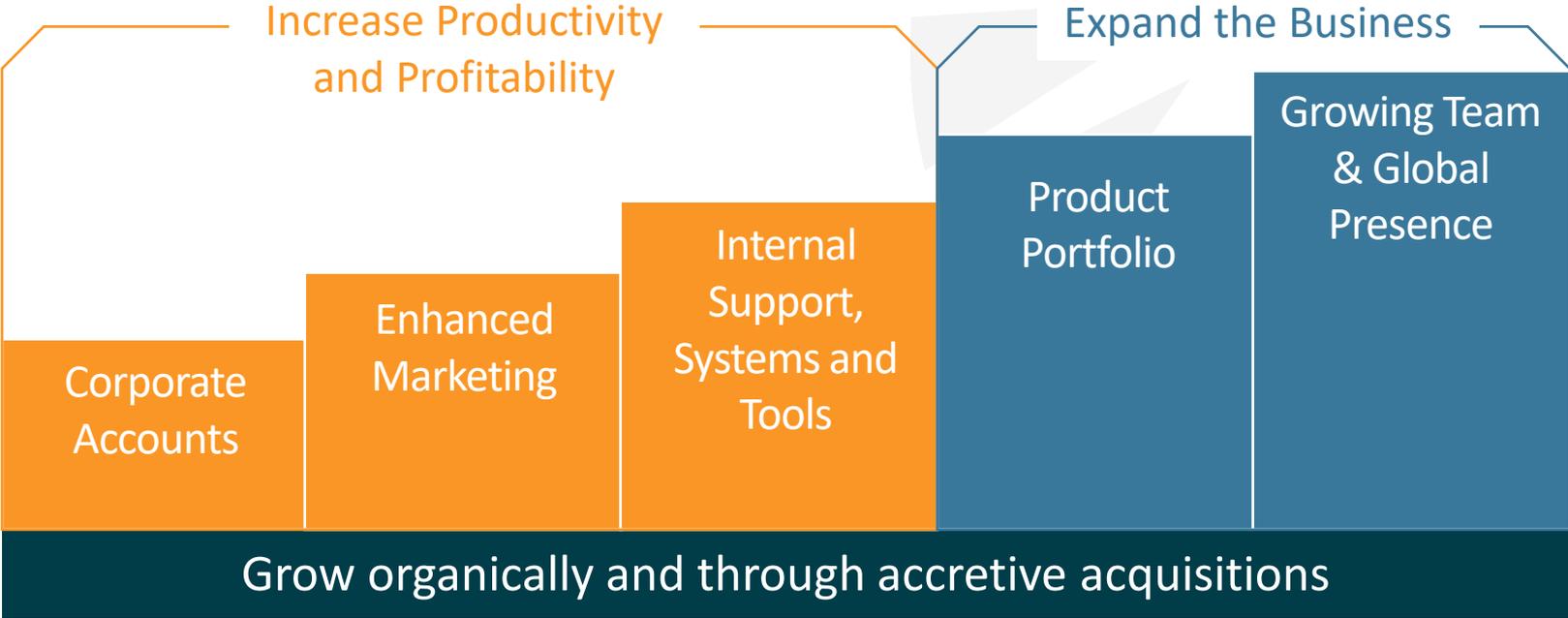
## 5-year Strategic Plan (F2018 – F2022)

- Phase 1- Growing the business (F2018 - F2022)
  - Invest in growth and drive the results
- Phase 2- Getting the story out (F2020 – F2022)
  - Investor awareness and outreach program
- Phase 1 - by F2020 Phase 1 was already having a very positive impact on the financial results
- Phase 2 – Initiated but had to postpone due to the COVID 19 global pandemic. Plan to re-start as soon as future visibility permits



# Strategic Plan – Phase 1

Growing the business



# Strategic Plan – Phase 1 Results

## Growing the business

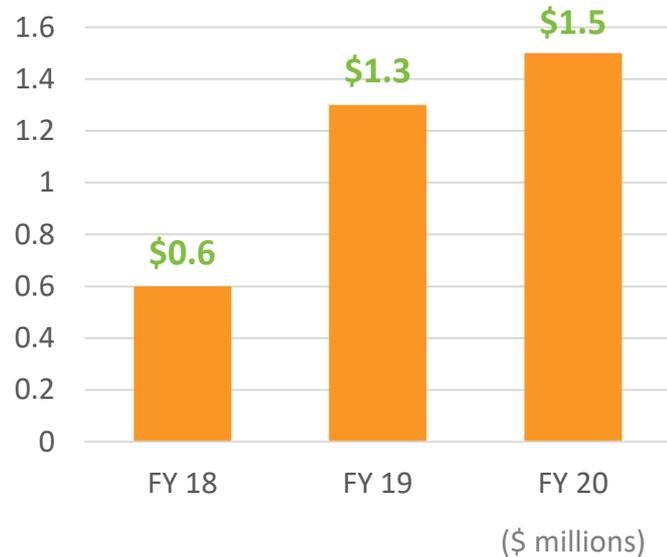
- Almost 80% of sales in last 12 months were from established corporate customers
- Now have two experienced Sales Directors managing the sales teams in each of NA and EU
- New Marketing team is delivering a range of collateral and campaigns across the globe targeting key Industries
- Internal systems are robust and future-proof; no longer a bottleneck for growth
- Expanded, complementary and integrated product portfolio
- Grown the team and expanded to new territories
- Acquired BEI



# Strategic Plan – Phase 1

Growing the business

## Growth Oriented Expenses



- \$1.5 million in growth-oriented expenses added over the last three years:
  - 8 new sales positions/territories
  - 5 new engineering positions
  - 2 new marketing and operations positions
  - Marketing costs
  - Training
  - One-time acquisition costs

Many of these initiatives just began to show results in FY 2020

# Strategic Plan – Phase 2

Getting the story out

## Started Phase 2

- **Investor Conference Attendance**
  - Globe Capital, AlphaNorth Capital Conference
- **Thermal Energy featured on the BNN Bloomberg Channel**
  - 90 sec CEO Clip and 15 sec advert, aired on BNN
- **Re-started NCIB**
  - Nov. 2019 – Mar 2020 – 1.7 million shares purchased
- **Investor Meetings**
  - Feb 2020, Toronto and Montreal investor road show with national investment firm
- **Investor relations support**
  - Interviewed and evaluated numerous external IR companies and services with planned kick off early 2020
- **Results – Feb 2020**
  - **TMG Volume weighted price: \$0.116 (\$0.15 high)**
  - **Average daily volume: 772,000 shares**



# F2020

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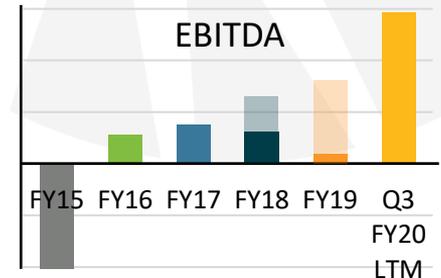
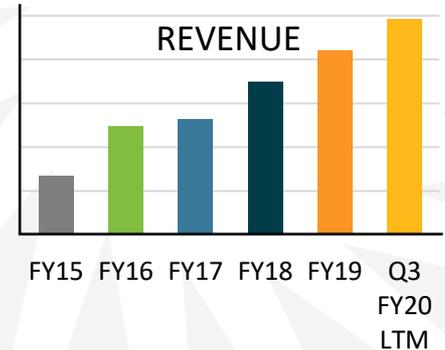
The year that could have been

# Strategic plan, phase 1 success - Strong growth!

Pre COVID-19

## Q3 - Feb 29, 2020

- **Revenue YTD up 23%** compared to prior year
  - 31% 5 yr CAGR
- **EBITDA LTM up \$2.7 million** from F2019
  - 51% 4 yr CAGR
- **LTM Net income LTM up \$2.1 million** from F2019
  - 59% 4 yr CAGR
- Cash balances of \$3.8 million
- Record \$2.8 million working capital



# COVID-19 global pandemic

Unprecedented times

## Economic slowdown, customer lockdowns

- Even before the Mar 11 global pandemic, economic activity had been slowing for several quarters.
- Jan – Mar 2020 - GDP shrank 4% - 5%, the worst quarter in over 10 years
- Apr – Jun 2020 – GDP shrank a further 20% - 30%
- Declaration of the global pandemic on Mar 11 resulted in immediate world-wide lock downs, travel restrictions, enforced social distancing etc.
- Equity markets collapsed
- Our customers:
  - Froze all discretionary spending and non-essential activities
  - Locked down their sites with no external visitors permitted
  - Terminated the development of new projects
  - Projects already underway were immediately placed on hold



# COVID-19 global pandemic

Economic slowdown, customer lockdowns

During this period of unprecedented uncertainty, our focus immediately turned from growth to risk mitigation

- Project development, orders and revenue all dropped precipitously
- Q4 Revenue and order intake down 53% and 71% respectively from previous year
- All discretionary expenses were put on hold
- Entire team moved to remote working
- Company-wide 15% salary cut implemented
- Government wage subsidies programs accessed
- Government low interest working capital loans obtained

# Making the best of a bad situation

COVID-19 Global Pandemic

After 5 years of team, territory and product growth, we took the opportunity to deliver a backlog of other initiatives

- Bring forward digitalization initiatives to:
  1. Enable remote working
  2. Improve efficiency
  3. Capture & transfer knowledge
- Early Starts - Initiate some early engineering work on highly qualified projects



# Digital Transformation

COVID-19; Making the best of a bad situation

Digitalization initiatives immediately brought forward to:



## 1. Enable Remote Working

- Implementation and exploitation of 365 & Teams platforms
- Video conference facilities and cloud working infrastructures enabled
- Collaboration facilitated through creation of Department and Project working spaces
- Minimise impact of remote working through creation of *TEI Portal* intranet and internal news stream

# Digital Transformation

COVID-19; Making the best of a bad situation

Digitalization initiatives immediately brought forward to:



Project  
Management  
Office



Product  
Resources  
Database

## 2. Improve Efficiency & Enhance Collaboration

- Centralized resources, activities and work-flows in one spot
- **Project Management Office** - Digitalization of key engineering and project development processes
  - Templates to reliably repeat project development to processes
  - Standardized pre-sale engineering drawing package
- **Product Resources Database** – Marketing and technical resources databased, categorised and tagged for simple navigation and retrieval

# Digital Transformation

COVID-19; Making the best of a bad situation

Digitalization initiatives immediately brought forward to:



## 3. Capture and Transfer Knowledge

- Knowledge Transfer initiative launched to:
  - Thoroughly capture essential IP and knowledge across business
  - Enable more rapid execution of projects
  - Become less reliant on a few key people
  - Facilitate future training and retraining
- New **TEI Learning Centre** provides an internal training hub to record and store all training
- Internal **Energy Shots** delivers regular tips, training and How-to guides on essential skills and smart working in our new environment

# Digital Transformation

COVID-19; Making the best of a bad situation

High engagement driven through training and regular communication:

## Knowledge Captured

11 channels of product and project training

75 live training sessions captured with over 120 hours of training

Training paths for 10 platforms

## Communication Enhanced

3,000+ meetings organized, 4,000+ 1:1 calls made & 60,000 chats

60+ Internal articles & 3,500+ Portal page visits in last 3 months

50+ Teams created



# Early starts

## Project engineering and revenue acceleration

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- Typical heat recovery projects require two to three months of detailed engineering once order is received.
  - minimal revenue in first few months
- We Initiated some early engineering work on expected highly qualified projects, including:
  - \$950k project with consumer protein company announced Jun 10
  - \$920k project with one of Europe's largest food and drink companies announced Aug 18
- This early start of detailed engineering permits accelerated revenue once the order is received

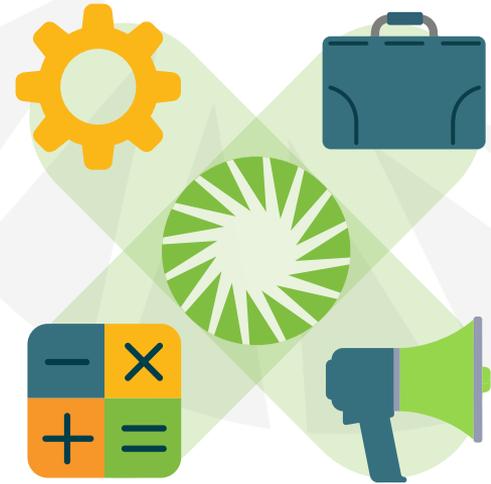


# Making the best of a bad situation

COVID-19 Global Pandemic

Used the slowdown to improve and enhance systems and capabilities and prepare for a return to full capacity and the new normal

- Enabled us to respond to the current circumstances
- Prepared us for an altered state of business in the future
- Increases our longer-term productivity and profitability potential
- Ensures we emerge from this challenging period in as strong a position as possible



# Year End Financial Results

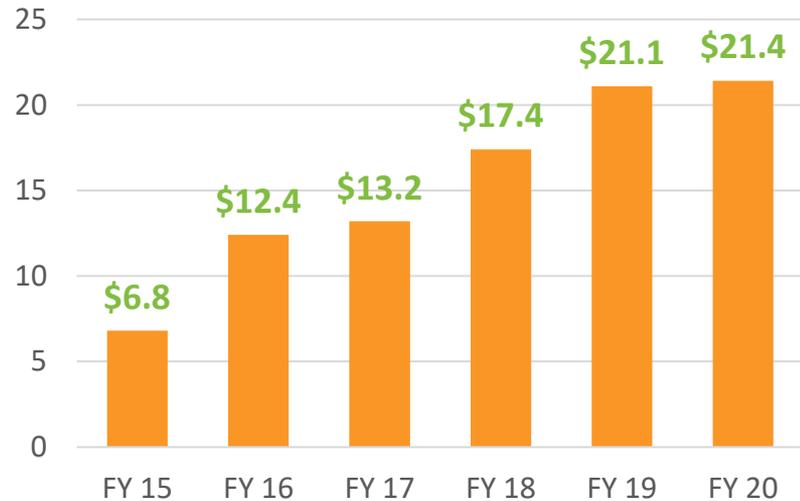
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Fiscal 2020

# Revenue

Fiscal year 2020

(\$ millions)

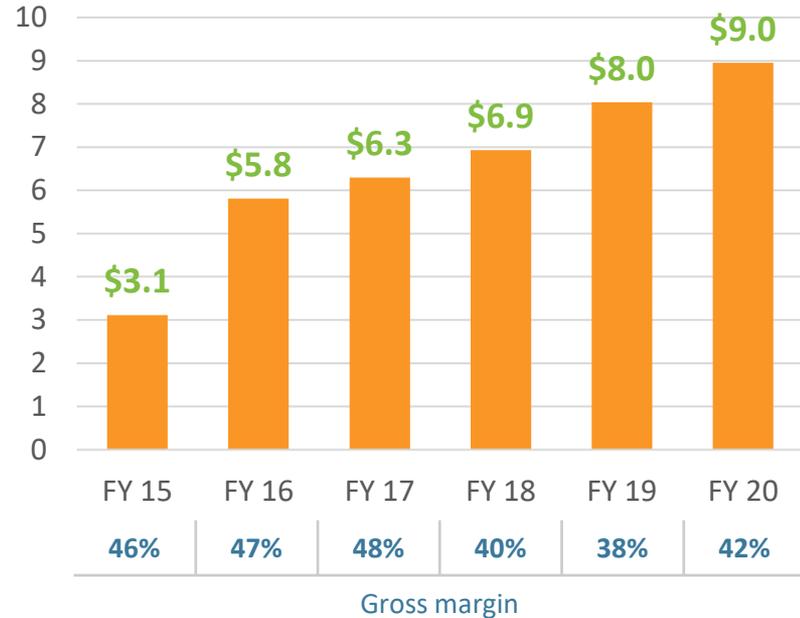


- Q3 FY 2020 YTD revenue was up 23%
- Q4 FY 2020 revenue was down 53%
- 2% revenue growth for FY 2020 despite COVID-19
- 26% revenue CAGR since 2015

# Gross profit

Fiscal year 2020

(\$ millions)

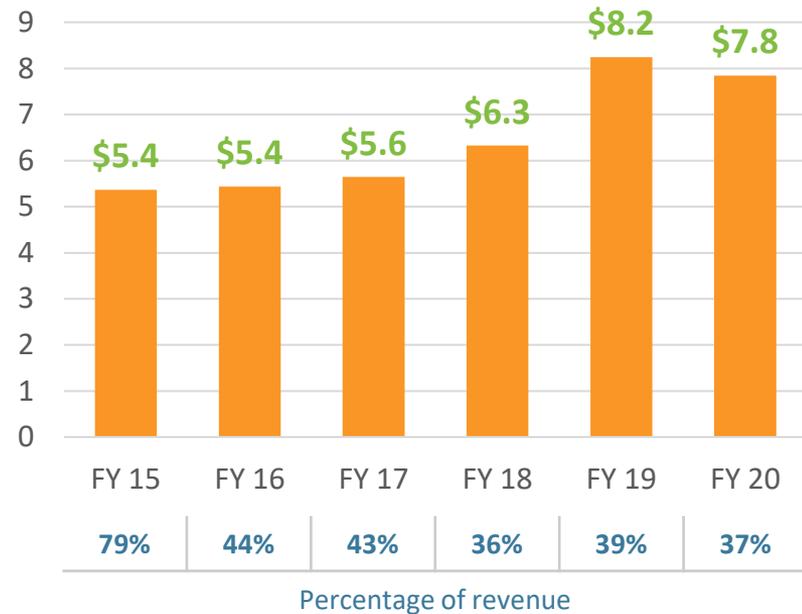


- 11% increase in gross profit for FY 2020
- 24% gross profit CAGR since 2015
- Gross margin increased to 42%

# Operating expenses

Fiscal year 2020

(\$ millions)

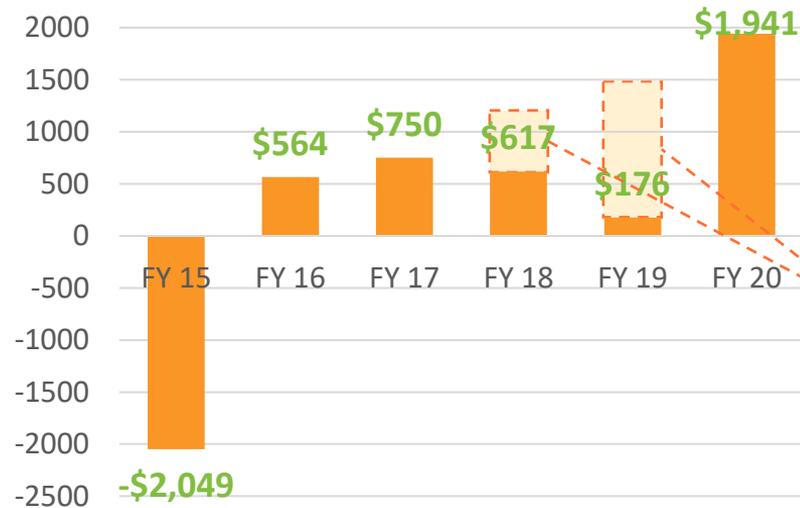


- FY 2020 operating expenses controlled and reduced in Q4 via:
  - COVID-19 related government support programs
  - Immediate freeze of all discretionary expenses
  - 15% company-wide salary reduction
- FY 2020 operating expenses as percent revenue decreased to 37%

# EBITDA

Fiscal year 2020

(\$ thousands)



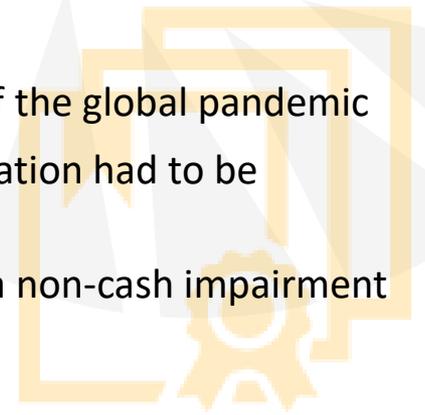
- Despite COVID-19, annual EBITDA of \$1.9 million is still the highest in the Company's history

- Excluding the \$1.5 million investment in strategic growth-oriented expenses EBITDA would have been:
  - **FY2018: \$1.2 million**
  - **FY2019: \$1.5 million**

# Goodwill & Intangible Asset impairment

COVID-19, unprecedented times require unprecedented actions

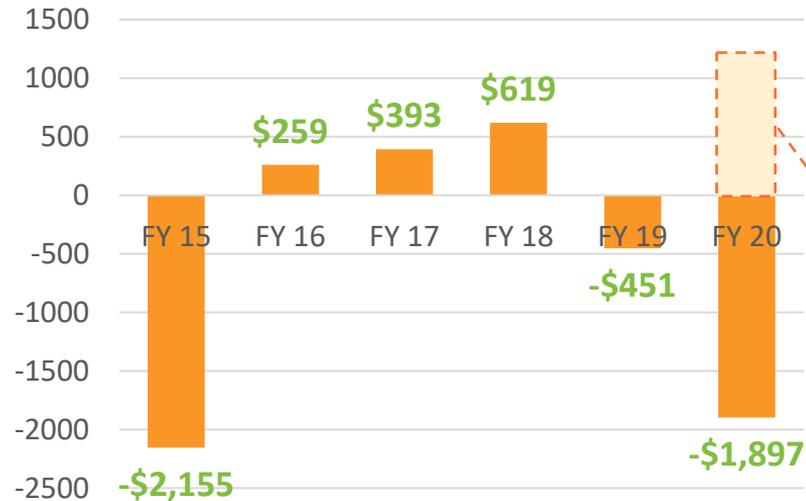
- Accounting regulations require a valuation of goodwill and intangible assets every year
- The valuation must incorporate any significant changes in the market or economy that may have an adverse impact on the business
- As a result of COVID-19 economic activity dropped significantly and precipitously
- Q4 revenue and order intake dropped 53% and 71% respectively
- There was significant uncertainty related to the severity and length of the global pandemic
- Due to this unprecedented uncertainty discount rate used in the valuation had to be increased
- Under these extreme circumstances we had no choice but to record a non-cash impairment of goodwill and intangible assets



# Net income

Fiscal year 2020

(\$ thousands)



- Net loss for FY 2020 was \$1.9 million due to a \$3.1 million non-cash write down of goodwill and other intangible assets
- Excluding the \$3.1 million in goodwill and other intangible assets write-offs net income would have been \$1.2 million, a record for the Company

# First Quarter Financial Results

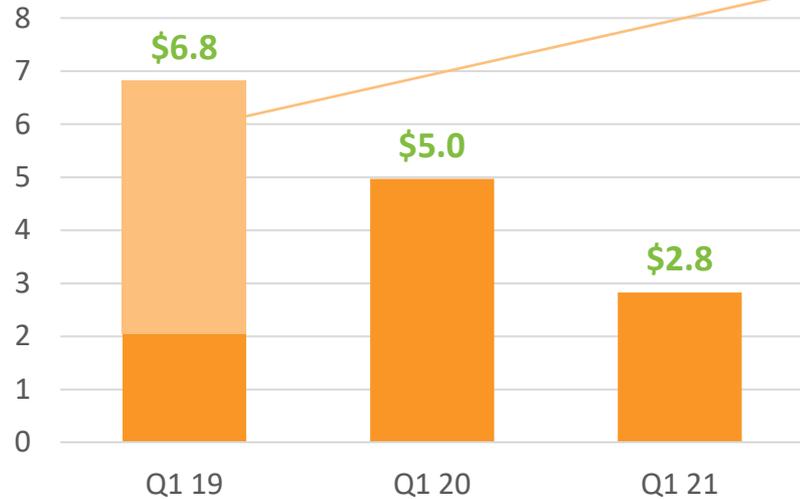
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Q1 2021

# Revenue

## First quarter

(\$ millions)

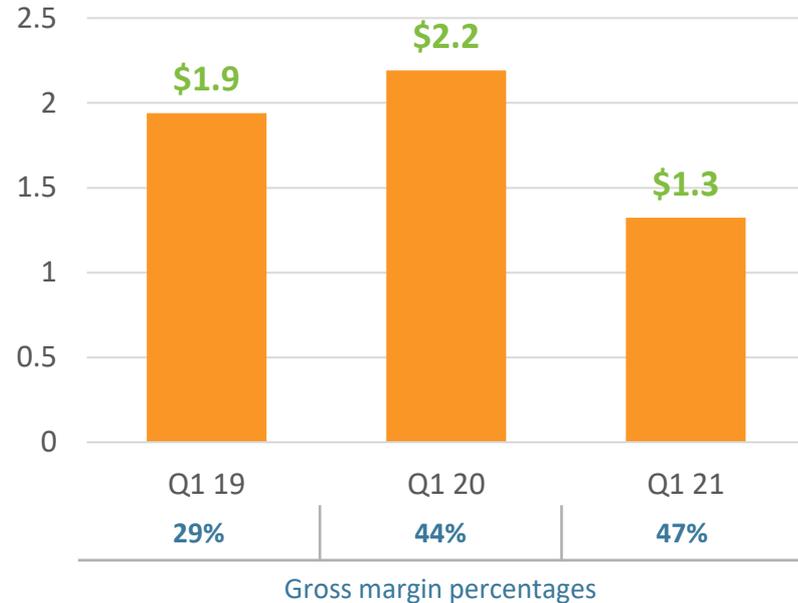


- Q1 FY 2019 revenue driven by Resolute mega order
- Q1 FY 2021 revenue down 44% due to COVID-19 but still higher than Q1 FY 2019 excluding the Resolute mega order

# Gross profit

First quarter

(\$ millions)

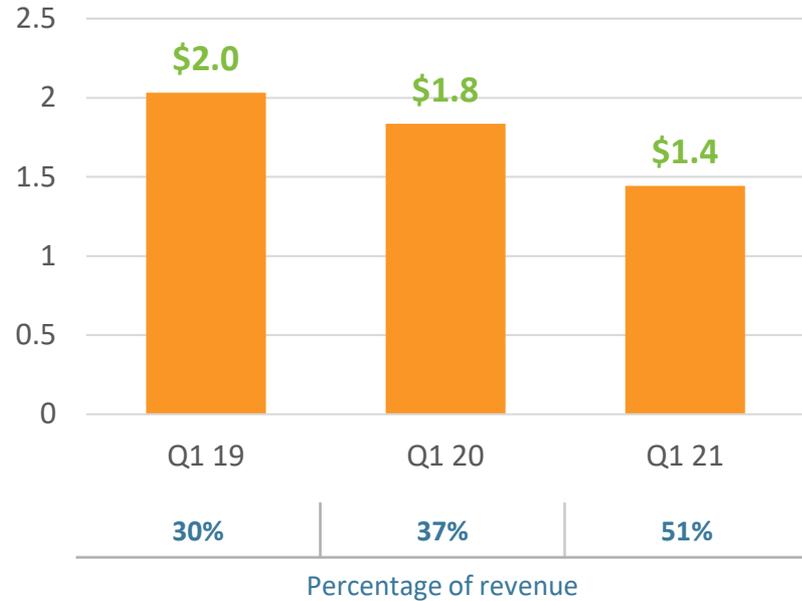


- Q1 FY 2021 gross profit down 41% due to COVID-19
- Gross margin increased despite COVID-19 revenue drop
- Q1 2019 gross margin impacted by Resolute mega project

# Operating expenses

First quarter

(\$ millions)

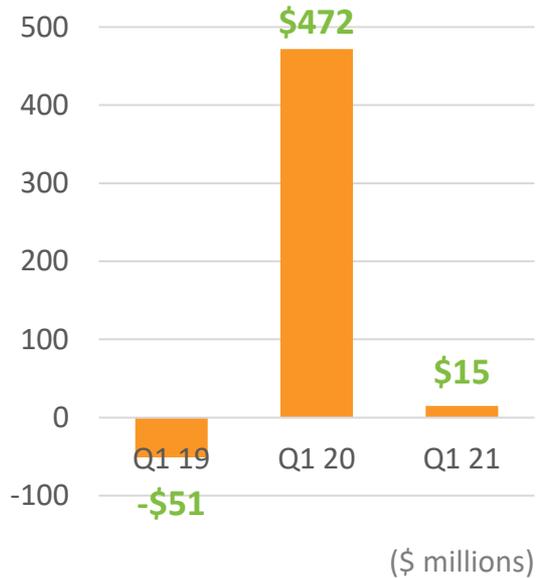


- Q1 2021 operating expenses controlled and reduced via:
  - COVID-19 related government support programs
  - Freeze of all discretionary expenses
  - 15% company-wide salary reduction

# EBITDA & Net income

First quarter

## EBITDA



## Net income

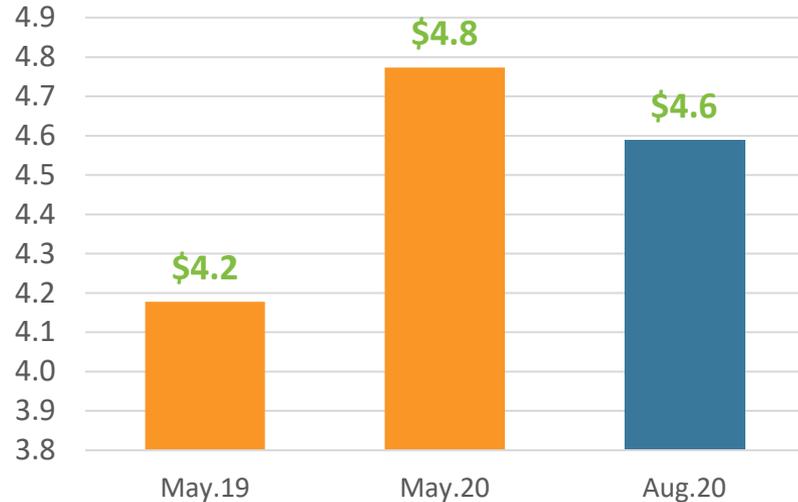


- Q1 FY 2021 EBITDA still positive despite the 44% drop in revenue due to COVID-19
- Q1 Net loss of \$218k but approx. \$117k positive before non-cash charges

# Cash position

Year end and first quarter ending August 31, 2020

(\$ millions)

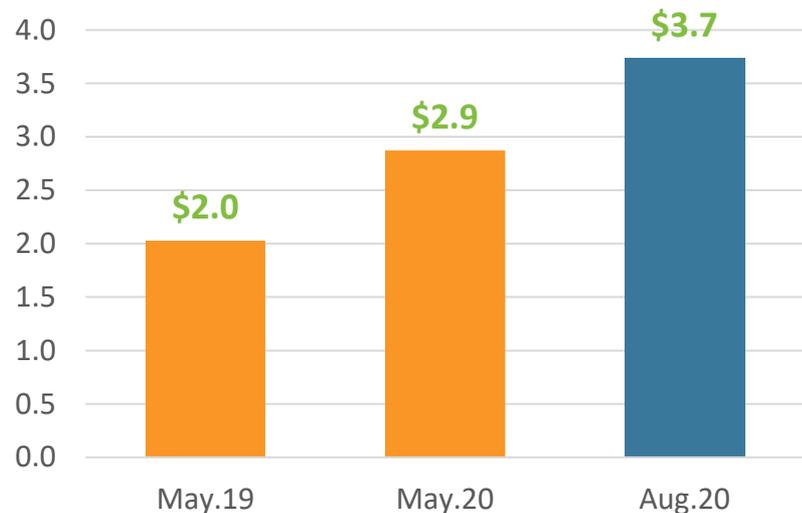


- May 2020 cash position of \$4.8 million was highest year-end cash position in the Company's history
- Aug 2020 cash position remains strong and largely unchanged

# Working capital

Year end and first quarter ending August 31, 2020

(\$ millions)



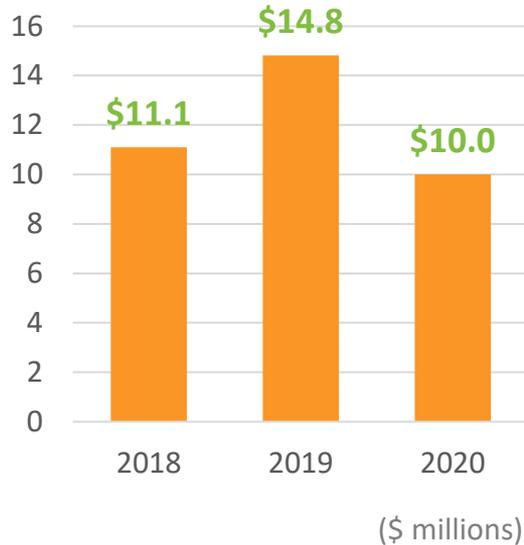
- May 31, 2020 working capital strongest in over 10 years
- August 31, 2020 working capital further benefited from a low interest government COVID-19 working capital loan

Maintaining strong cash and working capital balances despite the global pandemic slowdown

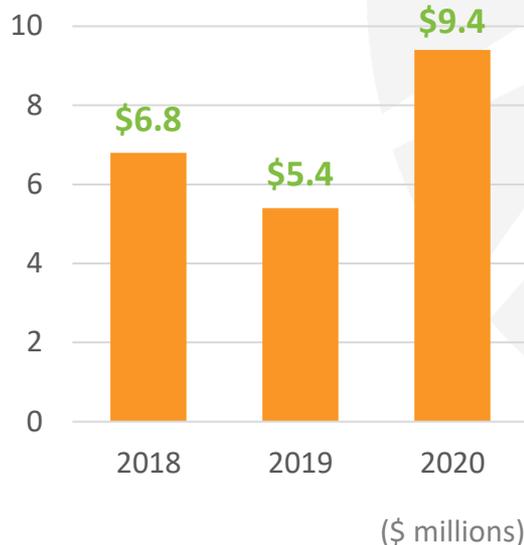
# Orders backlog & intake

As at Nov 19 for the last 3 years

## Order backlog



## Order intake



- Order backlog impacted by economic slowdown since Dec 2019
- Strong rebound in activity and orders since June 2020
- YTD order intake 72% ahead of last year

# Conclusion

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- Since early 2020 the COVID-19 global pandemic has had an unprecedented impact on the world
- First six months of 2020 GDP contracted 30% - 40% - the largest decrease in history
- Like most companies, the COVID-19 global pandemic had a negative impact on our revenues
- After 5 years of solid team, territory and product growth, we used the slowdown as an opportunity to strengthen our productivity and capabilities
- We want to ensure we emerge from this challenging period in as strong a position as possible
- Working capital and cash resources remain at record levels
- Since June we have seen a rebound in activity and orders
- YTD order intake of \$9.3 million is 72% ahead of last year
- We are seeing increasing interest in a “green recovery” and “build back better” approach from both consumers and governments

# One of Canada's fastest growing companies



- September 2020 - Named one of Canada's Top Growing Companies, in the Globe and Mail Report on Business's annual ranking for the second year in a row

# Building back better!

## Thank you

We are happy to  
answer your questions



[www.thermalenergy.com](http://www.thermalenergy.com)



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