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*Whisper #507 November 20 2024*

# COMPANY ANALYSIS

## BLUMETRIC ENVIRONMENTAL

### BLM-TSXv / BLMWF-OTC

#### QUICK FACTS

Trading Symbols:	BLM
Share Price Today:	\$0.92
Shares Outstanding:	29.4 million
Market Capitalization:	\$27 million
Net CASH:	\$1.8 million
Enterprise Value:	\$25.2 million

## THE KIND OF STORY THAT CAN

If I'm going to be honest, my first take on **BluMetric Environmental (BLM - TSXv)** was.... that it wasn't that interesting.

I didn't see a *compelling* trend in revenue growth. I saw *negative* cash flow (it actually isn't – they generate cash). The business is in a necessary but lumpy niche where they always need new contracts to keep their flywheel going.

BUT - I'm not giving up on BluMetric. First off, these junior industrials on the cusp of profitability have done really well in the last 12 months, and enough investors have made good money on them, there is now a big recycling of those capital gains into whatever The Next One might be....and BluMetric is on that list.

**Cal Nano (CNO - TSXv)** or another environmental services stock that has had a big move, **Biorem (BRM - TSXv)**, are examples of this.

What BluMetric has going for it is:

- A. This is a well respected, established company. Yes, they are on the flywheel, but they don't do a big sales push – because *they don't have to!*
- B. Their recent acquisition has the potential for big-time *synergies and cross-sell* – and opens a big new market for them
- C. A couple big contracts could *change the shape* of profitability

Let's talk a moment about point C.

Some businesses plough dollars into R&D and marketing to grow. A lot of tech companies are like this. Sure, they're growing 40%, but that doesn't mean they are getting more profitable.

BluMetric *is not* that sort of business. If BluMetric nails down a big contract, almost all those dollars will drop to the bottom line.

That's the opportunity. A large deal or a boost from their recent acquisition (a company called Gemini Water) and the game could change for BluMetric. Gemini sells water treatment systems in the Caribbean, whereas BLM has been very focused on Canada. Gemini was evidently capital constrained—ie. didn't have enough money to grow as fast as they could—and now being part of a larger BLM could change that quickly.

I'm going to run you through what the business looks like *today*. It's fine, but it's nothing that will make you jump to buy the stock. What you have to think about, is how BluMetric might look at an even *slightly* higher revenue run rate.

The company could quickly go from marginally profitable to cash cow. Right now the stock has a very low valuation of 3-4x EV/EBITDA—but—if they can get their profitability up to be compared against the US-based comps out there—the valuation could quadruple. Here's what some recent takeouts in the water space went for:

#### Recent Acquisitions

Target	Acquirer	Acquisition Date	Currency	Acquisition Price/sh (\$)	Shares Out (MM)	Acquisition Price (\$MM)	Net Debt (\$MM)	Enterprise Value (\$MM)	TTM EBITDA (\$MM)	Purchase Multiple
H2O Innovation	Ember (P/E)	Oct. 2023	CAD	\$4.25	90.0	\$382.5	\$47.9	\$430.5	\$21.4	20.1x
AquaVenture	Culligan	Apr. 2020	USD	\$27.10	31.8	\$862.9	\$213.3	\$1,076.2	\$62.1	17.3x
Enviva Water Technologies	Xylem Water	May 2023	USD	\$52.89	124.9	\$6,604.9	\$786.0	\$7,390.9	\$242.0	30.5x
Average										22.7x

Management just has to execute a plan for the coming 18 months.

## PEOPLE SELLING PRODUCTS

## SELLING PEOPLE

I have always thought that putting a professional services business together with a related product business was an underrated business model. This is essentially what BluMetric has.

Why do I call this combination underrated? Because when it's done right, one business feeds into the other to create a virtuous circle.

The product business can drive services - sure we'll sell you a water treatment solution, how about we provide the analysis of what you need, how about we do the install, how about we sign up for maintenance for you as well? And on the flip side, we'd love to assess your environmental impact, by the way, here's a list of products to mitigate it.

This is exactly what BluMetric has.

1. They assess, recommend and manage environmental solutions - this is called professional services.
2. They design, build and deploy turn-key cleantech systems – most related to treating water.

Let's start with the professional services side.

## THESE GUYS ARE PROS!

At the heart, BluMetric is an engineering company. They provide:

1. Contaminated site remediation
2. Water resource management
3. Industrial hygiene
4. Occupational health and safety
5. Design and builds of water and wastewater

The best way to describe these services is to step through a few examples of actual project work.

Land Rehabilitation: BluMetric worked for a decade to rehabilitate industrial land in Toronto and turn it into parkland. Submitting design, carrying out impacts studies, keeping government involved with the process, supervising contractor through the build.



Source: BluMetric Website

Remote Water Management: A second example is a mine effluent treatment plant that BluMetric manages. The Giant Mine produces arsenic as a by-product. That makes treatment and management of the wastewater paramount - any seepage into the surrounding environment would be a disaster.



GOVERNMENT, MINING

## GIANT MINE EFFLUENT TREATMENT PLANT

Source: BluMetric Website

The plant is in Yellowknife. They operate the plant as part of a mine remediation project. Water collects in the tailings pond and must be treated. They manage the treatment of the water by the plant.

A second example of this is a water monitoring program they do for Vale, the global mining company out of Brazil. When mines close, there are requirements for monitoring the area to make sure that there is no leakage of waste from the mine into the surrounding water supply. BluMetric manages that process, drilling water wells, sampling the water and creating reports that are delivered to the inspection agency of the Ontario Government.



GOVERNMENT, MINING

## GROUNDWATER AND SURFACE WATER MONITORING PROGRAM



*Source: BluMetric Website*

**Mobile Water Treatment:** BluMetric is tasked to procure and install Shipboard Chlorine Dosing Units (SCDU) for installation in two Joint Support Ships (JSS). The SCDU treats water for the ships freshwater.



*Source: BluMetric Website*

They actually have 3 shipboard water treatment units that they mention in their case studies. These are products that they sell along with the professional services. More on that shortly.

**Landfill Services:** Finally, they provide landfill engineering services to Waste Management Inc with a number of their landfill sites. They also provide oversight to the Faraday Waste Disposal Site, a landfill in a community in Ontario. These landfill services mostly revolve around water assessments and environmental compliance support but with Faraday they have expanded to more, with BluMetric developing studies for the landfill expansion and for its eventual retirement among other things.





GOVERNMENT, INDUSTRIAL/COMMERCIAL

## WASTE MANAGEMENT SERVICES

Source: BluMetric Website

I have two takeaways from these examples:

- A. The work is diversified, its not just one type of project
- B. Most work is geared toward water treatment

BluMetric has done well over 5,000 environmental water projects in Canada. They have 82 of their systems up and running, and none have failed. They employ over 200 people.

### BluMetric By The Numbers<sup>1</sup>



**5,074**

environmental and water projects completed in Canada

**10**

offices across Ontario, Québec, Nova Scotia, Yukon and NWT

**82**

commercial-grade agile CleanTech water systems deployed

**13,000**

sq. ft CleanTech manufacturing facility in Carp, Ontario

**200**

dedicated employees

**\$35 million**

in revenues and \$1.7 million in EBITDA for FY2023



Source: BluMetric Investor Presentation

It is a business that operates a lot of projects. In 2023 they did 1,151 projects. In 2022 they did 993.

They operate across Canada. They compete with some much larger Canadian professional services firms like Stantec and WSP.



Source: BluMetric Investor Presentation

## MAKING WATER DRINKABLE

Professional Services feeds into products and vice versa. The overlap is water: all the BluMetric products are water treatment and wastewater products.

- Reverse Osmosis Water Purification Unit (ROWPU)
- Advanced Sub-Unit Water Purification System (ASUWPS)

- Shipboard Reverse Osmosis Desalination (SROD)
- Shipboard Oily Water Separator (SOWS)

BluMetric's mobile water system is called Mission Ready Water. It can provide emergency potable water to almost any community in Canada for 90 days. Their contract with Rheinmetall Canada was for a Mission Ready system.

They are also developing a mid-sized Potable Water Treatment System and a Mobile Wastewater Treatment Plant.

Their water systems are military grade solutions. In fact, these products were originally intended for military use. Today BluMetric remains a big supplier of mobile water treatment solutions for the army (and has been for 20 years!).

Today though, the usage has expanded well beyond military because the products work so well.

How do products feed into Professional Services? One example is a \$12M contract BluMetric has with the multinational defense contractor Rheinmetall Canada, to come up with a clean water solution for the community of Iqaluit on Baffin Island in the arctic.

Iqaluit's underground water supply became contaminated. Their solution included not just the assessment of the water and the treatment required but ended up utilizing their own reverse osmosis units.

## Case Study: Supporting Iqaluit's Clean Water Rescue Mission



### THE ASK

BluMetric was actioned to provide Iqaluit with clean drinking water

### THE CHALLENGE

Nunavut's capital declared a state of emergency due to a fuel contaminated underground water holding tank

### THE SOLUTION

Two Reverse Osmosis Water Purification Units (ROWPU) were deployed during a polar front, providing clean drinking water during a harsh environment

Source: BluMetric Investor Presentation

## THE GEMINI ACQUISITION

BluMetric acquired Gemini Water in September. The acquisition takes them a step closer to \$50M of annual revenue, but more importantly, Gemini gives them a VERY complimentary suite of products and expands them into a much larger market.

Even better, the price Blumetric paid for Gemini was *tiny*. They paid \$5M, which break down to \$3M of cash and 2.3M shares. The true price is even less because the acquisition came with \$3M of cash. There is also a small earnout.

Gemini's trailing revenue was US\$7.3 million (CA\$9.8 million). Their EBITDA margins have historically exceeded 10%.

That means we're talking about ballpark C\$1M of EBITDA for \$2M net. Not bad! Gemini also had \$15M of backlog at the time.

Gemini designs, builds, installs, and commissions large-scale desalination and wastewater treatment systems using membrane-based technologies.

So again, its water, but I underlined the words "large-scale" because this is not what BluMetric does. The water treatment products that BluMetric offers are mobile - small-scale products for temporary military use and remote locations.

Gemini plays in a space that BluMetric doesn't play in - government and commercial industrial systems that are fixed in place.

These are big projects. For example, Gemini is kicking off a \$9 M contract with the island of St. Kitts to provide 2 million gallons of fresh water, or about 40% of the islands needs.

Gemini opens a new market that is much larger than Canada. Gemini sells into Texas and the Caribbean. They are installed in 22 locations.

This is a whole new market for BluMetric. They can bring Gemini product north to Canada - and more importantly they can do the opposite - taking their mobile products south.

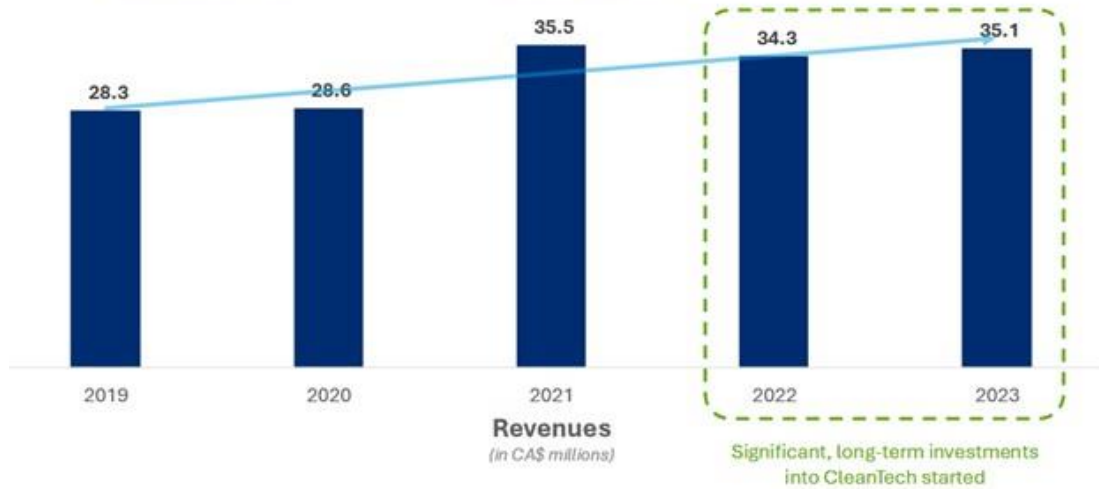
Gemini has not had a system to sell into short term disaster situations, like Florida hurricanes or into islands in the Caribbean that are running short of clean water.

## **A SOLID TRACK RECORD**

BluMetric has been able to grow revenue, albeit at a single digit pace and that revenue growth has stalled the last couple of years.

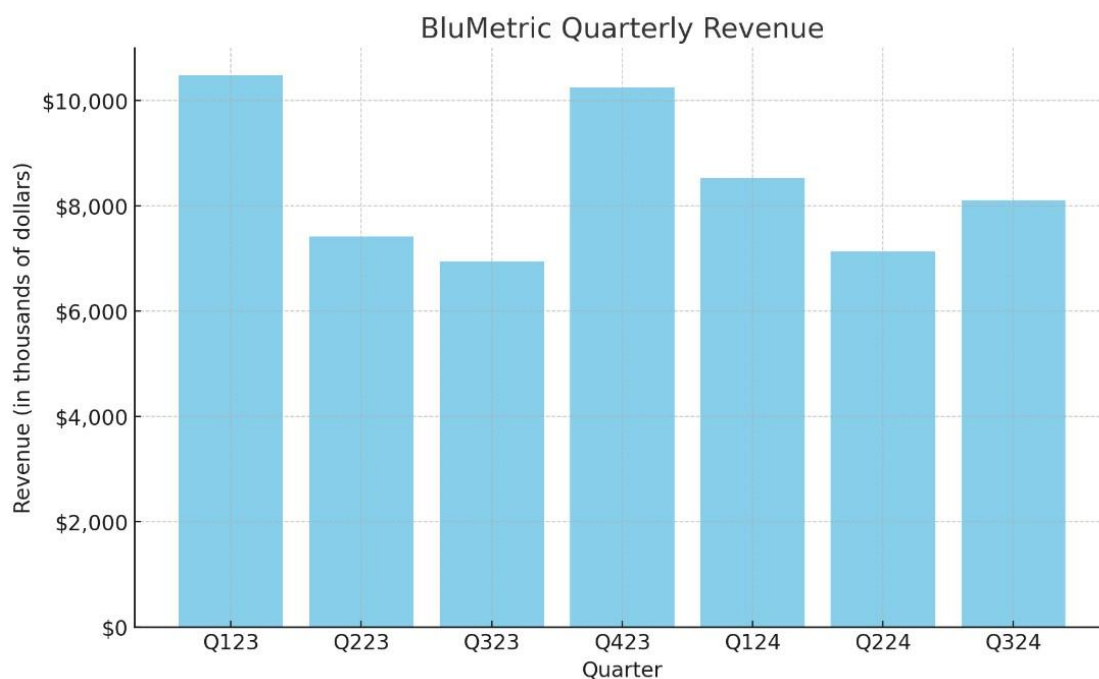
## Stability in Revenues Provide Foundation for Growth

BluMetric has consistently maintained an annualized revenue in the range of \$35 million while improving client base. With **record sales orders** of \$50.6 million<sup>1</sup> and **CleanTech products**, we aspire to **surpass this** in future years



Source: BluMetric Investor Presentation

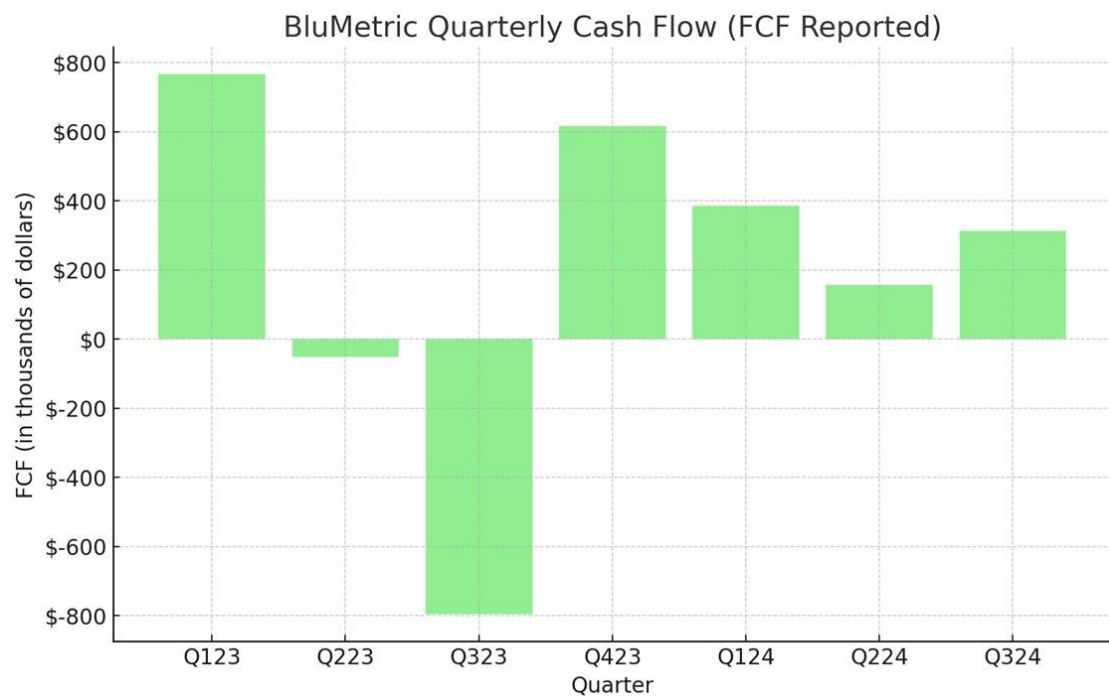
A closer look at *recent* growth (the last 8 quarters) is mixed and lumpy.



Source: *BluMetric Financials*

But looking further down the income statement, ***the business has begun to generate consistent free cash flow.*** I know I said at the start I saw negative cash flow – and I did. But this was *after* working capital. This year working capital has been a significant drain. That should change, and looking at free cash flow *before* working capital changes, in the trailing-twelve months it was positive \$1.5M.

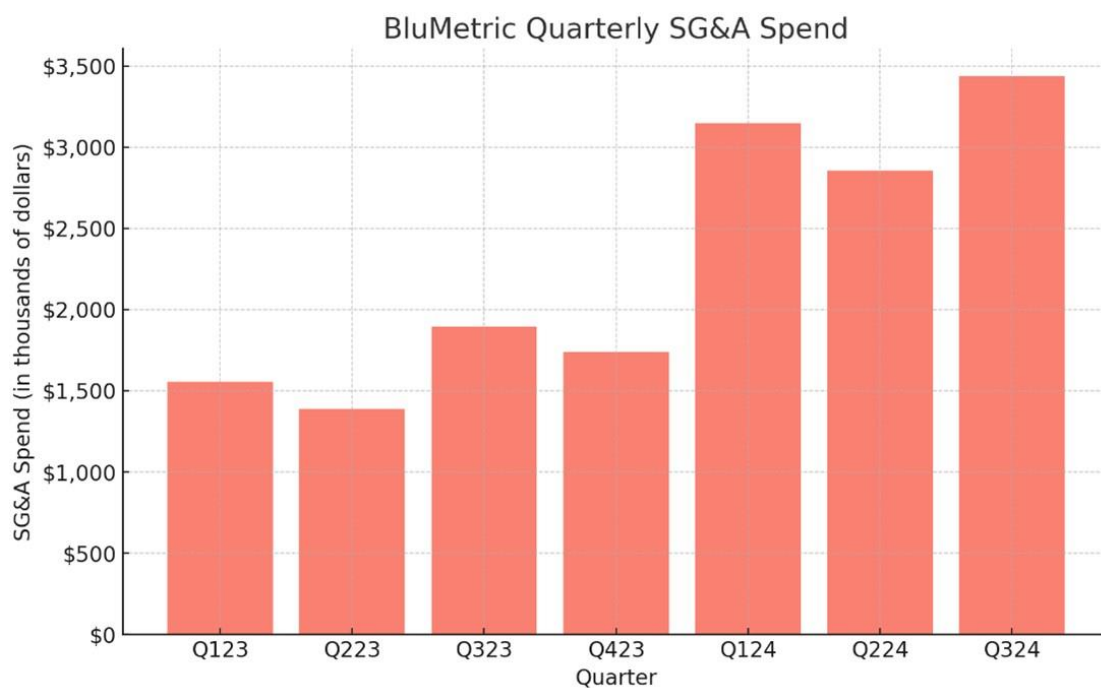




Source: *BluMetric Financials*

FCF should grow going forward because of the Gemini acquisition.

It would also change with more contracts. BluMetric seems to have put their foot on the gas and increased their sales and marketing spend rather significantly in the last few quarters.



Source: BluMetric Financials

## ALL ABOUT WHAT'S TO COME

When I sat down with CEO Scott MacFabe, he gave some hints that growth was going to be better going forward.

McFabe said he saw tailwinds in sustainability, tailwinds in water and military demand picking up substantially.

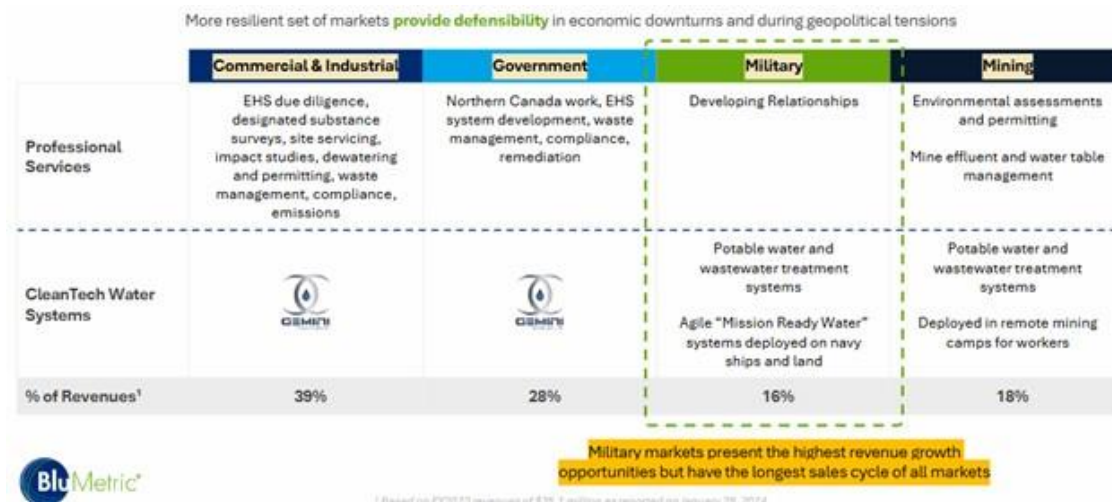
While he could not talk specifically, there were enough breadcrumbs about the military vertical to make me think there could be one or more big contracts in the offing.

The employee headcount also grew from 175 to 200 in the second quarter of this year.

From what I can tell there are two big growth opportunities in the short/medium term: military contracts and Gemini.

With Gemini the opportunity is expanding what BluMetric already does in disaster relief. Gemini does not do disaster relief. But they have BIG-TIME credibility in water solutions. The mobile BluMetric products are easily transferrable to Gemini. FEMA has ALREADY asked Gemini if they have a solution to offer.

As for military, BluMetric says it themselves right in their presentation. These are long sales cycle deals but that is where the growth is.



Source: BluMetric Investor Presentation

Bottomline, this is a team of scientists, engineers, industrial hygienists, environmental auditors, project managers, water system specialty trades, financial management specialists, and support personnel.

That includes the board and management team. These are water experts, engineering experts, environmental experts, industrial hygienists, its a team of educated talent.

The team holds significant stock - with 40% insider ownership, including current and former (recently retired) employees.

With products proven to work in the harshest military applications and a recently completed acquisition that will let them offer those products to a broader audience, they *should* be set to grow.

Already the business is generating cash.

Yes, a backward look on the business does not give an exciting result. But maybe that's looking at it all wrong.

The easy thing to do here is wait until that big contract or until the sales cycle at Gemini gets some momentum. We may miss out on the first 50%, but as we saw with Cal Nano, that might be just the beginning.



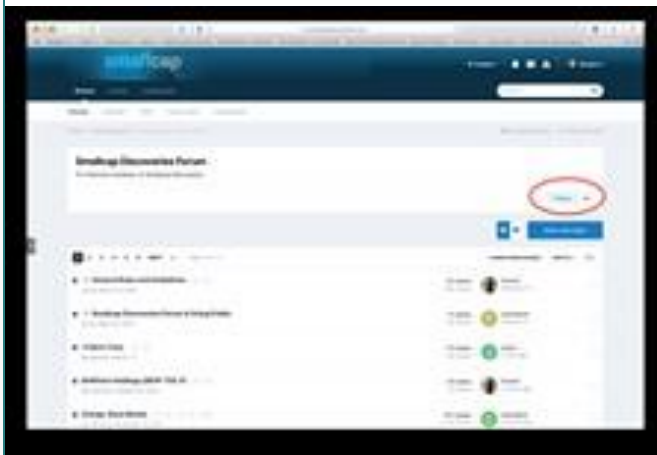
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Don't forget to go to [the forums!](#) Lots of smart, connected people who are posting there. And I post some interesting tidbits there first sometimes.

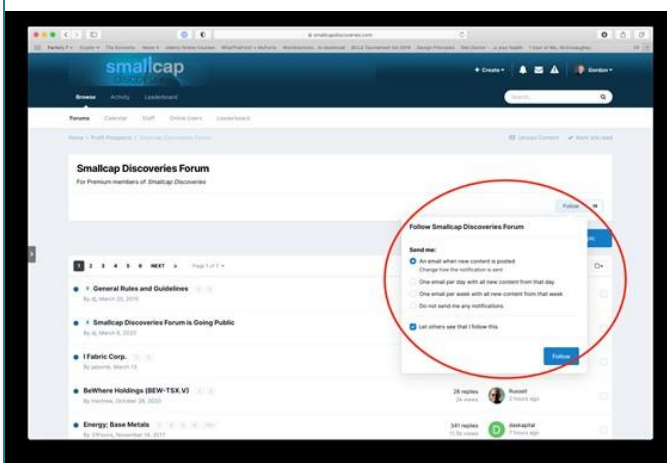
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