LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER OF SCIENCE IN FINANCE

EQUITY RESEARCH

Master's Final Work

EQUITY RESEARCH:
EVOQUA WATER TECHNOLOGIES

MARÍLIA SILVA SOUZA
L52669

OCTOBER 2021

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SUPERVISOR:

JOÃO CARVALHO DAS NEVES

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Abstract

Evoqua Water Technologies ("EVOQUA") is a leading provider of water and wastewater treatment solutions, offering a broad portfolio of products, services, and expertise to support industrial, municipal and recreational customers. Evoqua is a small-mid cap company with $1.43 billion in revenue for FY20, and a $4.0 billion market capitalization.

EVOQUA has a BUY recommendation, with a 2022YE (Year End) price target of $ 36.37, meaning a 16.5% potential increase from the July 16th of 2021 closing price of $31.21, with low risk.

The current undervaluation of EVOQUA shares can be mainly explainable due to the current economic scenario and the general impact brought upon COVID-19 pandemic.

Regarding the forthcoming industry trends, EVOQUA has a focused strategy that include seven main strategic priorities to provide reliable water treatment solutions by combining their products and technologies with extensive service and distribution capabilities. Regarding this, EVOQUA revenues have grown at +5.88% 2016-2020 CAGR and are expected to grow at a +3.89% CAGR 2020-2025F.

Keywords: Evoqua; Water & Wastewater; Water; Equity Research; Valuation; Mergers & Acquisitions; M&A.

Resumo

A Evoqua Water Technologies ("EVOQUA") é uma fornecedora líder de soluções de tratamento de água e esgoto, oferecendo um amplo portfólio de produtos, serviços e experiência para apoiar clientes industriais, municipais e recreativos. A Evoqua é uma empresa de pequena e média capitalização com receita de $ 1,43 bilhão no final de 2020 e capitalização bolsista de $ 4,0 bilhões.

A EVOQUA tem uma recomendação de investimento de "COMPRA", com um preço alvo de $ 36,37/acção no final de 2022, significando uma valorização potencial de 16,5% face ao preço de fecho de $ 31,21em 16 de julho de 2021, com baixo risco.

A atual subvalorização da EVOQUA pode ser explicada principalmente devido ao cenário econômico atual e ao impacto geral associado a pandemia de COVID-19.

Em relação às tendências futuras da indústria, a EVOQUA tem uma estratégia focada que inclui sete prioridades principais para fornecer soluções confiáveis de tratamento de água, combinando seus produtos e tecnologias com extensas capacidades de serviço e distribuição. É disto exemplo o foco no crescimento das receitas, que no período entre 2016 e 2020 cresceram em + 5,88% CAGR e espera-se que cresçam em + 3,89% CAGR entre 2020 e 2025.

Palavras-Chave: Evoqua; Tratamento de água e esgoto; Água; Avaliação de Empresas; Fusões e Aquisições; M&A.

Acknowledgements

My deepest thanks,

To my beloved parents, Ariadne and Gilson;

My brother, Alison;

To Professor João Carvalho das Neves, for all the motivation and availability.

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Abbreviations

A
APT Applied Product Technologies
ASEAN The Association of Southeast Asian Nations

B
bps Basis points

C
CAGR Compound Annual Growth Rate
CEO Chief Executive Officer
CFO Cash flow from operating activities
CO2 Carbon dioxide
CRP Country Risk Premium

D
DCF Discounted Cash Flow

E
EBIT Earnings Before Interest and Taxes
EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization
ERP Equity Risk Premium
ESPP Evoqua's Employee Stock Purchase Program
EU The European Union
EV Enterprise Value

F
F Forecast (as in 2025F)
FCFF Free Cash Flow to the Firm
FY Fiscal Year (as in FY2019)

G
GDP Gross Domestic Product

I
IMF International Monetary Fund
IPO Initial Public Offering
ISS Integrated Solutions and Services

M
M&A Mergers and Acquisitions

N
NWR Non-Revenue Water
NYSE New York Stock Exchange

O
OECD Organisation for Economic Co-operation and Development

P
PT Price Target

R
R&D Research and Development
RFR Risk free rate
ROCE Return on capital employed
ROE Return on Equity
ROIC Return on Invested Capital

S
SDG Sustainable Development Goal(s)

U
UK The United Kingdom
UN United Nations Organization
UNESCO United Nations Educational, Scientific and Cultural Organization
US The United States of America
USD United States Dollar

W
WACC Weighted Average Cost of Capital

Y
YE Year End (as in 2022YE)
YoY Year-over-year

Evoqua Water Technologies

BUY

Low Risk

July18th 2021

Equity Research: Evoqua Water Technologies

(YE2022 Price Target of $36.37 (+16.5%); recommendation is to BUY with low risk)

1. Research Snapshot

I initiate a BUY recommendation for Evoqua Water Technologies Corp., with a 2022YE (Year End) price target of $ 36.37 using a DCF (Discounted Cash Flow) model, implying a 16.5% potential increase from the July 16th of 2021 closing price of $31.21, with low risk (Figure 1).

In a difficult market environment, EVOQUA has been investing and creating value for shareholders, and considering the company's future perspective the current stock price seems to have an upside potential.

Dividend policy

The Company currently intends to retain all its future earnings, if any, to finance operations, development and growth of its business and repay indebtedness. Financial projections, show a solid financial position and a sound cash generation for the forecasted period CFO (Cash flow from operating activities) 2020-2025F (Forecast) CAGR (Compound Annual Growth Rate) +8.8%, from $158.358 to $242.034 thousands in 2025F.

Industry outlook

Water and wastewater treatment systems become more relevant than ever with growing global demand for clean water, more stringent regulatory issues, and increasing environmental concerns.

Rapid population growth and urbanization, growing demand for new water resources, rising focus on water quality and public health, increasing prevalence of water borne diseases, increase in agricultural development, industrial demand, and stringent governmental regulations on treating wastewater also aids in the growth of this industry.

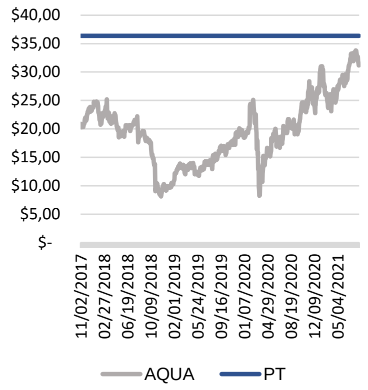
EVOQUA is expected to leverage this trend with an EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) +3.7% CAGR in the 2020-2025F period.

Strategy and profitability drivers

The main factors that might affect Evoqua's profitability include **overall economic trends**, changes in **cost and availability** of certain **commodities**, and the **availability of water**.

Water is a critical component and byproduct of many processes, including in manufacturing and product development, therefore it is expected that, as global consumption patterns evolve and water shortages persist, demand for Evoqua's equipment and services will continue to increase.

Figure 1. Historical stock price vs PT



Source: *Author analysis*

EVOQUA revenues have grown at +5.88% 2016-2020 CAGR and are expected to grow at a +3.89% CAGR 2020-2025F.

2. Business Description

The Company

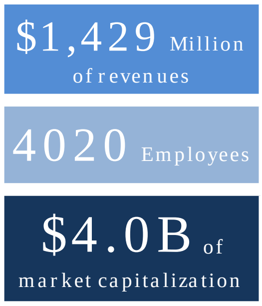
Evoqua Water Technologies is a leading provider of water and wastewater treatment solutions, offering a broad portfolio of products, services, and expertise to support industrial, municipal and recreational customers (Appendix 8).

Evoqua provides solutions for customers with critical water needs for energy generation, food & beverage safety and production, healthcare, manufacturing and many more.

Headquartered in Pittsburgh, Pennsylvania, Evoqua and their brands have over a 100-year heritage of innovation. As of September 30, 2020, the company had approximately 4,020 team members, operating in 160 sites located in the United States, Canada, the United Kingdom, the Netherlands, Germany, Australia, China, Singapore, India, and Korea, including 13 manufacturing facilities, seven research and development facilities and 92 service branches.

Evoqua is a small-mid cap company with $1.43 billion in revenue for FY20, and a $4.0 billion market capitalization (Figure 2).

Figure 2. EVOQUA's 2020FY major figures



Source: *Evoqua's statements; Bloomberg.*

The History

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. The company operates in more than 160 locations across ten countries. Serving more than 38,000 customers and 200,000 installations worldwide.

Evoqua Water Technologies Corp. was incorporated in October 2013. On January 2014, Evoqua Water Technologies Corp. acquired, through its wholly owned subsidiaries, EWT Holdings II Corp. and EWT Holdings III Corp., all of the outstanding shares of Siemens Water Technologies, a group of legal entity businesses formerly owned by Siemens AG.

On November 2017, Evoqua completed their initial public offering (IPO) of 27.8 million shares of common stock, and their common stock began trading on the New York Stock Exchange (the NYSE) on November 2, 2017 under the ticker symbol AQUA.

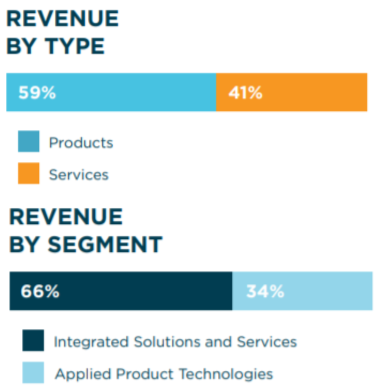
Financial highlights

Evoqua reached in 2020FY (Fiscal Year) $1.43 billion of revenues and an EBITDA value of $240 million. The net profit reached $114 million (Appendix 2).

EVOQUA's business segments

The Company is organizationally structured into two reportable operating segments for the purpose of making operational decisions and assessing financial performance: (i) Integrated Solutions and Services and (ii) Applied Product Technologies (Figure 3).

Figure 3. Revenue by type and segment



Source: *Evoqua, 2020.*

Integrated Solutions and Services (ISS)

Integrated Solutions and Services is a group entirely focused on engaging directly with end users through direct sales with a market vertical focus. Integrated Solutions and Services provides tailored services and solutions in collaboration with the customers backed by life cycle services including on demand water, outsourced water, recycle/reuse, and emergency response service alternatives to improve operational reliability, performance, and environmental compliance.

Key offerings within this segment also include equipment systems for industrial needs (influent water, boiler feed water, ultrahigh purity, process water, wastewater treatment and recycle/reuse), full-scale outsourcing of operations and maintenance, and municipal services, including odor and corrosion control services.

The Integrated Solutions and Services segment contributed to the company's 2020YE results with $944.18 million in revenues (+9.36% CAGR 2016-20).

Applied Product Technologies (APT)

Applied Product Technologies is focused on developing product platforms to be sold primarily through third party channels. This segment primarily engages in indirect sales through independent sales representatives, distributors, and aftermarket channels.

Applied Product Technologies provides a range of highly differentiated and scalable products and technologies specified by global water treatment designers, original equipment managers, engineering firms and integrators.

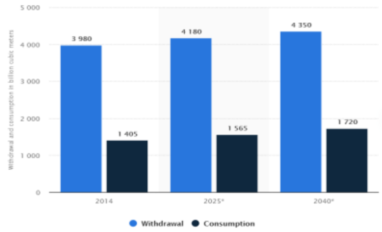
Key offerings within this segment include filtration and separation, disinfection, wastewater solutions, anode and electro chlorination technology and aquatics technologies and solutions for the global recreational and commercial pool market.

The Applied Product Technologies segment contributed to the company's 2020YE results with $485.27 million in revenues (+1.75% CAGR 2016-20).

Key drivers of profitability

The main factors that might affect Evoqua's profitability include **overall economic trends**, changes in **cost and availability** of certain **commodities**, and the **availability of water**.

Figure 4. Water Withdraw vs Water Consumption

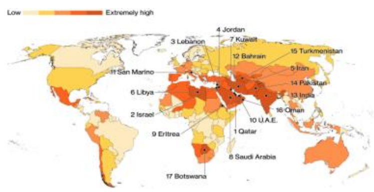


Source: *Statista.*

In general, positive conditions in the broader economy promote industrial, commercial, and municipal customer spending, while economic weakness results in a reduction of new industrial, commercial, and municipal project activity. Macroeconomic factors that can affect their customer spending patterns, and thereby the company´s results of operations, include **population growth**, total **water consumption** (Figure 4), municipal budgets, employment rates, business conditions, the availability of credit or capital, interest rates, tax rates, imposition of tariffs and regulatory changes. Since the businesses of Evoqua's customers vary in cyclicality, periodic downturns in any specific sector typically have modest impacts on the company's overall business.

In addition to that, Evoqua has a significant exposure to certain **commodities**, including steel, caustic, carbon, calcium nitrate and iridium, and volatility in the market price and availability of these commodity input materials has a direct impact on the company's costs and business.

Figure 5. Water Stress by Country



Source: *World Resources Institute's Aqueduct Water Risk Atlas*

Overall, Evoqua expects for the demand for their products and services to increase as the availability of clean water from public sources decreases. Secular trends that will drive demand for water across a multitude of industrial, commercial, and municipal applications include global population growth, urbanization, industrialization, and overall economic growth. In addition, the supply of clean water could be adversely impacted by factors including an aging water infrastructure within

North America and increased levels of water stress from seasonal rainfall, inadequate water storage options or treatment technologies (Figure 5).

Because water is a critical component and byproduct of many processes, including in manufacturing and product development, it is expected that, as global consumption patterns evolve and water shortages persist, demand for Evoqua's equipment and services will continue to increase.

Strategy

The company's goal is to provide reliable water treatment solutions by combining their products and technologies with extensive service and distribution capabilities. The key elements of EVOQUA's growth strategy include seven main strategic priorities:

- Grow and further penetrate existing customer base: Evoqua´s growth initiatives include both expanding their presence in their core North American market as well as replicating their leading position and strategies into underpenetrated global regions. Through direct and indirect sales efforts, outreach and education, the company plans to continue to enhance their relationships and enable further adoption of their products, technologies and solutions by end customers and key influencers, including municipal representatives, engineering firms, designers, and other system specifiers.
- Continued transition of their customers to a higher value-add service-based business model: The company´s outsourced water offerings are high value add solutions utilizing their owned assets to generate service revenues. These assets, particularly when digitally enabled, create stable, recurring, and profitable revenues through greater efficiency and productivity. The company's future growth depends, in part, on their ability to develop or acquire new products, services and solutions, identify emerging technological trends in the target end markets and maintain the integrity of their information technology systems.
- Drive margin expansion and cash flow improvements through continued focus on operational excellence and execution: The company has identified and is pursuing several discrete initiatives that, if successful, could result in additional cost savings over the next two years. These initiatives include their supply chain improvement program to consolidate and manage global spending, their improved logistics and transportation management program, further optimizing their engineering cost structure, their global shared services organization and their sales, inventory, and operations planning, including footprint rationalization. Furthermore, as a result of significant investments made in their footprint and facilities, Evoqua believes they have the capacity to support their planned growth without commensurate increases in fixed costs.
- Commercialize and drive adoption of nascent and newly acquired technologies by leveraging their sales channels and application expertise: Evoqua must continue to develop and acquire new products, services, and solutions to successfully compete in their markets. The company believes a key differentiator for their technology development program is their strong record of incorporating new technologies into the comprehensive solutions they provide to customers across their platform. Through their service network, they have a direct view of their customers water needs which allows

them to focus on developing and acquiring the most relevant and sought-after solutions.

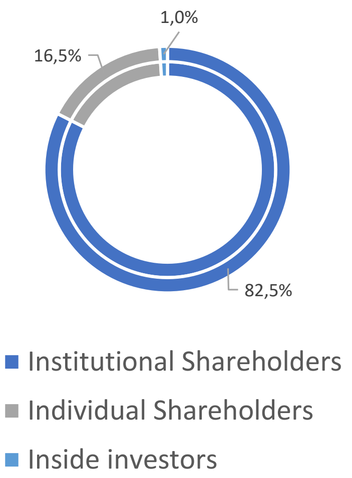
- Continue to expand their capabilities for the treatment of increasingly complex emerging contaminants: Emerging contaminants such as PFAS, PFOA, selenium, micro-plastics and many others, present global health risks if not properly removed from drinking water, process water and wastewater.
- Continue to evaluate and pursue accretive tuck-in acquisitions to add new technologies, attractive geographic regions, and end markets: as a complement to organic growth initiatives, the company views tuck-in acquisitions as a key element of their overall growth strategy which will enable them to accelerate their growth in the current addressable market, new geographies, and new end market verticals.
- Protect and enhance the sustainability of their business: Sustainable is one of the companies' four core values, along with Integrity, Performance and Customers. Evoqua views sustainability as a key initiative and has mobilized a cross-functional team to work on advancing their Sustainability Program.

Shareholder structure

As of February 2021, EVOQUA has a total of 119,650,959 shares ordinary shares issued, trading under the symbol "AQUA" on the **NYSE** (New York Stock Exchange).

Institutional shareholders currently detain 82,5% of the share of capital, while the general public holds about 16,5% of ownership. Inside investors have a meaningful stake, worth $34M on insiders' own shares (Figure 6).

Figure 6. Shareholder Structure by Shareholder Type (% share of capital)



Source: *Evoqua´s Registration Document 2021.*

The Vanguard Group, Inc. is currently the largest shareholder, with 9.24% of shares outstanding. In comparison, the second and third largest shareholders hold about 8.75% and 6.84% of the stock. According to the shareholder registry, about 50% of the ownership is controlled by the top 17 shareholders, meaning that no single shareholder has a majority interest in the ownership (Figure 7).

Figure 7. Evoqua top Shareholders (% share of capital)

Name	%
Vanguard Group, Inc.	9,24%
BlackRock	8,75%
Invesco Ltd.	6,84%
Champlain Investment Partners LLC	4,92%
Impax Asset Management, Inc.	3,65%
Victory Capital Management, Inc.	3,19%
BNP Paribas	3,15%

Source: *Bloomberg (as of July 2021).*

Dividend policy

No dividends were paid to shareholders during the years ended September 30, 2020, 2019 or 2018. The Company currently intends to retain all its future earnings, if any, to finance operations, development and growth of its business and repay indebtedness. Most of the Company's indebtedness contains restrictions on the Company´s activities, including paying dividends on its capital stock.

Any future determination relating to Evoqua´s dividend policy will be made at the discretion of the Company's board of directors and will depend on several factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that the board of directors may deem relevant.

3. Environmental, Social & Corporate Governance

Environmental Aspects

Evoqua is dedicated to developing and delivering sustainable solutions that help customers and communities protect the world's most valuable resource — water. Sustainability is one of the Company's core values, and it's overseen directly by their Board of Directors.

Evoqua has two frames of reference for defining sustainability impact (Appendix 9):

Figure 8. *United Nations Sustainable Development Goals (Evoqua impacts)*

Source: *Evoqua´s Sustainability Report 2020.*

- Handprint: Enabling customers to become more sustainable through their solutions and service offerings.
- Footprint: Evoqua's responsibility to become more sustainable in their internal operations.

Evoqua's broad portfolio of innovative products and services are aligned with The United Nations Sustainable Development Goals (SDGs) and help customers solve their most complex water and wastewater treatment challenges (Figure 8).

While SDG 6 (Clean Water and Sanitation) is where Evoqua has the most significant impact, the Company also help their customers meet other SDGs, including:

- SDG 3 - Health & Wellness: Evoqua provides products and services to support disinfection and sanitization, which are critical to maintaining safe operations in hospitals, laboratories, aquatics, and food processing by removing common and emerging contaminants.
- SDG 7 - Renewable Energy from Wastewater: Evoqua´s anaerobic digestion technology installations produce enough renewable energy to meet the electricity needs for the equivalent of 5,000 American homes per day.
- SDG 9 - Smart Water: Evoqua's Water One® service provides customers with reliable water quality and quantity when they need it through a digitally enabled, proactive service model. Based on their estimates, this service, which includes remote monitoring of systems, has enabled the Company to reduce the number of miles driven by service technicians to customer sites by over 100,000 miles, which equates to a reduction of approximately 80 metric tons of CO_2 emissions, and reduced the volume of chemicals used in the regeneration process by approximately 58,000 pounds, as compared to FY17.
- SDG 12 - Circular Economy: Evoqua reactivated 14,994 tons of granular activated carbon and regenerated 51,929 tons of resin. Through carbon reactivation and resin regeneration services, the Company can reuse these materials and prevent over 65,000 tons from going to landfills.
- SDG 13 - Climate mitigation: With one of the largest fleets of temporary and rapid response mobile units in North America, Evoqua can provide clean water when and where it is needed most. Internally, the Company is working to manage their impact. In FY20 Evoqua reduced emissions of CO_2 from fossil fuel use by 1,541 metric tons as compared to FY19.

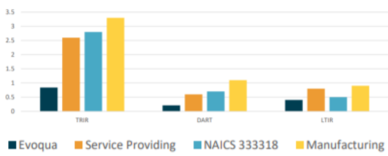
Through the recent COVID-19 Pandemic, Evoqua has an important role keeping the water on for critical infrastructure. Evoqua's solutions are supporting not only in-home disinfection, but overall disinfecting procedures and ensuring high integrity Covid-19 tests, meeting the needs of delivering pure water for one million COVID-19 test kits per day.

Social Aspects

Safety

Evoqua is truly concerned about their Environmental Health and Safety program. It focuses on work environments where each employee is enabled, empowered, and embraces personal accountability for protecting their health and safety, as well as that of their co-workers. Every employee is encouraged to perform a safe performance self-assessment when they begin work, follow standard work

Figure 9. 2020 Comparison of Evoqua's Incident Rates with Industry Averages



Source: *Evoqua´s Sustainability Report 2020.*

instructions for the job they are performing and STOP WORK when they have a concern or see the potential for injury.

The Company also implemented a new interactive driver assessment and assigned specific training modules for employees to enhance driver safety, including special driver safety reminders.

From FY19 to FY20, total accidents decreased by 30%. This decrease in accidents reflects the company's commitment to continual improvement and ensuring workplace safety (Figure 9).

Evoqua also implemented several action actions to protect the health, safety, and well-being of employees and has been flexible with supporting remote work throughout the COVID-19 pandemic. Approximately 50% of employees have been productively working remotely since March 2020.

Employee feedback survey measuring how employees were dealing with COVID-19 related issues, including safety, wellbeing, support, and connection with others. suggested that employees were either satisfied or very satisfied within the topics covered, with 80% response rate.

Inclusion and Diversity

Evoqua believes inclusion enables diversity to thrive. There is zero-tolerance for any type of discrimination or harassment across the global organization. Evoqua always embraces inclusion and demands equal and fair treatment for all employees regardless of status.

Current overview: Women represent 20% of the organization's population, which has remained consistent over the past three years. On average, women account for 20% of our new hires annually, and make up 25% of the senior leadership. Year-over-year they have increased the percentage of U.S. minorities in Evoqua's U.S. workforce, they currently comprise 24% of Evoqua's U.S. workforce. Veterans constitute 6% of U.S. employee population (Figure 10).

Figure 10. Inclusion and Diversity

Source: *Evoqua´s Sustainability Report 2020.*

Employee Benefits

As a benefit to full-time, salaried employees, Evoqua offers flexible self-managed time off, they also have a leave of absence policy for expecting parents. Additionally, all U.S. employees, who have been with Evoqua for a minimum of one year (working 20 hours or more per week) are eligible to participate in Evoqua's Employee Stock Purchase Program (ESPP) and global employees can participate with no minimum requirements, in countries where the plan is available. U.S. employees classified as regular salaried or hourly (working a minimum of 20 hours per week) can participate in medical and pharmacy benefits, as well as our 401(k) plan and Global employees are offered competitive healthcare and retirement programs.

Community Involvement

As an organization, Evoqua directs corporate giving towards education, science, social, and humanitarian efforts, particularly those that satisfy the corporate objective to meet the needs for safe and clean water and sanitation. In this past year, response to COVID-19 was also recognized as an area of need.

To raise funds for local communities impacted by COVID-19, Evoqua initiated an internal fundraising campaign by selling #EvoquaProud branded gear. The proceeds were donated to non-profits such as Feeding America, Water-4-Nations in Haiti, Mind in the United Kingdom, and Nature NB in Canada. These efforts helped provide access to out-of-school programs, meals for 12,660 families in need, and supplied 4,500 families impacted by COVID-19 with hygiene kits.

Evoqua's wastewater treatment team based in Derby, United Kingdom donated a 3-D printer to assist a small local enterprise in creating 900 face masks for healthcare workers on the front lines of COVID-19.

As part of Evoqua's World Water Day program, and before COVID-19 required to cancel in-person events, Evoqua employees visited local schools to educate students on water sustainability and technology. Employees from Colorado Springs, headed to local schools to educate students about water use and sustainability, while Schaumburg, IL employees visited grade schools to conduct experiments and demonstrations on water chemistry and technology solutions.

Corporate Governance

Board Leadership Structure

Evoqua currently separates the roles of Chief Executive Officer and Chairman of the Board. This leadership structure is appropriate for the Company due to the differences between the two roles. As a result, the Company´s Chief Executive Officer is able to focus on developing and implementing the Company's business strategies and objectives, and the Chairman is able to provide independent oversight of the Company and serve as an independent liaison between management and the members of the Board.

These positions are currently held by Ron C. Keating, as Chief Executive Officer, and Martin J. Lamb, an independent director, as Chairman of the Board (Figure 11).

Figure 11. Chairman & CEO Profiles

CEO: Mr. Ron C. Keating
- President and CEO.
- Age: 52
- Director Since: 2014
- Committee Memberships: None
- Term expires: 2023.

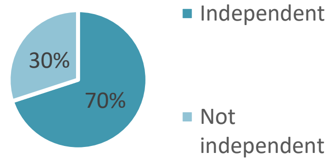
Chairman: Mr. Martin J. Lamb
- Chairman of Board
- Independent
- Age: 60
- Director Since: 2014
- Committee Memberships: Compensation, Nominating and Corporate Governance.
- Term expires: 2023.

Source: *Author analysis.*

Board of Directors

The Board of Directors provides oversight, strategic direction, and counsel to management regarding the business, affairs and long-term interests of the Company and their stockholders. In the three years since Evoqua's initial public offering in November 2017, they have added three new Board members, who bring independent and diverse perspectives. Additionally, 70% of the Board is independent according to the company's Corporate Governance Guidelines and NYSE corporate governance standards (Figure 12).

Figure 12. Independent Directors Proportion in the Board

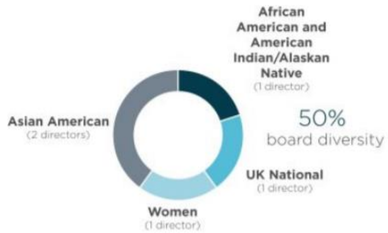


Source: *Author analysis.*

Evoqua's ten-member Board is chaired by an independent Director, and 100% of the committee members are independent. Only three of the directors lack independence – the CEO and two Directors who are affiliated with their former private equity sponsor, AEA Investors LP.

Fifty percent of Board members self-identify as diverse in terms of race, ethnicity, or gender. One Board member is a national of, and lives and works in, the United Kingdom, one director is a woman, two directors are Asian American, and one director is African American and American Indian (Figure 13).

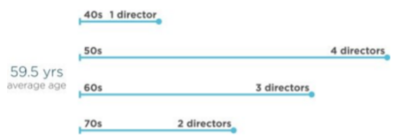
Figure 13. Evoqua´s Board Diversity



Source: *Evoqua´s Proxy Statement 2021.*

Board members range in age from 42 to 73, and the average age on the Board is 59.5. Evoqua's Board actively considers racial, ethnic, and gender diversity when recruiting potential Director candidates (Figure 14).

Figure 14. Evoqua´s Distribution of Age Diversity

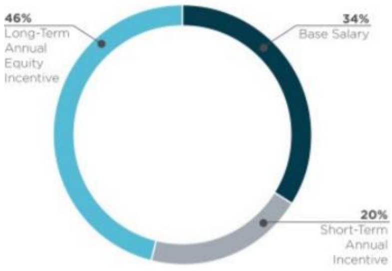


Source: *Evoqua´s Proxy Statement 2021.*

The Board of Directors has the following standing committees: Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. Evoqua's Directors are engaged, and the average attendance rate for meetings of the full Board and Audit Committee was 100%. The Compensation Committee's and Nominating and Corporate Governance Committee's average attendance meeting rates were 97% and 95%, respectively. Nonmanagement Directors hold executive sessions without members of Evoqua management present following most Board meetings.

The full Board of Directors has oversight of the company's sustainability priorities and the overall execution of its sustainability program. The balance of power within the Company is thereby ensured by stable and structured governance, with a high proportion of independent directors, the nomination of a Lead Independent Director to the Board of Directors and its Committees.

Figure 15. Average of Other Evoqua Named Executive Officers Target Compensation



Source: *Evoqua´s Proxy Statement 2021.*

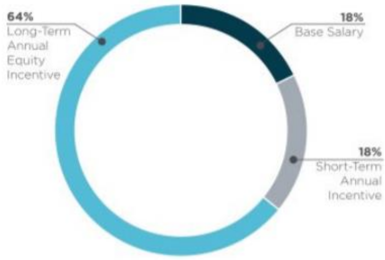
Executive Officers

The corporation's officers oversee the business' daily operations, and in their different roles they are given legal authority to act on the corporation's behalf in almost all lawful business-related activities.

As of January 1, 2021, Evoqua's executive officers were:

- Ron C. Keating, 52, President, Chief Executive Officer and Director.
- Benedict J. Stas, 53, Executive Vice President, Chief Financial Officer and Treasurer.
- Rodney O. Aulick, 53, Executive Vice President, Integrated Solutions and Services Segment President.
- Snehal A. Desai, 57, Executive Vice President, Chief Growth Officer.
- Hervé P. Fages, 51, Executive Vice President, Applied Product Technologies Segment President.
- Vincent Grieco, 52, Executive Vice President, General Counsel and Secretary.
- James M. Kohosek, 62, Executive Vice President, Chief Administrative Officer;
- Anthony J. Webster, 52, Executive Vice President, Chief Human Resources Officer.

Figure 16. Evoqua´s CEO Target Compensation



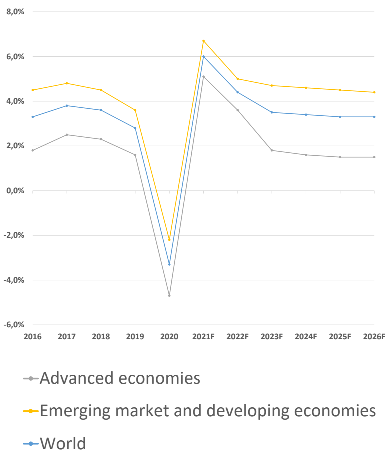
Source: *Evoqua´s Proxy Statement 2021.*

The Compensation Committee oversees the Company's compensation program and the compensation awarded to the executive officers; adopts changes to the program; and awards compensation as appropriate to reflect the Company's circumstances and to promote the main objectives of the program. These objectives include attracting and retaining top-level, talented leaders who reflect their culture of high performance, growth and accountability; motivating leaders to create long-term value for stockholders; and aligning pay to performance.

Approximately 66-82% of executives' compensation is variable compensation, and 18-20% of executives' compensation is tied directly to specified performance goals (Figure 15). For instance, the CEO compensation results from a base salary, plus a short-term annual incentive and a long-term annual equity incentive (Figure 16).

In the past year Evoqua's Named Executive Officers have achieved the targeted strategic objectives (Appendix 10).

Figure 17. World GDP Real Growth (Annual percent change)



Source: *IMF (2021).*

4. Industry Overview and Competitive Positioning

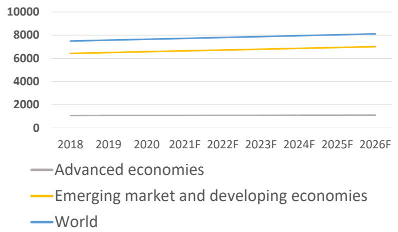
World Economic Outlook

World GDP Growth

The contraction of activity in 2020 was unprecedented in living memory in its speed and synchronized nature. According to the latest IMF (International Monetary Fund) forecast, after an estimated contraction of –3.3% in 2020, the global economy is projected to grow at 6% in 2021, moderating to 4.4% in 2022. The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook, reflecting the higher-than-expected growth. The projections for 2021 and 2022 are 0.8 percentage point and 0.2 percentage point stronger than in the previous forecast, and the upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility (Figure 17).

Its undeniable that high uncertainty surrounds the global economic outlook, one year into the COVID-19 pandemic, related to the effectiveness of policy support to provide a bridge to vaccine-powered normalization, the evolution of financial conditions and the path of the pandemic itself.

Figure 18. World Population (millions of people)

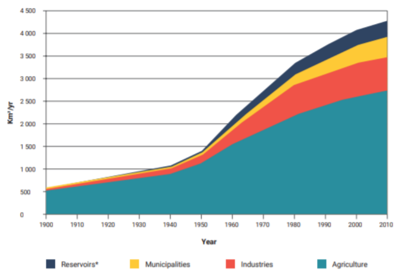


Source: *IMF (2021).*

World Population

The world's population is continuously rising and has nearly tripled since 1950. In 2020, the total world population was 7644,84 million people. It is expected that population growth keeps stable in the following years, at a 0.99% annual growth rate, reaching the 7721,17 million in 2021F and 7798,12 million people in 2022F (Figure 18). However, mainly due to the rapid growth of developing countries, the human population will continue to grow in the coming decades and is expected to exceed approximately 10.87 billion by 2100 according to a global population forecast by the United Nations.

Figure 19. Global Water Withdraws 1900-2010



Source: *UNESCO (2021).*

World Water Demand

As reported by The United Nations, global freshwater use has increased by a factor of six over the past 100 years and continues to grow at a rate of roughly 1% per year since the 1980s (Figure 19). While the rate of increase in freshwater use had tapered off in most Member States of the Organization for Economic Co-operation and Development (OECD), where per capita water uses rates tend to be among the world's highest, it continues to grow in the majority of the emerging economies, as well as in middle- and lower-income countries. Much of this growth can be attributed to a combination of **population growth**, **economic development** and shifting **consumption patterns**.

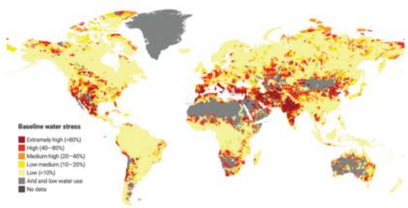
Studies attempting to project trends in future water use have yielded varying results. For example:

• The 2030 Water Resources Group (2009) concluded that the world would face a 40% global water deficit by 2030 under a business-as-usual scenario.

• The OECD (2012) projected that global water demand would increase by 55% between 2000 and 2050.

• Burek et al. (2016) estimated that global water use would likely continue to grow at an annual rate of about 1%, resulting in an increase of 20 to 30% above the current level of water use by 2050.

Figure 20. Annual Baseline Water Stress

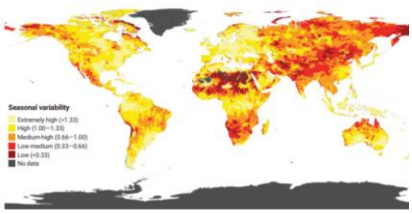


Source: *UNESCO (2021).*

World Water Supply

According to The United Nations, over two billion people live in countries experiencing water stress. Water stress is essentially measured as water use as a function of available supply, and it affects many parts of the world (Figure 20).

Figure 21. Seasonal Variability in Available Water Supply



Source: *UNESCO (2021).*

However, physical water stress is often a seasonal rather than an annual phenomenon, as exemplified by the seasonal variability in water availability (Figure 21).

Climate change is likely to increase seasonal variability, creating a more erratic and uncertain water supply, thus exacerbating problems in already water-stressed areas, and potentially generating water stress in places where it has not yet been a recurring phenomenon.

UNESCO (United Nations Educational, Scientific and Cultural Organization) reported that an estimated four billion people live in areas that suffer from severe physical water scarcity for at least one month per year, and that about 1.6 billion people face 'economic' water scarcity, which means that while water may be physically available, they lack the necessary infrastructure to access that water.

Several of the world's main aquifers are under increasing stress and 30% of the largest groundwater systems are being depleted. Water withdrawals for irrigation are the primary driver of groundwater depletion worldwide.

Water and Wastewater Industry Overview

Industry Structure

The water and wastewater industry core activities are focused on developing equipment, technologies, and delivering services that aim to supply, treat, and control clean water and wastewater through a network of infrastructures. This industry has been creating several water solutions that fit a wide range of consumers, from massive public institutions to unique residential customers. Besides, the water industry helps to leverage other underlying industries, boosting the economy while contributing positively to social and environmental causes, that will impact the present and future generations. The water value chain comprises a continuous cycle divided into several stages, from water withdrawal from the natural environment through to wastewater sanitation at the end of the cycle (Appendix 11).

The market is rather fragmented, but is considered to be structured in an Oligopoly, composed by a small set of large players that influence the direction of the market and by several small companies, and with high barriers to entry. Water and Wastewater industry is at a mature stage on its life cycle.

M&A Activity

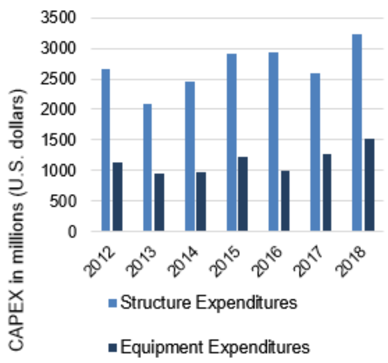
Both the water utilities segment and the infrastructure equipment and services sector within the water and wastewater industry have steady merger and acquisition (M&A) activity, with more activity expected as the need for capital investment is becoming critical and appropriate funding options are limited. Acquisition activity in the water utilities sector is driven by the fact that the market is highly fragmented, resulting in opportunities for efficiencies through **consolidation**. Many of the largest players in this industry are implementing a growth-through-acquisition strategy, targeting small water and wastewater systems operating in adjacent markets and tucking-in these additions to their overall systems.

Industry Trends

The rising scarcity of potable water, coupled with the growing population and increasing water demand, is the major concern that has been driving the demand in the water and wastewater industry.

Constant investment in water-related services is expected, once the industry demands for constant maintenance and investment in new equipment and

Figure 22. CAPEX for Water-related Services in U.S.



Source: *Statista*

technology, to provide clean, fresh water to all citizens. This trend is expected to prevail, more over in the amid of a “Go green” and strive for sustainability trend (Figure 22).

North America and Europe are adopting the latest technologies in wastewater treatment at a faster rate than in other regions. The developed regions of North America and Europe are expected to continue the momentum of adaptation of the latest technologies. Whereas the Asia-Pacific region, China, India, and ASEAN (The Association of Southeast Asian Nations) countries are likely to witness significant demand due to an increase in urbanization. As an example, in its 13th Five-Year Plan, China announced an investment of USD 48 billion for urban wastewater treatment. With municipal wastewater being the largest source of urban wastewater generated, the demand for water treatment technologies is expected to increase rapidly.

Water and Wastewater Industry Drivers of Profitability

Growing global demand for clean water, more stringent regulatory issues, and increasing environmental concerns make water and wastewater treatment systems more relevant than ever. Rapid **population growth** and **urbanization**, growing demand for new water resources, rising focus on water quality and public health, increasing prevalence of water borne diseases, **increase in agricultural development, industrial demand**, and stringent governmental regulations on treating wastewater also aids in the growth of this industry. Moreover, growing focus on sewage treatment in the countries like the U.S., China, and India; and potable water for small communities provide significant opportunities in this market.

Other than that, **commodities** such as steel, caustic, carbon, calcium nitrate and iridium’s prices and availability also affect companies cost structure and therefore profitability. Due to aging infrastructures, the water industry around the world faces a preponderant problem coming from Non-Revenue Water (NWR) losses. NWR is water that is lost due to leaks in the pipes, unauthorized use, corruption, or inefficiencies. Globally, 34% of all the water supplied becomes NWR, and losses from leaks are accounted for lost amounts up to $39 billion per year. Consequently, water treatment companies need to improve their operational efficiency, by modernizing the infrastructures, optimizing their distribution channels, and developing new measurement & control technologies. Allowing companies to reduce their operational expenses and supply chain inefficiencies, which will create higher operating margins and higher revenues.

Competitive Positioning

Peers Identification

Considering that the peer group should contemplate companies in the same industry, with similar characteristics, the following companies were chosen considering companies within the same industry, with headquarter located in same country and similar capital structure: Eaton Corporation Plc, Emerson Electric Co, Johnson Controls International Plc, Trane Technologies Plc, Carrier Global Corp, Parker-Hannifin Corp, Otis Worldwide Corp, Rockwell Automation Inc, Ametek Inc, Fortive Corp (Figure 23).

Figure 23. Peer Companies Market Cap

Ticker	Industry	Market Cap ($M)
AQUA	Environmental Services & Equipment	3.849
ETN	Electrical Components & Equipment	60.644
EMR	Electrical Components & Equipment	57.589
JCI	Electrical Components & Equipment	49.389
TT	Electrical Components & Equipment	44.778
CARR	Electrical Components & Equipment	41.755
PH.N	Industrial Machinery & Equipment	39.780
OTIS	Heavy Electrical Equipment	36.082
ROK	Electrical Components & Equipment	33.372
AME	Electrical Components & Equipment	30.719
FTV	Industrial Machinery & Equipment	23.551

Source: *Author analysis; Reuters.*

Peers’ strategy

Given the arising of technologies due to the necessity of new ways of reutilizing water, companies are constantly investing in R&D seeking innovative techniques that allow them to implement a business model driven by not only the supply of purer water but also in the increase of their efficiency and the reduction of costs in the process

SWOT Analysis

Figure 24. SWOT: Evoqua Water Technologies LLC

Strengths

- **World-class expertise.**
- **Broad portfolio of products.**
- **Regulatory and environmental compliance.**
- More than 100-year heritage of innovation and industry firsts, market-leading expertise, and unmatched customer service.
- **Entrepreneurial culture:** which allows company to quickly develop or acquire solutions to proactively protect their customer business and end users.
- **Strong M&A strategy:** growth through acquisitions.
- **Mobile water treatment fleets:** one of the largest in North America.
- **Large customer market:** Evoqua offers water & wastewater treatment solutions for industrial, municipal & recreational facilities.
- **Water reuse and recycling technologies**, such as UV disinfection systems (which help to provide a safe alternative water supply), reverse osmosis, ion exchange, granular active carbon, and oxidation processes. Important to remove chemicals including PFAS (aka "forever chemicals") from water

Weaknesses

- **Holding company with no operations of their own:** depends on subsidiaries for cash.
- **Reliance, in part, on third party sales representatives:** the failure of these representatives to perform as expected could reduce future sales.
- **Increasingly dependent on the operation of information technology systems:** a disruption of these systems could materially adversely affect business.
- **Dependence on the supply of goods or services from third parties:** significant or prolonged disruptions in the supply of goods or services could materially adversely affect business, financial condition, results of operations or prospects.
- **Exposure to litigation, regulatory or enforcement actions and reputational risk.**
- **Foreign, federal, state, and local environmental, health and safety laws and regulations** impose substantial compliance requirements on operations. Operating costs could be significantly increased to comply with new or stricter regulatory standards imposed.
- **Contracts with federal, state, and local governments:** may be terminated or adversely modified prior to completion.

Opportunities

- **Smart water network**: utilities can communicate with consumers to help them save energy and reduce costs. This is a big opportunity as there are only a handful of big players that dominate it.
- **Heightened awareness from government and green government drive.**
- **Artificial intelligence, and predictive technology:** for example, to prepare for changes in temperatures or climate conditions.
- **Trends such as:**
  - **Circular economy:** maximizing water reuse. Growth in demand for recycle and reuse water technologies
  - **More efficient use of energy and water resources:** traditional water treatment can be energy intensive.
  - **Product miniaturization and decentralized systems:** Intelligent controls and modular design can bring more efficiency.

Threats

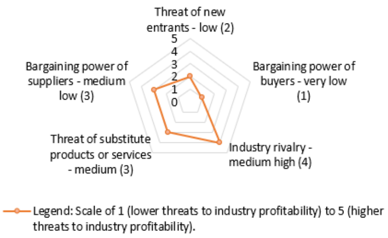
- **Technological development by competitors.**
- **Emerging contaminants.**
- **Climate changes.**
- **Booming global population.**
- **Water is a critical yet finite resource:** the world is facing critical water shortages. People are already dying from lack of clean water and sanitation and the situation is expected to get worse.
- **COVID 19:** impact on the health and safety of employees, customers, supply chain partners and communities.

Source: *Author analysis*

Porter's 5 Forces

Considering the Porter's 5 Forces Framework, the highest threat identified in the industry is the rivalry among existing competitors (Figure 25).

Figure 25. Porter´s Five Forces



Source: *Michael E. Porter framework; Author analysis*

Threat of new entrants | LOW (2)

New entrants bring innovation, new ways of doing things and put pressure on existing companies through lower pricing strategy, reducing costs, and providing new value propositions to the customers. However, the threat of new entrants in the Water & Wastewater Treatment industry is considerably low, given that:

- **Severe laws and regulations:** that apply and impose substantial compliance requirements.
- **Need of high initial investment.**
- **High capital requirements needed:** given the core business of the industry and due to the technologies, cost structure, and R&D needs (for new technologies and products).
- **Huge infrastructure:** necessary to operate in the industry, since traditional water treatment is very intensive in cost and energy.
- **Huge players in the market:** with strong M&A tendency, usually acquire smaller players with new technologies as a growth strategy.

Bargaining power of suppliers | MEDIUM-LOW (3)

The overall impact of higher supplier bargaining power is that it lowers the overall profitability of Water Utility companies. Below, some factors regarding the bargaining power of suppliers:

- **Existence of numerous suppliers:** from which players in the industry can buy raw materials.
- **Few suppliers have dominant positions:** this can decrease the margins that one particular firm can earn in the market. Besides, significant or prolonged disruptions in the supply of goods or services could materially adversely affect business.
- **Negotiating power:** some suppliers might be able to extract higher prices from the companies in the field.
- **Market Growth:** with growing water demand, new suppliers may enter the market.
- **Switching Costs:** with a notable number of suppliers, switching costs are not high for buyers.

Bargaining power of buyers | VERY LOW (1)
Bargaining power of buyers is considered very low, because of the following factors:

- **Large, growing, and fragmented customers' market:** companies in this industry offer products and services for industrial, municipal, and recreational customers among several sectors.
- **No single customer accounts for a big part of the company's revenues.**
- **Small number of significant competitors:** there is a big geographic dispersion in the industry.
- **Long term contracts:** common and may diminish the bargaining power of buyers due to the high costs that come with it.
- **Generally, no price sensitivity:** due to expensive and complex products and services, which makes it hard to be substituted. Nevertheless, there might be some pricing sensitivity regarding service fees once competitors might differentiate their service costs.

Threat of substitute products or services | MEDIUM (3)
The threat of substitute products or services can be considered from low to medium, given that:

- **New technologies:** arising number of innovations regarding more efficient solutions for water treatment can substitute existing options. As an example, new software to analyze and collect data, that is, more precise information to effectively treat the water.
- **Cost differentiation:** competitors may be capable of offering similar solutions at cheaper costs.
- **Better water qualities:** with new technologies coming up, the water treatment becomes more and more precise, in other words, the possibility to deliver purer water (less impure substances) to the final customer becomes a differential among the competitors.
- **Water Consumption:** new ways of providing water to the people. For example, awareness regarding the future of the planet made some customers change their consumption of water in a plastic bottle for paper bottles.

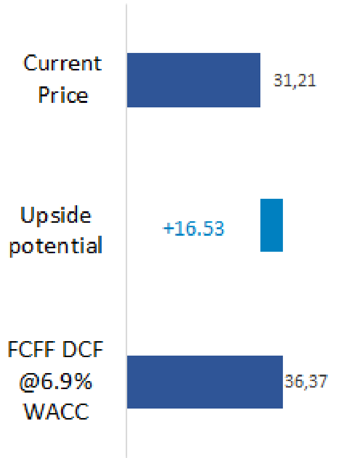
Industry rivalry | MEDIUM-HIGH (4)
The intensity of rivalry in the industry can be considered medium-high, because:

- **Market is moderately fragmented:** the market share is divided among a large number of players, which means it is a highly competitive market. Industry includes several regional and niche offering focused competitors.

- **Competition** is largely based on product performance, reliability and innovativeness of products, services and solutions, application expertise and process knowledge, brand reputation, energy and water efficiency, product compliance with regulatory and environmental requirements, product lifecycle cost, scalability, timeliness of delivery, the proximity of service centers to customers, effectiveness of distribution channels and price.
- **Within segments** there is competition with a fragmented range of companies, but there are no individual key competitors.
- **Growing industry:** new players may enter the market and intensify competition for market share.
- **Presence of huge players:** that may try to increase their market share and have access to more capital and better technologies.
- Difficult to **exit the market** due to the high investments and costs of the process.

5. Investment Summary

Figure 26. Evoqua 2022YE PT



Source: *Author analysis*

EVOQUA has a BUY recommendation, with a 2022YE PT of $36.37/share, meaning an upside potential of 16.5%, against the closing price of $31.21 on July 16th, 2021, with low risk (Figure 26).

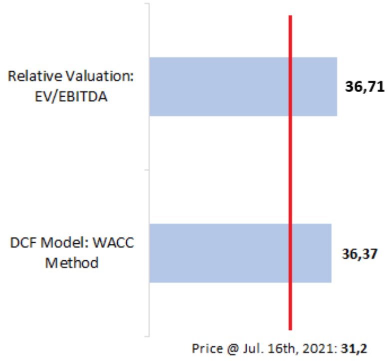
The current undervaluation of EVOQUA shares can be mainly explainable due to the current economic scenario and the general impact brought upon COVID-19 pandemic. However, EVOQUA revenues have grown at +5.88% 2016-2020 CAGR and are expected to grow at a +3.89% CAGR 2020-2025F.

Valuation methods

Similar PT was obtained through both DCF WACC Method and relative market-based valuation method using EV/EBITDA, ranging from $36.37/share to $36.71/share (Figure 27).

The application of P/E and EV/EBIT multiples however, resulted in lowest PT, reaching the values of $15.28/Share and $22.71/Share. This can be explained by the fact that the use of the industry average overlooks the fact that companies, even in the same industry, can have drastically different expected growth rates, returns on invested capital, and capital structures (Goedhart, Koller & Wessels, 2005). Growth increases the P/E multiple only when combined with healthy returns on invested capital, and both can vary dramatically across companies, and this leads to the conclusion that the P/E multiple isn't meaningful.

Figure 27. Valuation Methods PT Comparison vs Current Price ($/share)



Source: *Author analysis*

Investment risks

Investors must be aware that EVOQUA business is subject to several risks that management cannot directly control, relying its action on mitigation measures.

Regarding this, it is important to mention that EVOQUA stock price has a high sensitivity to environmental and natural factors (e.g., adverse weather conditions and natural disasters), as well as an impact caused by laws and regulations.

6. Valuation

WACC Method Approach

The method chosen to compute EVOQUA's Price Target (PT) was a two-stage DCF, with a detailed FCFF projection from 2021 to 2025 and a stable growth rate for the perpetual period. This approach yields a 2022YE PT of $36.37/share meaning a upside potential of 16,53% against the current stock price of $31.21/share.

The main factors that influence this valuation are i) the business revenues growth, ii) WACC rate assumptions and iii) the terminal value and the long-run sustainable growth rate.

Revenue's growth

Considering that currently EVOQUA's strategic goals aim an organic sales growth of 3 to 5% in 3 to 5 years, and the company has a solid history of growth through M&A activities, with a historical CAGR of 5,88% in revenues from 2016 to 2020, the assumption of 2% to 5,5% YoY growth, achieving 3,89% CAGR seemed to be reasonable for the forecasted years from 2021 to 2025, given the current expectations due to the COVID-19 impact on economy.

WACC rate assumptions

The discount of the FCFF followed the WACC method given that is assumed a stable capital structure for EVOQUA.

The estimated Cost of Equity comprises a 1.424% RFR estimated through the 10-year maturity yields of US Treasury (Appendix 12) and an 8.7% ERP computed by historical premium based on rating default spread through operation-based CRP approach (Appendix 14).

The beta was estimated from an industry average benchmark, and the chosen beta was 1.84, estimated by Bloomberg as of July 2021 (Appendix 13).

The Cost of Debt of 3.5% was estimated through the historical average interest rate, i.e. dividing the estimated 2022F Interest expense by Debt (Appendix 15). Therefore, it was estimated a 6.9% WACC for the business (Appendix 16).

Terminal value and long-run sustainable growth rate

The second stage from the DCF model consists of a perpetuity based on:

1. A normalized FCFF for the terminal period, to flatten the business cycle effect, obtained through a linear regression over the forecasted years (Appendix 17); and,
2. A long-run sustainable growth rate computed through a Stable Growth Model considering EVOQUA's Reinvestment Rate and ROE (Appendix 18).

Relative Valuation

In addition to the previous model, a market-based valuation was performed through the peer group comparison of market multiples. In this methodology, the following multiples were used (Appendix 21):

- The EV/EBITDA, with a peer average of 17.06x, resulting in an Evoqua EV of $4.62Bn, corresponding to an Equity value of $4.39Bn, or a price target of $36.71/share in 2022YE;

- The EV/EBIT, with a peer average of 19.97x, resulting in an Evoqua EV of $2.9Bn, corresponding to an Equity value of $2.72Bn, or a price target of $23.81/share in 2022YE; and,
- The P/E, with a peer average of 24x, resulting in an Evoqua Equity value of $1.8Bn, or a price target of $15.28/share in 2022YE.

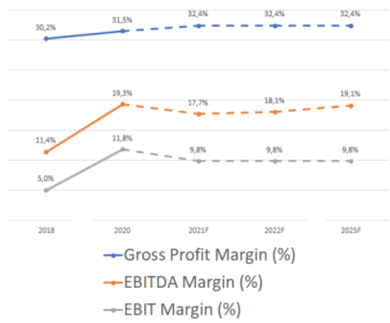
7. Financial Analysis

Operational Efficiency

Evoqua had an increase in sales from $1.137.196 to $1.429.456 thousands over the 2016-2020 period, meaning a 5.88% CAGR after an upward trend, to $ 1.730.148 thousands in 2025F, with CAGR slowing down to 3.89% given the uncertainty of economic evolution that was already mentioned. Evoqua is able to register relatively stable operational efficiency, with an Asset Turnover from 0.8x in 2020 to 0.78x in 2025F, passing by lower ratios in 2021F and 2022F, and recovering afterwards given the impact caused by COVID-19.

Regarding the EBIT Margin, it rose from 5% to 11.8% in 2018-2020 period and is expected to decrease slightly and stabilize at 9.8% in the forecasted years (Figure 28).

Figure 28. Business Margins



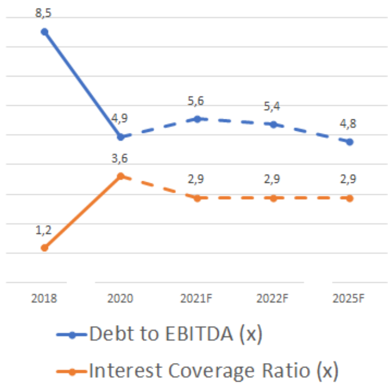
Source: *Author analysis*

Solvency and Capital Structure

Given the higher business performance, Evoqua improved its solvency ratios, with an increase in the Interest Coverage Ratio from 1.2x to 3.6x in 2018-2020 and is expected to stabilize around 2.9x until 2025F. The Debt to EBITDA ratio also has improved significantly from 8.5x to 4.9x in 2018-2020 period and to 4.8x in 2025F (Figure 29).

Evoqua's capital structure is expected to be relatively stable. After decreasing from 78% to 74% in the 2018-2020 period, the Debt Ratio is expected to decrease slightly more to 71% in 2025F. The Long-Term Debt to Capitalization Ratio has been improving also, decreasing from 72% to 64% in 2018-2020 period, and further to 61% in 2025F (Figure 30).

Figure 29. Solvency Indicators



Source: *Author analysis*

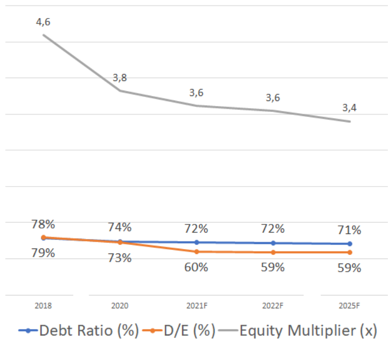
Profitability Ratios

From 2018-2020, Evoqua has reliable improving numbers, and is expected to go through a consolidation in the forecasted period. The Gross Profit Margin went from 30.2%, to 31.5% in 2020, and 32.4% in 2025F, and the Net Profit Margin from 0.6% in 2018, to 8% in 2020, reaching 5,1% in 2025F.

Evoqua's ROE rose from 2,2% to 23.7% in 2018-2020 period and is expected to remain stable around 13.4% until 2025F.

Both ROIC and ROCE show significant improvement in 2018-2020 period and a slight decrease and stability in the projected periods (Appendix 4).

Figure 30. Capital Structure Ratios



Source: *Author analysis*

Cash Generation

Evoqua has shown increasing cash ratio from 0.29x to 0.55x in 2018-2020 period and is expected to reach 0.95x in 2025F, and the Cash Cycle remains stable at around 145 days.

The net Cash provided by Operating Activities improved from $81.017 thousand to $158.358 in 2018-2020 period and to $242.034 thousand at 2025F, meaning an 8.85% CAGR in the forecasted period.

8. Investment Risks

EVOQUA's business is subject to several risks, such as macroeconomic risks, political and regulatory risks, environmental and natural risks, financial and operational risks. Management cannot directly control all of these; therefore, investors must be aware that risks should be considered (Figure 31).

Figure 31. Risk Matrix

Source: *Author analysis and estimation*

Macroeconomic Risks

World GDP (ME01)

According to the latest World Economic Outlook report released by the IMF, world gross domestic product is expected to shrink 4.4% this year (2020). Global economic and financial market conditions affect the demand for clean water and the demand for water technology products. Consequently, this will have an impact in the revenues, operating results, cash flow, and financial condition of the firms in the Water & Wastewater Treatment industry.

Inflation and Tariffs (ME02)

Operating costs and financial results are directly impacted by fluctuations in the prices of raw materials, commodity, and related utilities. If the inflation rate increases this will negatively impact the firm's financial health. Moreover, freight cost is also an important variable to consider. An increase in tariffs will also cause a negative impact in the firm's results.

Political and Regulatory Risks

Geopolitical Instability (PR01)

Due to the globalization of the firms acting in the Water & Wastewater Treatment industry, economic nationalism, protectionism, populism, and anti-global sentiment are risks that may create instability and uncertainties in the market. An example of that is the retaliatory tariffs imposed by China and other countries after the United States put in place tariffs on imported goods coming from China. Another example is volatility in the foreign exchange rate caused by the exit of the UK from the EU and its uncertainties relating to agreements regarding trade in the future.

Furthermore, by having business in emergent and developing markets, firms incur the risk of not being able to enforce agreements, collect receivables, protect intellectual property and so on.

Laws, Regulations and Environmental Policies (PR02)

Due to the firm's global operations, they are subject to changing US and non-US laws, regulations, and policies related to export and import compliance, privacy and data protection, product design and specification, and others. Moreover, increasing environmental regulations imposed by regulatory agencies like the United States Environmental Protection Agency and similar state and foreign environmental agencies is an important risk to consider in this industry of interest. Such regulations may be related to discharge of pollutants, hazardous substances, and CO_2 emission.

Environmental and Natural Risks

Weather Conditions and Climate Change (EN01)

The weather is becoming more and more unpredictable as a result of climate change. More frequent droughts, flooding, wildfires, and strong temperature fluctuations may positively or negatively impact firms in the Water Treatment industry. It may be the case that such events will benefit some portions of their business whilst at the same time affecting others. This environmental concerns may also cause volatility for customers and suppliers' operations. This could affect financial results and cause increasing uncertainty on its prediction.

COVID-19 (EN02)

The outbreak of the coronavirus in March 2020 initiated a considerable economic disruption, uncertainty, and volatility. Moreover, the pandemic increased forecasting uncertainty regarding financial statements. The magnitude, geographic reach, duration, and impact on the world's economy caused by the coronavirus affects the current and future growth, projections, operation, cash flows, and liquidity of the market participants in this industry.

Financial and Investment Risks

Foreign Exchange Rates (FI01)

Whilst doing business in multiple countries, the firms acting in this industry are exposed to fluctuations in foreign exchange rates. The change in the value of the currencies where these firms do business with relative to the U.S Dollar may affect the firm's ability to be competitive by adversely affecting its sales growth or cost structure.

M&A's (FI02)

If the firm's growth strategy includes growth through acquisitions it may happen that they cannot identify suitable candidates or lose an acquisition to a competitor. Moreover, acquisitions involve numerous risks. Examples are time associated with identifying and evaluating potential acquisitions, using inaccurate estimates to evaluate credit, liquidity, management and market risks, and an adverse impact on the existing business resulting from the acquisition.

Operational Risks

Cyber Threats (OP01)

Businesses are increasingly relying on information technology and communication networks to operate efficiently. Much of the infrastructure is owned by third parties in which confidential business information is transmitted, creating then a leaking risk. Furthermore, even with protection measures in place, these systems are susceptible to disruption due to cyber-attacks or security breaches.

Supply Chain and Material Availability (OP02)

Firms rely on third party suppliers and its availability of specific components and specific materials. Changes, interruptions, or the exit of these suppliers, may decrease the availability of key components in which the firm may rely. Firm's facilities and operations rely complex supply chain and logistics networks. Therefore, disruptions in these areas are considered as an operational risk.

Price Target Sensitivity

A simulation combining effects to assess the Price Target sensitivity to a different range of factors was performed, considering the risks previously stated, and the strength of the investment recommendation against the benchmark (Figure 32).

Figure 32. Investment Recommendation System

Level of Risk	High Risk	Medium Risk	Low Risk
SELL	0%≤	-5%≤	-10%≤
REDUCE	>0% & ≤10%	>-5% & ≤5%	>-10% & ≤0%
HOLD/NEUTRAL	>10% & ≤20%	>5% & ≤15%	>0% & ≤10%
BUY	>20% & ≤45%	>15% & ≤30%	>10% & ≤20%
STRONG BUY	>45%	>30%	>20%

Source: *Author analysis and estimation*

Cost of Capital (WACC) vs. Long-run sustainable growth rate (g)

The long-run sustainable growth rate, that is set on 3.6% in the base case, could lead to an increase (decrease) of PT in ~$0.9-1.3/share for each decrease of 10bps (all other things equal). PT and WACC rate however do not have a linear relationship. For every increase of 10bps in the WACC rate, that is set on 6.9% in the base case, PT will decrease ~$1.03-1.15/share, and for every decrease of 10bps, the PT will increase from ~$1.22-1.49/share, all other things equal (Figure 33).

Figure 33. Cost of Capital (WACC) vs. Long-run Sustainable Growth Rate (g)

Cost of Capital (WACC) vs. Long-run sustainable growth rate (g)									
	Long-run sustainable growth rate (g)								
	36,37	3,3%	3,4%	3,5%	3,6%	3,7%	3,8%	3,9%	4,0%
WACC	7,2%	30,53	31,34	32,19	33,17	34,04	35,05	36,12	37,25
	7,1%	31,40	32,25	33,15	34,20	35,12	36,19	37,32	38,53
	7,0%	32,32	33,22	34,17	35,28	36,26	37,40	38,61	39,90
	6,9%	33,28	34,24	35,25	36,43	37,47	38,68	39,98	41,36
	6,8%	34,31	35,32	36,40	37,65	38,76	40,06	41,44	42,93
	6,7%	35,39	36,47	37,61	38,95	40,13	41,52	43,01	44,61
	6,6%	36,54	37,69	38,91	40,33	41,60	43,10	44,70	46,43
	6,5%	37,76	38,98	40,29	41,82	43,18	44,79	46,52	48,38

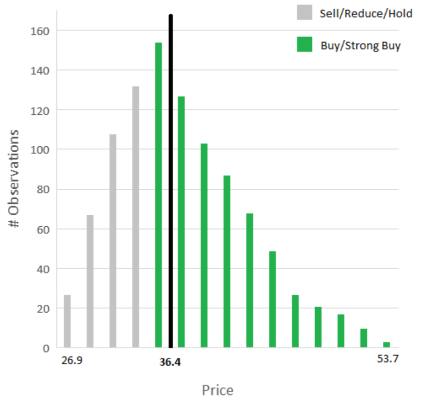
Source: *Author analysis.*

Monte Carlo Simulation

A Monte Carlo Simulation with 1000 interactions was made, as a complementary analysis on PT sensitivity. It considered the simultaneous changes in the following key value drivers: i) the Cost of Capital (WACC), ii) the long-run sustainable growth rate (g), iii) revenues growth rate, and iv) the corporate tax rate.

From this analysis results a mean value of $36.80, consistent with the previously estimated PT, and 64% of Buy/Strong Buy probability, supporting the stated Buy recommendation (Figure 34).

Figure 33. Monte Carlo Simulation Output



Source: *Author analysis.*

Appendices

Appendix 1: Statement of Financial Position

		HISTORICAL STATEMENTS (in thousands of USD)									
Period Reference		1	2	3	4	5	6	7	8	9	10
End of Period	*Type*	2016	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
NON-CURRENT ASSETS											
Property, plant and equipment, net		N/A	280.043	320.023	333.584	364.461	385.104	397.012	398.478	387.472	362.322
Goodwill		N/A	321.913	411.346	392.890	397.205	397.205	397.205	397.205	397.205	397.205
Intangible assets, net		N/A	333.746	340.408	314.767	309.967	348.629	359.088	373.452	392.124	413.691
Deffered income taxes, net of valuation allowance		N/A	2.968	2.438	2.790	3.639	3.163	3.258	3.388	3.557	3.753
Operating lease right-of-use assets, net						45.965	45.965	45.965	45.965	45.965	45.965
Other non-current assets		N/A	22.399	23.842	25.715	27.509	29.460	31.549	33.786	36.182	38.748
Non-current assets held for sale		N/A	N/A	N/A	30.809	N/A	N/A	N/A	N/A	N/A	N/A
Total non-current assets		N/A	**961.069**	**1.098.057**	**1.100.555**	**1.148.746**	**1.209.526**	**1.234.077**	**1.252.274**	**1.262.506**	**1.261.684**
CURRENT ASSETS											
Receivables, net		N/A	245.248	254.756	257.585	260.479	272.412	280.585	291.808	306.399	323.251
Inventories, net		N/A	120.047	134.988	137.164	142.379	138.694	150.811	150.274	165.865	167.662
Contract assets		N/A	66.814	69.147	73.467	80.759	77.473	79.797	82.989	87.139	91.931
Prepaid and other current assets		N/A	20.046	23.854	21.940	18.715	22.658	23.337	24.271	25.484	26.886
Income tax receivable		N/A	831	450	N/A	379	379	379	379	379	379
Assets held for sale		N/A	N/A	N/A	37.256	N/A	N/A	N/A	N/A	N/A	N/A
Cash and cash equivalents		N/A	59.254	82.365	109.881	193.001	260.607	254.831	272.792	328.374	367.757
Total current assets		N/A	**512.240**	**565.560**	**637.293**	**695.712**	**772.223**	**789.741**	**822.513**	**913.640**	**977.866**
TOTAL ASSETS		N/A	**1.473.309**	**1.663.617**	**1.737.848**	**1.844.458**	**1.981.749**	**2.023.818**	**2.074.788**	**2.176.147**	**2.239.550**
SHAREHOLDERS' FUNDS											
Common stock		N/A	1.054	1.145	1.154	1.189	1.871	1.948	2.036	2.137	2.248
Treasury stock		N/A	(2.607)	(2.837)	(2.837)	(2.837)	(4.595)	(4.783)	(4.999)	(5.247)	(5.519)
Additional paid-in capital		N/A	388.986	533.435	552.422	564.928	555.366	508.874	463.081	417.551	370.740
Retained deficit		N/A	(170.006)	(163.871)	(174.976)	(62.664)	4.710	74.105	146.277	222.056	302.004
Accumulated other comprehensive loss, net of tax		N/A	(5.989)	(9.017)	(13.004)	(20.472)	(16.234)	(16.897)	(17.662)	(18.539)	(19.499)
Total Evoqua Water Technologies Corp. equity		N/A	**211.438**	**358.855**	**362.759**	**480.114**	**541.119**	**563.247**	**588.732**	**617.959**	**649.973**
Non-controlling interests		N/A	5.137	3.161	3.063	1.919	6.130	6.380	6.669	7.000	7.363
Total shareholders' equity		N/A	**216.575**	**362.016**	**365.822**	**482.063**	**547.249**	**569.628**	**595.401**	**624.959**	**657.336**
NON-CURRENT LIABILITIES											
Long term debt, net of deferred financing fees		N/A	878.524	928.075	951.599	861.695	969.132	976.161	983.970	1.033.169	1.038.089
Product warranties		N/A	6.110	3.360	2.332	1.724	3.728	3.840	3.993	4.193	4.424
Obligation under operating leases						37.796	37.796	37.796	37.796	37.796	37.796
Other non-current liabilities		N/A	67.673	74.352	78.661	98.456	84.964	87.513	91.013	95.564	100.820
Deferred income taxes, net of valuation allowance		N/A	12.528	11.095	13.548	13.169	13.457	13.861	14.415	15.136	15.968
Non current liabilities held for sale		N/A	N/A	N/A	3.665	N/A	N/A	N/A	N/A	N/A	N/A
Total non-current liabilities		N/A	**964.835**	**1.016.882**	**1.049.805**	**1.012.840**	**1.109.076**	**1.119.170**	**1.131.188**	**1.185.858**	**1.197.097**
CURRENT LIABILITIES											
Accounts payable		N/A	114.932	141.140	144.247	153.890	144.128	148.452	154.390	162.110	171.026
Current portion of debt, net of deferred financing fe		N/A	11.325	11.555	13.418	14.339	13.496	13.901	14.457	15.180	16.015
Contract liabilities		N/A	27.124	17.652	39.051	26.259	29.280	30.158	31.365	32.933	34.744
Product warranties		N/A	11.164	8.907	4.922	6.115	8.487	8.742	9.092	9.546	10.071
Accrued expenses and other liabilities		N/A	121.923	97.672	101.839	143.389	124.469	128.203	133.331	139.998	147.698
Income tax payable		N/A	5.431	7.793	4.536	5.563	5.563	5.563	5.563	5.563	5.563
Liabilities held for sale		N/A	N/A	N/A	14.208	N/A	N/A	N/A	N/A	N/A	N/A
Total current liabilities		N/A	**291.899**	**284.719**	**322.221**	**349.555**	**325.424**	**335.020**	**348.198**	**365.330**	**385.117**
TOTAL LIABILITIES		N/A	1.256.734	**1.301.601**	**1.372.026**	**1.362.395**	**1.434.501**	**1.454.190**	**1.479.386**	**1.551.188**	**1.582.214**
TOTAL SHAREHOLDERS' FUNDS AND LIABILITIES		N/A	**1.473.309**	**1.663.617**	**1.737.848**	**1.844.458**	**1.981.749**	**2.023.818**	**2.074.788**	**2.176.147**	**2.239.550**

Appendix 2: Income Statement

	HISTORICAL STATEMENTS (in thousands of USD exept per share data)										
Period Reference	1	2	3	4	5	6	7	8	9	10	CAGR 20-25F
End of Period	2016	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	
Total Sales and Services Rendered											
Revenue from product sales	*587.087*	*718.098*	*802.302*	*851.161*	*839.857*	*836.237*	*861.324*	*895.777*	*940.566*	*992.297*	*3,39%*
Revenue from services	*550.109*	*529.326*	*537.239*	*593.280*	*589.599*	*621.808*	*640.463*	*666.081*	*699.385*	*737.851*	*4,59%*
Total revenue	**1.137.196**	**1.247.424**	**1.339.541**	**1.444.441**	**1.429.456**	**1.458.045**	**1.501.786**	**1.561.858**	**1.639.951**	**1.730.148**	*3,89%*
Cost of product sales and services											
Cost of product sales		*(449.641)*	*(582.606)*	*(615.171)*	*(588.264)*	*(560.279)*	*(577.087)*	*(600.170)*	*(630.179)*	*(664.839)*	*2,48%*
Cost of services		*(388.032)*	*(352.202)*	*(403.308)*	*(391.389)*	*(424.736)*	*(437.478)*	*(454.977)*	*(477.726)*	*(504.001)*	*5,19%*
Total costs of product sales and services	**(804.131)**	**(847.673)**	**(934.808)**	**(1.018.479)**	**(979.653)**	**(985.014)**	**(1.014.565)**	**(1.055.148)**	**(1.107.905)**	**(1.168.840)**	*3,59%*
Gross Profit	**333.065**	**399.751**	**404.733**	**425.962**	**449.803**	**473.031**	**487.222**	**506.710**	**532.046**	**561.308**	*4,53%*
General and administrative expense	*(144.771)*	*(169.617)*	*(193.816)*	*(217.013)*	*(192.597)*	*(196.439)*	*(202.332)*	*(210.425)*	*(220.946)*	*(233.099)*	*3,89%*
Sales and marketing expense	*(135.208)*	*(142.441)*	*(136.009)*	*(138.936)*	*(136.167)*	*(131.224)*	*(135.161)*	*(140.567)*	*(147.596)*	*(155.713)*	*2,72%*
Research and development expense	*(22.897)*	*(19.990)*	*(15.877)*	*(15.300)*	*(13.198)*	*(19.782)*	*(20.375)*	*(21.190)*	*(22.250)*	*(23.474)*	*12,21%*
Total operating expenses	**(302.876)**	**(332.048)**	**(345.702)**	**(371.249)**	**(341.962)**	**(347.445)**	**(357.868)**	**(372.183)**	**(390.792)**	**(412.286)**	*3,81%*
Other income	10.079	2.361	8.406	5.613	61.662	18.679	19.239	20.009	21.009	22.164	*-18,51%*
Other expense	(3.113)	(860)	(591)	(654)	(1.055)	(773)	(796)	(828)	(869)	(917)	*-2,77%*
EBIT	**37.155**	**69.204**	**66.846**	**59.672**	**168.448**	**143.492**	**147.796**	**153.708**	**161.394**	**170.270**	*0,22%*
Interest expense	(42.518)	(55.377)	(57.580)	(58.556)	(46.682)	(49.783)	(51.277)	(53.328)	(55.994)	(59.074)	*4,82%*
EBT	(5.363)	13.827	9.226	1.116	121.766	93.708	96.519	100.380	105.399	111.196	*-1,80%*
Income tax benefit (expense)	18.394	(7.417)	(1.382)	(9.587)	(7.371)	(19.679)	(20.269)	(21.080)	(22.134)	(23.351)	*25,94%*
Net income (loss)	**13.031**	**6.410**	**7.884**	**(8.471)**	**114.395**	**74.029**	**76.250**	**79.300**	**83.265**	**87.845**	*-5,14%*
Total other comprehensive (loss) income	(6.158)	4.682	(3.028)	(3.987)	(7.468)	(5.072)	(5.224)	(5.433)	(5.705)	(6.018)	*-4,22%*
Net income attributable to non-controlling interest	(1.392)	(4.247)	(1.749)	(1.052)	(746)	(1.583)	(1.631)	(1.696)	(1.781)	(1.879)	*20,29%*
Net (loss) Profit	**5.481**	**6.845**	**3.107**	**(13.510)**	**106.181**	**67.374**	**69.395**	**72.171**	**75.780**	**79.948**	*-5,52%*
	0,48%	***0,55%***	***0,23%***	***-0,94%***	***7,43%***						*-100,00%*
Basic (loss) income per common share	0,11	0,02	0,05	(0,08)							
Diluted (loss) income per common share	0,11	0,02	0,05	(0,08)							

Appendix 3: Cash Flow Statement

	HISTORICAL STATEMENTS (in thousands of USD)									
Period Reference	1	2	3	4	5	6	7	8	9	10
End of Period	**2016**	**2017**	**2018**	**2019**	**2020**	**2021F**	**2022F**	**2023F**	**2024F**	**2025F**
Operating activities										
Net income (loss)	13.031	6.410	7.884	(8.471)	114.395	74.029	76.250	79.300	83.265	87.845
Reconciliation of net income to cash flows provided by o										
Depreciation and amortization	69.289	77.886	85.860	98.236	107.268	114.557	123.292	133.734	146.206	160.351
Amortization of debt related costs	4.121	8.511	8.073	2.612	4.026	N/A	N/A	N/A	N/A	N/A
Deferred income taxes	(21.215)	1.273	(6.232)	1.948	(1.234)	764	309	424	551	637
Share based compensation	1.999	2.251	15.742	19.903	10.509	10.509	10.509	10.509	10.509	10.509
Gain on sale of property, plant and equipment	(11.120)	1.230	(6.750)	(932)	950	N/A	N/A	N/A	N/A	N/A
Gain on sale of business					(68.051)	N/A	N/A	N/A	N/A	N/A
Foreign currency exchange losses (gains) on interco	51	(5.625)	5.766	10.713	(8.202)	(8.202)	(8.202)	(8.202)	(8.202)	(8.202)
Changes in assets and liabilities										
Accounts receivable	(3.973)	(44.047)	(3.139)	(13.235)	(6.844)	(11.933)	(8.172)	(11.223)	(14.590)	(16.852)
Inventories	2.484	(5.948)	(12.051)	(1.469)	(7.604)	3.685	(12.117)	537	(15.591)	(1.796)
Contract assets	(15.258)	(17.296)	(3.544)	(23.827)	(4.136)	3.286	(2.324)	(3.192)	(4.149)	(4.793)
Prepaids and other current assets	1.326	(2.971)	(3.773)	9.447	2.088	(3.943)	(680)	(933)	(1.214)	(1.402)
Accounts payable	15.682	4.707	24.945	9.408	8.017	(9.762)	4.324	5.938	7.720	8.916
Accrued expenses and other liabilities	(31.446)	(2.243)	(22.851)	(9.159)	3.410	(18.920)	3.734	5.128	6.667	7.700
Contract liabilities	(13.389)	1.301	(9.254)	21.311	(12.556)	3.021	878	1.206	1.568	1.811
Income taxes	4.329	6.656	2.777	(3.651)	592	-	-	-	-	-
Other non-current assets and liabilities	16.008	(3.593)	(2.436)	12.362	15.730	15.443	(460)	(1.263)	(2.155)	(2.690)
Net cash provided by operating activities	**31.919**	**28.502**	**81.017**	**125.196**	**158.358**	**172.535**	**187.341**	**211.963**	**210.584**	**242.034**
Investing activities										
Purchase of property, plant and equipment	(47.728)	(57.775)	(80.713)	(88.869)	(88.456)					
Purchase of intangibles	(248)	(4.914)	(1.950)	(6.426)	(6.592)	(135.200)	(135.200)	(135.200)	(135.200)	(135.200)
Proceeds from sale of property, plant and equipment	5.191	5.422	21.641	3.636	1.191					
Proceeds from sale of business	4.547	N/A	430	N/A	118.894	N/A	N/A	N/A	N/A	N/A
Acquisitions	(306.372)	(77.628)	(146.443)	(2.873)	(13.108)	(66.601)	(68.599)	(71.343)	(74.910)	(79.030)
Net cash used in investing activities	**(344.610)**	**(134.895)**	**(207.035)**	**(94.532)**	**11.992**	**(201.801)**	**(203.799)**	**(206.543)**	**(210.110)**	**(214.230)**
Financing activities										
Issuance of debt, net of deferred issuance costs	178.704	415.602	155.270	38.381	21.959					
Borrowings under credit facility	81.000	131.000	129.000	292.825	2.597					
Repayment of debt	(74.461)	(423.418)	(242.470)	(307.809)	(117.131)	96.236	10.094	12.018	54.670	11.239
Repayment of capital lease obligation	(7.683)	(7.962)	(10.474)	(12.900)	(13.441)					
Payment of earn-out related to previous acquisitions	N/A	N/A	(5.528)	(461)	(470)					
Proceeds from capital contribution	6.895	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Proceeds from issuance of common stock	10.282	5.521	137.605	363	18.927	N/A	N/A	N/A	N/A	N/A
Taxes paid related to the net share settlements of share-l	N/A	N/A	(8.807)	(1.270)	N/A	N/A	N/A	N/A	N/A	N/A
Stock repurchases	(723)	(1.474)	(230)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cash paid for interest rate cap	N/A	N/A	N/A	(2.235)	N/A	N/A	N/A	N/A	N/A	N/A
Distribution to non-controlling interest	(2.625)	(4.750)	(3.725)	(1.150)	(1.890)	(1.583)	(1.631)	(1.696)	(1.781)	(1.879)
Net cash provided by financing activities	**191.389**	**114.519**	**150.641**	**5.744**	**(89.449)**	**94.653**	**8.463**	**10.322**	**52.889**	**9.360**
Effect of exchange rate changes on cash	2.637	766	(1.512)	(1.601)	2.219	2.219	2.219	2.219	2.219	2.219
Cash and cash equivalents classified as held for sale	N/A	N/A	N/A	(7.291)	0	-	-	-	-	-
Change in cash and cash equivalents	(118.665)	8.892	23.111	27.516	83.120	67.606	(5.776)	17.961	55.582	39.383
Cash and cash equivalents										
Beginning of period	169.027	50.362	59.254	82.365	109.881	193.001	260.607	254.831	272.792	328.374
End of period	**50.362**	**59.254**	**82.365**	**109.881**	**193.001**	**260.607**	**254.831**	**272.792**	**328.374**	**367.757**

Appendix 4: Key Financial Ratios

	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Efficiency Ratios								
Total Assets Turnover (x)	0,85	0,85	0,80	0,76	0,75	0,76	0,77	0,78
Accounts Receivables Turnover (x)	5,36	5,64	5,52	5,47	5,43	5,46	5,48	5,50
Collection Period (days)	68	65	66	67	67	67	67	66
Inventory Turnover (x)	4,8	5,0	4,6	4,7	4,6	4,7	4,6	4,7
Days in Inventory (days)	76	73	79	78	79	78	79	78
Payables Turnover (x)	4,8	4,8	4,4	4,4	4,7	4,6	4,7	4,6
Payables Period (days)	76	77	84	82	78	79	78	79
Operating Cycle or Cash Cycle (days)	144	138	145	144	146	145	146	145
Solvency Ratios								
Debt Ratio (%)	78%	79%	74%	72%	72%	71%	71%	71%
Debt to Equity Ratio (%)	79%	89%	73%	60%	59%	59%	59%	59%
Equity Multiplier (x)	4,6	4,8	3,8	3,6	3,6	3,5	3,5	3,4
LTD to Capitalization Ratio (%)	72%	72%	64%	64%	63%	63%	63%	61%
Debt to EBITDA (x)	8,5	8,7	4,9	5,6	5,4	5,1	5,0	4,8
Interest Coverage Ratio (x)	1,2	1,0	3,6	2,9	2,9	2,9	2,9	2,9
Liquidity Ratios								
Current Ratio (x)	1,99	1,98	1,99	2,37	2,36	2,36	2,50	2,54
Quick Ratio (x)	1,43	1,48	1,53	1,88	1,84	1,86	1,98	2,03
Cash Ratio (x)	0,29	0,34	0,55	0,80	0,76	0,78	0,90	0,95
Profitability Ratios								
Gross Profit Margin (%)	30,2%	29,5%	31,5%	32,4%	32,4%	32,4%	32,4%	32,4%
EBITDA Margin (%)	11,4%	10,9%	19,3%	17,7%	18,1%	18,4%	18,8%	19,1%
EBIT Margin (%)	5,0%	4,1%	11,8%	9,8%	9,8%	9,8%	9,8%	9,8%
Net Profit Margin (%)	0,6%	-0,6%	8,0%	5,1%	5,1%	5,1%	5,1%	5,1%
ROA (%)	0,5%	-0,5%	6,2%	3,7%	3,8%	3,8%	3,8%	3,9%
ROIC (%)	3,8%	3,5%	9,6%	7,7%	7,8%	7,9%	8,2%	8,6%
NOPAT (€T)	52.808	47.141	133.074	113.358	116.759	121.430	127.501	134.514
Invested Capital (€T)	1.388.387	1.343.563	1.388.632	1.463.583	1.504.041	1.527.538	1.561.462	1.571.993
ROCE (%)	4,8%	4,2%	11,3%	8,7%	8,8%	8,9%	8,9%	9,2%
Capital Employed (€T)	1.378.898	1.415.627	1.494.903	1.656.325	1.688.798	1.726.590	1.810.817	1.854.433
ROE (%)	2,2%	-2,3%	23,7%	13,5%	13,4%	13,3%	13,3%	13,4%
ROE (%) - DuPont Approach	2,0%	0,2%	20,0%	13,5%	13,4%	13,3%	13,3%	13,4%
EBT / S (%)	0,7%	0,1%	8,5%	6,4%	6,4%	6,4%	6,4%	6,4%
S / A (%)	80,5%	83,1%	77,5%	73,6%	74,2%	75,3%	75,4%	77,3%
A / E (%)	459,5%	475,1%	382,6%	362,1%	355,3%	348,5%	348,2%	340,7%
SG&A/Sales (%)	24,6%	24,6%	23,0%	22,5%	22,5%	22,5%	22,5%	22,5%
R&D/Sales (%)	1,2%	1,1%	0,9%	1,4%	1,4%	1,4%	1,4%	1,4%

Appendix 5: Common-Size Statement of Financial Position

COMMON SIZE	HISTORICAL STATEMENTS (in thousands of USD)									
Period Reference	1	2	3	4	5	6	7	8	9	10
End of Period	2016	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
NON-CURRENT ASSETS										
Property, plant and equipment, net	N/A	19,0%	19,2%	19,2%	20,6%	21,7%	22,0%	21,7%	20,7%	18,7%
Goodwill	N/A	21,8%	24,7%	22,6%	22,5%	22,3%	22,0%	21,6%	21,2%	20,5%
Intangible assets, net	N/A	22,7%	20,5%	18,1%	17,6%	19,6%	19,9%	20,3%	20,9%	21,4%
Deffered income taxes, net of valuation allowance	N/A	0,2%	0,1%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%	0,2%
Other non-current assets	N/A	1,5%	1,4%	1,5%	1,6%	1,7%	1,7%	1,8%	1,9%	2,0%
Non-current assets held for sale	N/A	N/A	N/A	1,8%	N/A	N/A	N/A	N/A	N/A	N/A
Total non-current assets	N/A	**65,2%**	**66,0%**	**63,3%**	**65,1%**	**68,0%**	**68,4%**	**68,2%**	**67,3%**	**65,2%**
CURRENT ASSETS										
Receivables, net	N/A	16,6%	15,3%	14,8%	15,9%	16,1%	16,4%	16,7%	17,0%	17,3%
Inventories, net	N/A	8,1%	8,1%	7,9%	7,8%	8,1%	8,1%	8,4%	8,4%	8,8%
Contract assets	N/A	4,5%	4,2%	4,2%	4,2%	4,2%	4,3%	4,4%	4,5%	4,5%
Prepaid and other current assets	N/A	1,4%	1,4%	1,3%	1,3%	1,4%	1,4%	1,4%	1,4%	1,5%
Income tax receivable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Assets held for sale	N/A	N/A	N/A	2,1%	N/A	N/A	N/A	N/A	N/A	N/A
Cash and cash equivalents	N/A	4,0%	5,0%	6,3%	7,7%	7,8%	8,7%	9,6%	11,5%	14,0%
Total current assets	N/A	**34,8%**	**34,0%**	**36,7%**	**36,9%**	**37,6%**	**38,8%**	**40,4%**	**42,8%**	**46,1%**
TOTAL ASSETS	N/A	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
SHAREHOLDERS' FUNDS										
Common stock	N/A	0,5%	0,3%	0,3%	0,2%	0,3%	0,3%	0,3%	0,3%	0,3%
Treasury stock	N/A	-1,2%	-0,8%	-0,8%	-0,6%	-0,8%	-0,8%	-0,8%	-0,8%	-0,8%
Additional paid-in capital	N/A	179,6%	147,4%	151,0%	117,2%	101,5%	89,3%	77,8%	66,8%	56,4%
Retained deficit	N/A	-78,5%	-45,3%	-47,8%	-13,0%	0,9%	13,0%	24,6%	35,5%	45,9%
Accumulated other comprehensive loss, net of tax	N/A	-2,8%	-2,5%	-3,6%	-4,2%	-3,0%	-3,0%	-3,0%	-3,0%	-3,0%
Total Evoqua Water Technologies Corp. equity	N/A	97,6%	99,1%	99,2%	99,6%	98,9%	98,9%	98,9%	98,9%	98,9%
Non-controlling interests	N/A	2,4%	0,9%	0,8%	0,4%	1,1%	1,1%	1,1%	1,1%	1,1%
Total shareholders' equity	N/A	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
NON-CURRENT LIABILITIES										
Long term debt, net of deferred financing fees	N/A	69,9%	71,3%	69,4%	63,2%	67,6%	67,1%	66,5%	66,6%	65,6%
Product warranties	N/A	0,5%	0,3%	0,2%	0,1%	0,3%	0,3%	0,3%	0,3%	0,3%
Other non-current liabilities	N/A	5,4%	5,7%	5,7%	7,2%	5,9%	6,0%	6,2%	6,2%	6,4%
Deferred income taxes, net of valuation allowance	N/A	1,0%	0,9%	1,0%	1,0%	0,9%	1,0%	1,0%	1,0%	1,0%
Non current liabilities held for sale	N/A	N/A	N/A	0,3%	N/A	N/A	N/A	N/A	N/A	N/A
Total non-current liabilities	N/A	**76,8%**	**78,1%**	**76,5%**	**74,3%**	**77,3%**	**77,0%**	**76,5%**	**76,4%**	**75,7%**
CURRENT LIABILITIES										
Accounts payable	N/A	9,1%	10,8%	10,5%	11,3%	10,0%	10,2%	10,4%	10,5%	10,8%
Current portion of debt, net of deferred financing fees	N/A	0,9%	0,9%	1,0%	1,1%	0,9%	1,0%	1,0%	1,0%	1,0%
Contract liabilities	N/A	2,2%	1,4%	2,8%	1,9%	2,0%	2,1%	2,1%	2,1%	2,2%
Product warranties	N/A	0,9%	0,7%	0,4%	0,4%	0,6%	0,6%	0,6%	0,6%	0,6%
Accrued expenses and other liabilities	N/A	9,7%	7,5%	7,4%	10,5%	8,7%	8,8%	9,0%	9,0%	9,3%
Income tax payable	N/A	0,4%	0,6%	0,3%	0,4%	0,4%	0,4%	0,4%	0,4%	0,4%
Liabilities held for sale	N/A	N/A	N/A	1,0%	N/A	N/A	N/A	N/A	N/A	N/A
Total current liabilities	N/A	**23,2%**	**21,9%**	**23,5%**	**25,7%**	**22,7%**	**23,0%**	**23,5%**	**23,6%**	**24,3%**
TOTAL LIABILITIES	N/A	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Appendix 6: Common-Size Income Statement

COMMON SIZE	HISTORICAL STATEMENTS (in thousands exept per share data)									
Period Reference	1	2	3	4	5	6	7	8	9	10
End of Period	2016	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
Total Sales and Services Rendered										
Revenue from product sales	*51,6%*	*57,6%*	*59,9%*	*58,9%*	*58,8%*	*57,4%*	*57,4%*	*57,4%*	*57,4%*	*57,4%*
Revenue from services	*48,4%*	*42,4%*	*40,1%*	*41,1%*	*41,2%*	*42,6%*	*42,6%*	*42,6%*	*42,6%*	*42,6%*
Total revenue	***100,0%***	***100,0%***	***100,0%***	***100,0%***	***100,0%***	*100,0%*	*100,0%*	*100,0%*	*100,0%*	*100,0%*
Cost of product sales and services										
Cost of product sales		*-36,0%*	*-43,5%*	*-42,6%*	*-41,2%*	*-38,4%*	*-38,4%*	*-38,4%*	*-38,4%*	*-38,4%*
Cost of services		*-31,1%*	*-26,3%*	*-27,9%*	*-27,4%*	*-29,1%*	*-29,1%*	*-29,1%*	*-29,1%*	*-29,1%*
Total costs of product sales and services	*-70,7%*	*-68,0%*	*-69,8%*	*-70,5%*	*-68,5%*	*-67,6%*	*-67,6%*	*-67,6%*	*-67,6%*	*-67,6%*
Gross Profit	*29,3%*	*32,0%*	*30,2%*	*29,5%*	*31,5%*	*32,4%*	*32,4%*	*32,4%*	*32,4%*	*32,4%*
General and administrative expense	*-12,7%*	*-13,6%*	*-14,5%*	*-15,0%*	*-13,5%*	*-13,5%*	*-13,5%*	*-13,5%*	*-13,5%*	*-13,5%*
Sales and marketing expense	*-11,9%*	*-11,4%*	*-10,2%*	*-9,6%*	*-9,5%*	*-9,0%*	*-9,0%*	*-9,0%*	*-9,0%*	*-9,0%*
Research and development expense	*-2,0%*	*-1,6%*	*-1,2%*	*-1,1%*	*-0,9%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*	*-1,4%*
Total operating expenses	*-26,6%*	*-26,6%*	*-25,8%*	*-25,7%*	*-23,9%*	*-23,8%*	*-23,8%*	*-23,8%*	*-23,8%*	*-23,8%*
Other income	*0,9%*	*0,2%*	*0,6%*	*0,4%*	*4,3%*	*1,3%*	*1,3%*	*1,3%*	*1,3%*	*1,3%*
Other expense	*-0,3%*	*-0,1%*	*0,0%*	*0,0%*	*-0,1%*	*-0,1%*	*-0,1%*	*-0,1%*	*-0,1%*	*-0,1%*
EBIT	**3,3%**	**5,5%**	**5,0%**	**4,1%**	**11,8%**	*9,8%*	*9,8%*	*9,8%*	*9,8%*	*9,8%*
Interest expense	**-3,7%**	**-4,4%**	**-4,3%**	**-4,1%**	**-3,3%**	*-3,4%*	*-3,4%*	*-3,4%*	*-3,4%*	*-3,4%*
EBT	**-0,5%**	**1,1%**	**0,7%**	**0,1%**	**8,5%**	**6,4%**	**6,4%**	**6,4%**	**6,4%**	**6,4%**
Income tax expense (benefit)	**1,6%**	**-0,6%**	**-0,1%**	**-0,7%**	**-0,5%**	**-1,3%**	**-1,3%**	**-1,3%**	**-1,3%**	**-1,3%**
Net income (loss)	**1,1%**	**0,5%**	**0,6%**	**-0,6%**	**8,0%**	**5,1%**	**5,1%**	**5,1%**	**5,1%**	**5,1%**
Total other comprehensive (loss) income	**-0,5%**	**0,4%**	**-0,2%**	**-0,3%**	**-0,5%**	**-0,3%**	**-0,3%**	**-0,3%**	**-0,3%**	**-0,3%**
Net income attributable to non-controlling interest	**-0,1%**	**-0,3%**	**-0,1%**	**-0,1%**	**-0,1%**	**-0,1%**	**-0,1%**	**-0,1%**	**-0,1%**	**-0,1%**
Net (loss) Profit	**0,5%**	**0,5%**	**0,2%**	**-0,9%**	**7,4%**	**4,6%**	**4,6%**	**4,6%**	**4,6%**	**4,6%**

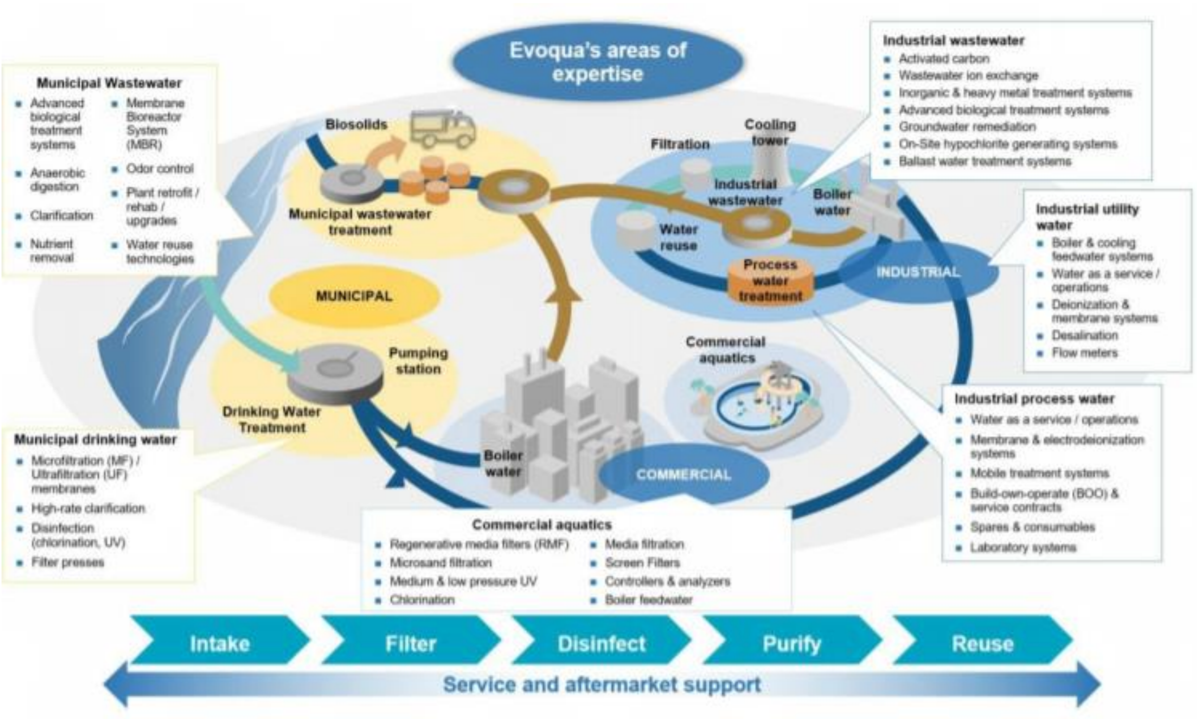
Appendix 7: Forecasting Assumptions

	Notes	2016	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	Assumption
Total Sales and Services Rendered												
Revenue from product sales	% TRev	51,6%	57,6%	59,9%	58,9%	58,8%	57%	57%	57%	57%	57%	Assumed 57% of revenues, based in previous years average
Revenue from services	% TRev	48,4%	42,4%	40,1%	41,1%	41,2%	43%	43%	43%	43%	43%	Assumed 43% of revenues, based in previous years average
Total revenue	YoY		9,7%	7,4%	7,8%	-1,0%	2,0%	3,0%	4,0%	5,0%	5,5%	Company goal: Organic sales growth of 3 to 5% in 3 to 5 years + growth through M&A
Cost of product sales	% RevP		-62,6%	-72,6%	-72,3%	-70,0%	-69%	-69%	-69%	-69%	-69%	Average percentage of revenues from products sales = -69%
Cost of services	% RevS		-73,3%	-65,6%	-68,0%	-66,4%	-68%	-68%	-68%	-68%	-68%	Average percentage of revenues from services = -68%
General and administrative expense	% COGS	18,0%	20,0%	20,7%	21,3%	19,7%	20%	20%	20%	20%	20%	Average 20% of COGS
Sales and marketing expense	YoY	-11,9%	-11,4%	-10,2%	-9,6%	-9,5%	-9%	-9,0%	-9,0%	-9,0%	-9,0%	Have been decreasing (as % of revenues) every year. I assume it will continue decreasing due to company's continued efforts to reduce spending.
Research and development expense	% TRev	-2,0%	-1,6%	-1,2%	-1,1%	-0,9%	-1,4%	-1,4%	-1,4%	-1,4%	-1,4%	Relatively fixed, -1,4% of revenues.
Other income	% TRev	0,9%	0,2%	0,6%	0,4%	4,3%	1,3%	1,3%	1,3%	1,3%	1,3%	Depends on companies acquisitions and sales. I considered the average of previous years = 1,3%
Other expense	% TRev	-0,3%	-0,1%	0,0%	0,0%	-0,1%	-0,06%	-0,06%	-0,06%	-0,06%	-0,06%	Average of 4 previous years (2016 was an exeption) = -0,06%
Interest expense	% TRev						-3,41%	-3,41%	-3,41%	-3,41%	-3,41%	Considered the cost of debt of 3,41%. Used last fiscal year end Interest Expense divided by the latest two-year average debt to obtain.
Income tax benefit (expense)							-21%	-21%	-21%	-21%	-21%	Statutory tax rate 21% (made more sense than the historical effective rate, given the reduction in US federal tax rates)
Total other comprehensive (loss) income	% TRev	-0,5%	0,4%	-0,2%	-0,3%	-0,3%	-0,35%	-0,35%	-0,35%	-0,35%	-0,35%	Average of previous years -0,35% (didn´t consider 2017, outlier)
Net income attributable to non-controlling interest	% TRev	-0,1%	-0,3%	-0,1%	-0,1%	-0,1%	-0,11%	-0,11%	-0,11%	-0,11%	-0,11%	Average of previous years -0,11% (didn´t consider 2017, outlier)
NON-CURRENT ASSETS												
Property, plant and equipment, net												PP&Et+1 = PP&Et – D&At+1 + CAPEXt+1
Goodwill												As of 2020
Intangible assets, net	%Rev		27%	25%	22%	22%	24%	24%	24%	24%	24%	Average 24% revenues
Deffered income taxes, net of valuation allowance	%Rev		0,2%	0,2%	0,2%	0,3%	0,2%	0,2%	0,2%	0,2%	0,2%	Average of 0,20% of revenues
Operating lease right-of-use assets, net												As of 2020
Other non-current assets	YoY			6%	8%	7%	7%	7%	7%	7%	7%	Average growth
CURRENT ASSETS												
Receivables, net	%Rev		20%	19%	18%	18%	19%	19%	19%	19%	19%	It is on average 19% of revenues
Inventories, net	YoY						7	7	7	7	7	Based on historical turnover ratio of 7
Contract assets	%Rev		5%	5%	5%	6%	5%	5%	5%	5%	5%	Average 5% of revenues
Prepaid and other current assets	%Rev		1,6%	1,8%	1,5%	1,3%	1,6%	1,6%	1,6%	1,6%	1,6%	Average 1,6% of revenues
Income tax receivable												As of 2020
Assets held for sale												As of 2020
Cash and cash equivalents												From Cash Flow Statement
SHAREHOLDERS' FUNDS												
Common stock			0,50%	0,32%	0,32%	0,25%	0,35%	0,35%	0,35%	0,35%	0,35%	Average 0,35% of total evoqua equity
Treasury stock			-1,23%	-0,79%	-0,78%	-0,59%	-0,85%	-0,85%	-0,85%	-0,85%	-0,85%	Average -0,85% of total evoqua equity
Retained deficit												Previous year + net profit
Accumulated other comprehensive loss, net of tax			-2,83%	-2,51%	-3,58%	-4,26%	-3,3%	-3,3%	-3,3%	-3,3%	-3,3%	Average -3% of total evoqua equity
Non-controlling interests			2,37%	0,87%	0,84%	0,40%	1,1%	1,1%	1,1%	1,1%	1,1%	Average 1,1% of total shareholders equity
NON-CURRENT LIABILITIES												
Long term debt, net of deferred financing fees	%Rev		70%	69%	66%	60%	66%	65%	63%	63%	60%	Average 69% of revenues, assuming it will start decreasing
Product warranties	%Rev		0,5%	0,3%	0,2%	0,1%	0,3%	0,3%	0,3%	0,3%	0,3%	Average 0,30% of revenues
Obligation under operating leases												As of 2020
Other non-current liabilities	%Rev		5,4%	5,6%	5,4%	6,9%	5,8%	5,8%	5,8%	5,8%	5,8%	Average 5,8% of revenues
Deferred income taxes, net of valuation allowance	%Rev		1,0%	0,8%	0,9%	0,9%	0,9%	0,9%	0,9%	0,9%	0,9%	Average 0,92% of revenues
CURRENT LIABILITIES												
Accounts payable	%Tcosts		-14%	-15%	-14%	-16%	-15%	-15%	-15%	-15%	-15%	It is on average 15% of total costs
Current portion of debt, net of deferred financing fe	%Rev		0,9%	0,9%	0,9%	1,0%	0,9%	0,9%	0,9%	0,9%	0,9%	Average 0,9% of revenues
Contract liabilities	%Rev		2,2%	1,3%	2,7%	1,8%	2,0%	2,0%	2,0%	2,0%	2,0%	Average 2% of revenues
Product warranties	%Rev		0,9%	0,7%	0,3%	0,4%	0,6%	0,6%	0,6%	0,6%	0,6%	Average 0,6% of revenues
Accrued expenses and other liabilities	%Rev		10%	7%	7%	10%	9%	9%	9%	9%	9%	Average 9% of revenues
Income tax payable												As of 2020
Liabilities held for sale												As of 2020
Acquisitions	%Rev		-6%	-11%	0%	-1%	-4,6%	-5%	-5%	-5%	-5%	Historical average

CAPEX	Notes	2016	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	Assumption
												Historical average

D&A	Notes	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F	Assumption
Depreciation and amortization	%Rev	6,1%	6,2%	6,4%	6,8%	7,5%	7,9%	8,2%	8,6%	8,9%	9,3%	Percentage of revenues/ Historical average growth
	%Growth		0,2%	0,2%	0,4%	0,7%	0,4%					

Appendix 8: Evoqua´s Areas of Expertise



Appendix 9: Sustainability Governance at Evoqua

Appendix 10: Evoqua´s Named Executive Officers Achievement Levels

Fiscal 2020 Performance Goals	Relative Weighting: Keating Stas Desai	Aulick	Fages	Threshold(1)	Target(1)	Maximum(1)	Fiscal 2020 Actual Performance	Actual Achievement % of Target
Evoqua Global Adjusted EBITDA	60%	20%	20%	$ 227.4	$ 239.4	$ 261.0	$ 241.1(2)	100.8%
Evoqua Global Adjusted Free Cash Flow	40%	40%	40%	$ 101.3	$ 111.3	—	$ 115.8	104.0%
ISS Segment Adjusted EBITDA	—	40%	—	204.6	215.4	—	215.3(2)	100.0%
APT Segment Adjusted EBITDA	—	—	40%	93.9	98.8	—	98.8(2)	100.1%

(1) None of Evoqua Global Adjusted EBITDA, Evoqua Global Sales, Evoqua Global Adjusted Free Cash Flow, Integrated Solutions and Systems ("ISS") Segment Adjusted EBITDA or Applied Product Technologies ("APT") Segment Adjusted EBITDA is a presentation made in accordance with GAAP, and none are intended to present a measure of financial condition superior to those determined under GAAP. As permitted by the AIP, these performance metrics reflect certain adjustments as described below.

The *Evoqua Global Adjusted EBITDA* metric and goal correlates to Adjusted EBITDA used for financial reporting purposes, and the most directly comparable GAAP measure is Net (loss) income, as referenced in "Management's Discussion and Analysis—How We Assess the Performance of Our Business" included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

The *Evoqua Global Adjusted Free Cash Flow* metric and goals correlate to operating cash flow.

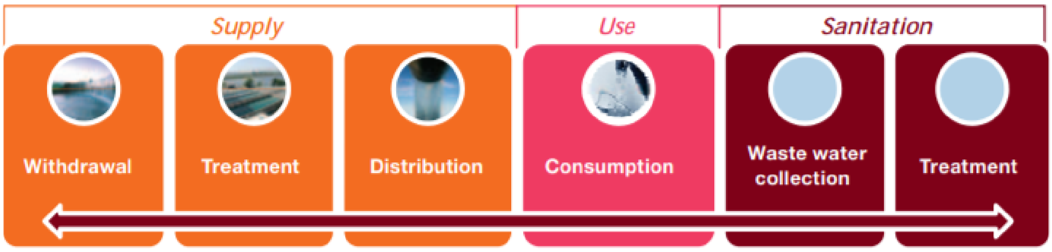
The *ISS Segment Adjusted EBITDA* and *APT Segment Adjusted EBITDA* metrics and goals correlate to Adjusted EBITDA for the ISS Segment and for the APT Segment, respectively, in each case after being adjusted, for purposes of the AIP, on a pro forma basis for revenue attributable to acquisitions, and the most directly comparable GAAP measures are Operating Profit for the ISS Segment and for the APT Segment as referenced in "Management's Discussion and Analysis—Results of Operations—Years Ended September 30, 2020 and September 30, 2019—Segment Results" included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

See Appendix A of this Proxy Statement for information about how Adjusted EBITDA and Adjusted Free Cash Flow are calculated for financial reporting purposes. We have not presented a quantitative reconciliation of the non-GAAP Threshold, Target and Maximum measures in the table above, as these are forward-looking targets, not actual results.

(2) Actual 2020 AIP performance included the adjustments to the Adjusted EBITDA, ISS Segment Adjusted EBITDA and APT Segment Adjusted EBITDA metrics referenced above, and certain other adjustments, including adjustments to reflect the payment of AIP bonuses to Executive Leadership Team members in cash rather than in RSUs, as an unexpected event which had not been part of the original Evoqua Global Adjusted EBITDA, ISS Segment Adjusted EBITDA and APT Segment Adjusted EBITDA forecasts.

Source: *Evoqua´s 2020 Results.*

Appendix 11: Water Infrastructure Value Chain



Source: *PWC (2012).*

Appendix 12: Risk Free Rate Estimation

Risk Free Rate estimation	
U.S. Treasury Yield 10-Year (Bloomberg)	1,4%
Survey estimate - USA RFR (Fernandez, 2020)	1,9%

Appendix 13: Beta Estimation

Beta estimation	
Bloomberg	1,84
Yahoo Finance	1,89
Reuters	1,88
Damodaran (Machinery) (2020)	1,24

Appendix 14: Equity Risk Premium Estimation

Equity Risk Premium estimation	
ERP (Bloomberg)	16,0%
USA MRP (Damodaran, 2020)	5,6%
MRP (Bloomberg)	8,7%

Appendix 15: Cost of Debt Estimation

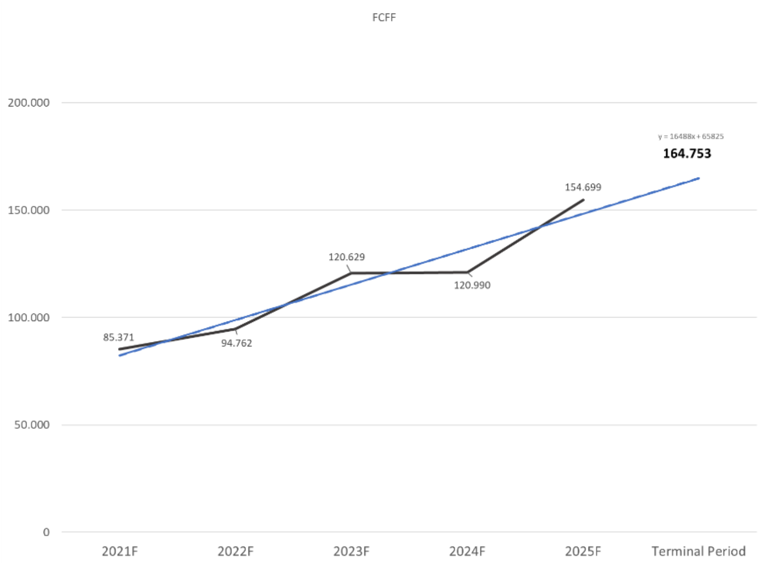
Cost of Debt estimation	
Cost of debt (Bloomberg)	2,0%
Interest Expense 2022F	51.277
Debt (€T) 2022F	1.454.190
Rd - Cost of debt	3,5%

Appendix 16: Cost of Equity (CAPM) and Cost of Capital (WACC)

Cost of Equity - CAPM	
RF	1,4%
Beta	1,84
ERP	8,7%
Re - Cost of equity	17,4%
Cost of Capital - WACC	
Re	17,4%
E /(E+D)	0,28
Rd	3,5%
(1-t)	79%
D/(E+D)	0,72
WACC	**6,9%**

Appendix 17: Terminal Value FCF Normalization

Free Cash Flow to the Firm (unlevered)										**TV (normalized)**
EBIT	69.204	66.846	59.672	168.448	143.492	**147.796**	153.708	161.394	170.270	
(1-t)	65%	87%	10%	94%	83%	**83%**	83%	83%	83%	
(+) NOPAT = EBIT(1-t)	45.043	58.137	6.222	158.833	118.588	**122.146**	127.032	133.383	140.719	
(+) Non cash expenses	85.526	102.459	132.480	45.266	117.628	**125.908**	136.465	149.064	163.295	
(-) Δ NWC		11.111	(14.288)	14.677	15.646	**18.091**	7.667	26.257	14.115	
(-) Capex	111.962	130.322	147.959	150.557	135.200	**135.200**	135.200	135.200	135.200	
FCFF		19.163	5.031	38.865	85.371	**94.762**	120.629	120.990	154.699	164.753



Appendix 18: Long-run Sustainable Growth Rate

Stable Growth Model: Reinvestment Rate x ROE										
CAPEX	111.962	130.322	147.959	150.557	135.200	**135.200**	135.200	135.200	135.200	1.104.838
D&A	77.886	85.860	98.236	107.268	114.557	**123.292**	133.734	146.206	160.351	969.503
Δ NWC		11.111	(14.288)	14.677	15.646	**18.091**	7.667	26.257	14.115	93.277
EBIT	69.204	66.846	59.672	168.448	143.492	**147.796**	153.708	161.394	170.270	1.071.626
Corporate tax rate	35%	21%	21%	21%	21%	**21%**	21%	21%	21%	21%
Reinvestment rate	76%	105%	75%	44%	32%	**26%**	8%	12%	-8%	27%
ROE	3,0%	2,2%	-2,3%	23,7%	13,5%	**13,4%**	13,3%	13,3%	13,4%	13,4%
g										**3,6%**

Appendix 19: WACC Method

	2017	2018	2019	2020	2021F	2022F	2023F	2024F	2025F	Terminal Period
GDP Growth										
USA (FED)	2,7%	2,5%	2,3%	-3,5%	6,5%	**3,3%**	2,2%	1,8%	1,8%	**1,8%**
Stable Growth Model: Reinvestment Rate x ROE										
CAPEX	111.962	130.322	147.959	150.557	135.200	**135.200**	135.200	135.200	135.200	1.104.838
D&A	77.886	85.860	98.236	107.268	114.557	**123.292**	133.734	146.206	160.351	969.503
Δ NWC		11.111	(14.288)	14.677	15.646	**18.091**	7.667	26.257	14.115	93.277
EBIT	69.204	66.846	59.672	168.448	143.492	**147.796**	153.708	161.394	170.270	1.071.626
Corporate tax rate	35%	21%	21%	21%	21%	**21%**	21%	21%	21%	21%
Reinvestment rate	76%	105%	75%	44%	32%	**26%**	8%	12%	-8%	27%
ROE	3,0%	2,2%	-2,3%	23,7%	13,5%	**13,4%**	13,3%	13,3%	13,4%	13,4%
g										**3,6%**
Effective Tax rate										
Income tax expense	7.417	1.382	9.587	7.371	19.679	**20.269**	21.080	22.134	23.351	
EBT	13.827	9.226	1.116	121.766	93.708	**96.519**	100.380	105.399	111.196	
Effective Tax rate	35%	13%	90%	6%	17%	**17%**	17%	17%	17%	
Free Cash Flow to the Firm (unlevered)										**TV (normalized)**
EBIT	69.204	66.846	59.672	168.448	143.492	**147.796**	153.708	161.394	170.270	
(1-t)	65%	87%	10%	94%	83%	**83%**	83%	83%	83%	
(+) NOPAT = EBIT(1-t)	45.043	58.137	6.222	158.833	118.588	**122.146**	127.032	133.383	140.719	
(+) Non cash expenses	85.526	102.459	132.480	45.266	117.628	**125.908**	136.465	149.064	163.295	
(-) Δ NWC		11.111	(14.288)	14.677	15.646	**18.091**	7.667	26.257	14.115	
(-) Capex	111.962	130.322	147.959	150.557	135.200	**135.200**	135.200	135.200	135.200	
FCFF		19.163	5.031	38.865	85.371	**94.762**	120.629	120.990	154.699	164.753
Risk Free Rate estimation										
U.S. Treasury Yield 10-Year (Bloomberg)						1,4%				
Survey estimate - USA RFR (Fernandez, 2020)						1,9%				
Beta estimation										
Bloomberg						1,84				
Yahoo Finance						1,89				
Reuters						1,88				
Damodaran (Machinery) (2020)						1,24				
Equity Risk Premium estimation										
ERP (Bloomberg)						16,0%				
USA MRP (Damodaran, 2020)						5,6%				
MRP (Bloomberg)						8,7%				
Cost of Debt estimation										
Cost of debt (Bloomberg)						2,0%				
Interest Expense 2022F						51.277				
Debt (€T) 2022F						1.454.190				
Rd - Cost of debt						3,5%				
Cost of Equity - CAPM										
RF						1,4%				
Beta						1,84				
ERP						8,7%				
Re - Cost of equity						17,4%				
Cost of Capital - WACC										
Re						17,4%				
E /(E+D)						0,28				
Rd						3,5%				
(1-t)						79%				
D/(E+D)						0,72				
WACC						**6,9%**				
Enterprise Value										
TERMINAL VALUE (perpetual growth)						**0**	0	0	0	5.178.819
PV of Terminal value										4.238.759
PV of FCFF (2022-2025)										345.322
Enterprise Value in 2022										4.584.080
(-) Debt (Gross)										990.062
(-) Non controlling interest										6.380
(+) Cash										763.705
Equity value										**4.351.343**
# Shares Outstanding										119.651
Share Value										**36,37**

Appendix 20: Industry Peers

From Reuters, as of 08/07/2021	Ticker	Industry	ROE	Market Cap (USD)	EV Multiples		Price Multiples
Peer Companies					EV/EBIT	EV/EBITDA	P/E
EVOQUA WATER TECHNOLOGIES CO	AQUA	Environmental Services & Equipment	26,90%	3.849	29,7	17,0	38,3
EATON CORPORATION PLC	ETN	Electrical Components & Equipment	9,09%	60.644	21,1	17,9	22,1
EMERSON ELECTRIC CO	EMR	Electrical Components & Equipment	23,62%	57.589	17,8	14,2	22,1
JOHNSON CONTROLS INTERNATIONAL PLC	JCI	Electrical Components & Equipment	3,39%	49.389	18,4	14,3	21,7
TRANE TECHNOLOGIES PLC	TT	Electrical Components & Equipment	14,29%	44.778	21,0	18,6	27,5
CARRIER GLOBAL CORP	CARR	Electrical Components & Equipment	19,48%	41.755	16,3	14,6	20,9
PARKER-HANNIFIN CORP	PH.N	Industrial Machinery & Equipment	19,98%	39.780	16,0	13,7	18,0
OTIS WORLDWIDE CORP	OTIS	Heavy Electrical Equipment	12,04%	36.082	18,2	16,9	26,8
ROCKWELL AUTOMATION INC	ROK	Electrical Components & Equipment	142,79%	33.372	25,5	22,7	29,4
AMETEK INC	AME	Electrical Components & Equipment	15,77%	30.719	23,1	19,0	26,6
FORTIVE CORP	FTV	Industrial Machinery & Equipment	16,92%	23.551	22,2	18,7	24,5
Average					**19,97**	**17,06**	**23,97**

Appendix 21: Relative Valuation

Enterprise Value Multiples

	2022F	Unit
EV/EBITDA		
Peers average	17,06	x
AQUA - EBITDA	271.088	$
AQUA - EV	**4.624.768**	$
(-) Debt (Gross)	990.062	$
(-) Non controlling interest	6.380	$
(+) Cash	763.705	$
AQUA - Equity	**4.392.030**	$
# Shares Outstanding	119.651	#
Share Value	**36,71**	USD/Share
EV/EBIT		
Peers average	19,97	x
AQUA - EBIT	147.796	$
AQUA - EV	**2.950.782**	$
(-) Debt (Gross)	990.062	$
(-) Non controlling interest	6.380	$
(+) Cash	763.705	$
AQUA - Equity	**2.718.045**	$
# Shares Outstanding	119.651	#
Share Value	**22,72**	USD/Share

Equity Value Multiples

	2022F	Unit
Price/Earnings		
Peers average	24,0	x
AQUA - Earnings	76.250	$
AQUA - Equity	**1.827.728**	$
# Shares Outstanding	119.651	#
Share Value	**15,28**	USD/Share

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Recommendation System

Level of Risk	SELL	REDUCE	HOLD/NEUTRAL	BUY	STRONG BUY
High Risk	0%≤	>0% & ≤10%	>10% & ≤20%	>20% & ≤45%	>45%
Medium Risk	-5%≤	>-5% & ≤5%	>5% & ≤15%	>15% & ≤30%	>30%
Low Risk	-10%≤	>-10% & ≤0%	>0% & ≤10%	>10% & ≤20%	>20%