Arq
Nasdaq: ARQ

Q1 2024 Earnings Call

May 9, 2024

Disclaimer

This presentation includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, which provides a “safe harbor” for such statements in certain circumstances. When used in this presentation, the words “can,” “will,” “intends,” “expects,” “believes,” similar expressions and any other statements that are not historical facts are intended to identify those assertions as forward-looking statements. All statements that address activities, events or developments that Arq, Inc. ("Arq" or the "Company") intend, expect or believe may occur in the future are forward-looking statements. These forward-looking statements may relate to such matters as business strategy, expectations about future demand and pricing for our PAC and GAC products and our ability to enter into new markets, the ability to successfully integrate legacy Arq's business and effectively utilize legacy Arq’s products and technology, the estimated costs and timing associated with potential capital improvements at our facilities, financing sources for such projects and potential production outputs thereafter, expected market supply of GAC products and the cost savings and environmental benefits of our GAC products, and the timing and scope of future regulatory developments and the related impact of such on the demand for our products. These forward-looking statements involve risks and uncertainties. Actual events or results could differ materially from those discussed in the forward-looking statements as a result of various factors including, but not limited to: the Company’s ability to maintain relationships with customers, suppliers and others with whom it does business and meet supply requirements, or its results of operations and business generally; risks related to diverting management’s attention from the Company’s ongoing business operations; changes in construction costs or availability of construction materials; our inability to effectively manage construction and startup of the Red River GAC Facility or Corbin Facility; our inability to ramp up our operations to effectively address recent and expected growth in our business; the timing and cost of capital expenditures and the resultant impact to our liquidity and cash flows; our inability to obtain required financing or obtain financing on terms that are favorable to us; opportunities for additional sales of our activated carbon products and end-market diversification; the Company’s ability to meet customer supply requirements; the rate of coal-fired power generation in the United States; timing and scope of new and pending regulations and any legal challenges to or extensions of compliance dates of them; impact of competition; availability, cost of and demand for alternative energy sources and other technologies; technical, start up and operational difficulties; competition within the industries in which the Company operates; loss of key personnel; ongoing effects of the inflation and macroeconomic uncertainty, including from the ongoing pandemic and armed conflicts around the world, and such uncertainty's effect on market demand and input costs; as well as other factors relating to our business, as described in the Company’s filings with the U.S. Securities and Exchange Commission (the “SEC”), with particular emphasis on the risk factor disclosures contained in those filings. You are cautioned not to place undue reliance on the forward-looking statements and to consult filings Arq has made and will make with the SEC for additional discussion concerning risks and uncertainties that may apply to the business and the ownership of Arq securities. The forward-looking statements speak only as to the date of this presentation, and the Company does not undertake any obligation to update its forward-looking statements to reflect events or circumstances that may arise after the date of this presentation.

Non-GAAP Financial Measures

Included in this presentation are certain financial measures that are not calculated in accordance with U.S. generally accepted accounting principles ("GAAP") designed to supplement, and not substitute, the Company's financial information presented in accordance with GAAP. The non-GAAP measures as defined by the Company may not be comparable to similar non-GAAP measures presented by other companies. The presentation of such measures, which may include adjustments to exclude unusual or non-recurring items, should not be construed as an inference that the Company’s future results or leverage will be unaffected by other unusual or non-recurring items. Please see the attached appendix for how we define these non-GAAP measures, a discussion of why we believe they are useful to investors, and certain limitations and reconciliations thereof to the most directly comparable GAAP measures.

Recent Financial Highlights & Business Updates

Q1 2024 Financial Update

- **Delivered revenue growth:** +4% YoY to $21.7 million; improved average selling price (ASP) (+16%), partially offset by lower volumes (-6%)
- **Expanded gross margin:** Improved gross profit to $8 million (+122% YoY); more than doubled gross margin to 37% YoY
- **Improved Adjusted EBITDA:** $1.1 million loss vs. $7.7 million loss in prior year; driven by enhanced PAC portfolio results
- **Continued financial improvement in 2024:** Third consecutive quarter of YoY Adjusted EBITDA improvement; 4th consecutive quarter of double digit % ASP increase

Business & Market

- **Achieved first-ever GAC contract:** First contract for 20% of nameplate capacity reflects 3rd party validation of product and demand; attractive pricing
- **Optimizing PAC portfolio:** Continue to prioritize profitability over volume; expanding efforts in water PAC market with higher ASP
- **Application expansion:** Exploring additional Arq wet-cake revenue opportunities, including asphalt emulsion product development

Expansion & Capex

- **Red River GAC facility:** Construction on track for Q4 2024 commissioning
- **Corbin facility:** Commenced commissioning in April 2024; stockpiling feedstock
- **FY 2024 capex:** $60-70 million, an increase of ~13% on previous guidance

Ongoing optimization of PAC portfolio drives significant improvement in gross margin while Red River expansion into GAC market continues at pace

Q1 2024 Financial Highlights

Continued Revenue Growth YoY

- **Revenue** +4% to $21.7 million
- Enhanced contract terms including higher ASP and positive changes in product mix
- Partially offset by lower PGI volumes caused by a mild winter and low natural gas prices

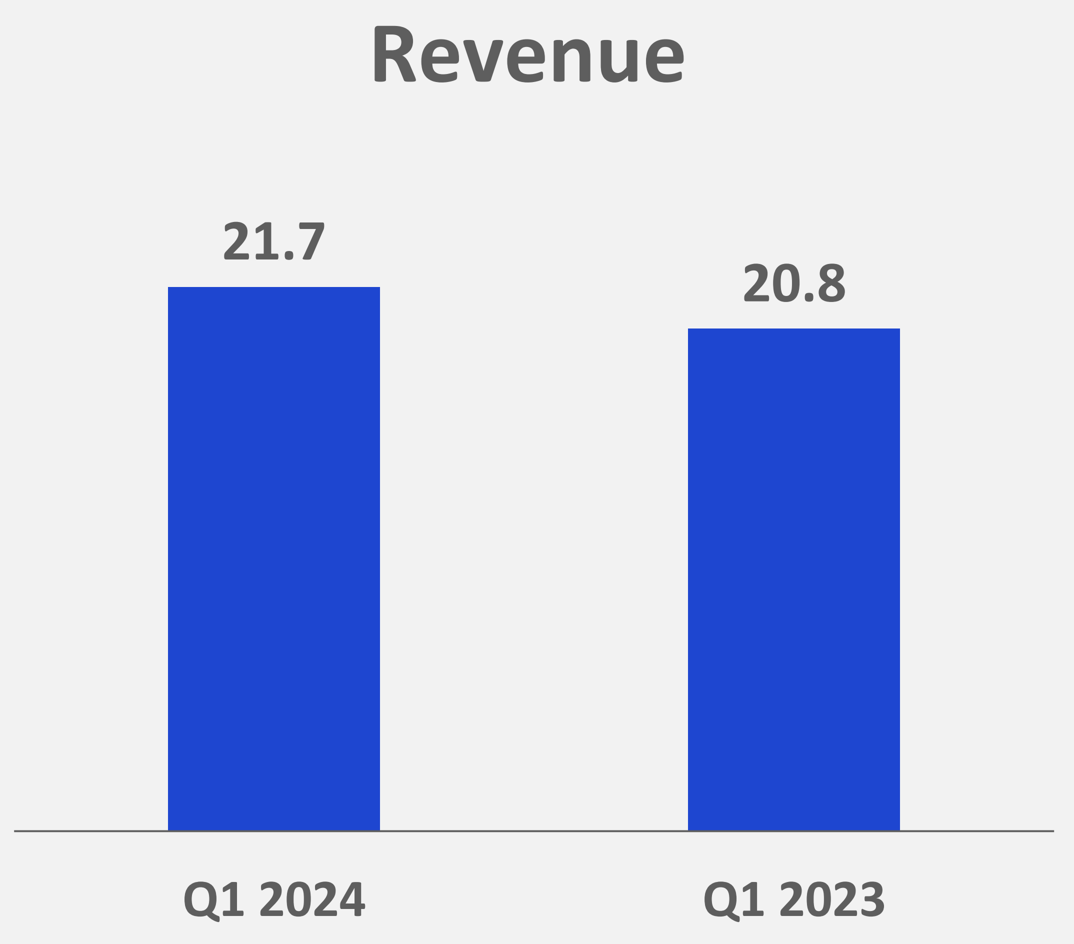
Expanding Gross Margins YoY

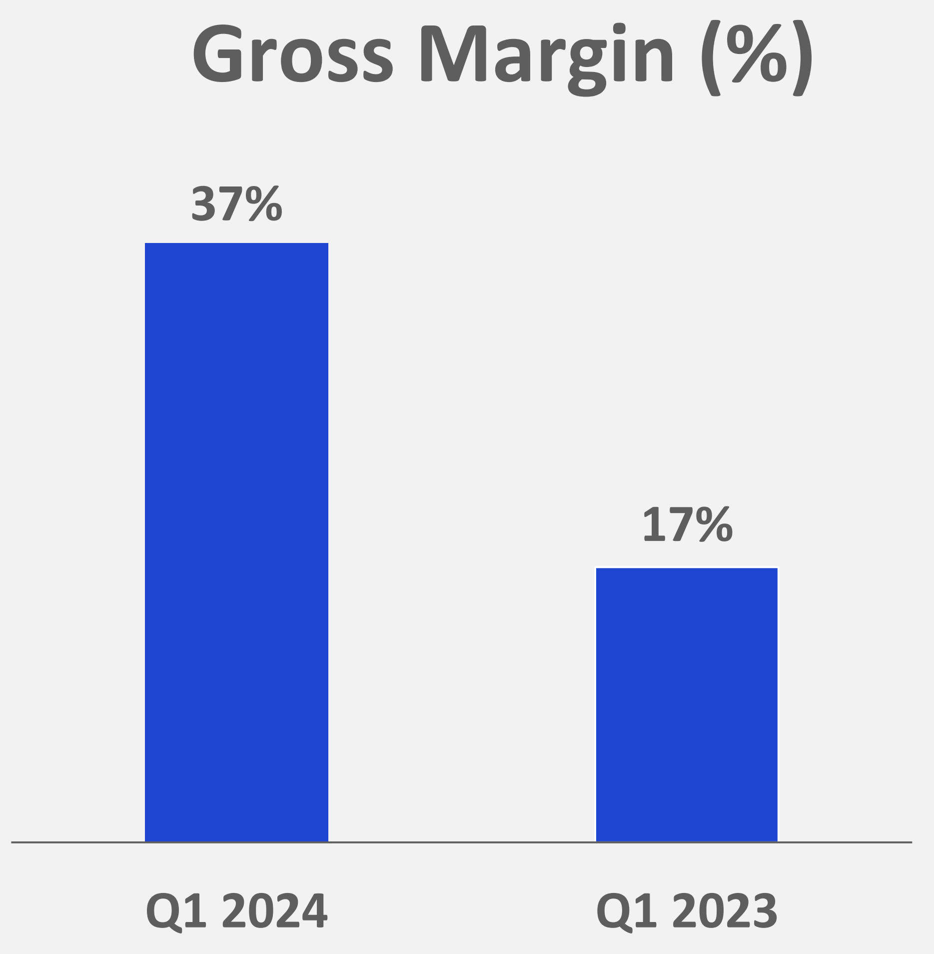
- Improvements driven by continued focus on profitability over volume, cost management, positive changes in product mix. Reflects improvement towards annualized cash generation
- **Cost of sales** reduced 20% to $13.7 million (vs. $17.2 million)
- **Gross margin** of 37% more than doubled (from 17%)
- **SG&A** reduced by 32% to $7.7 million (from $11.3 million)
- **Adjusted EBITDA** loss of $1.1 million (from $7.7 million loss) includes ~$1.0 million increase in non-recurring R&D[2]

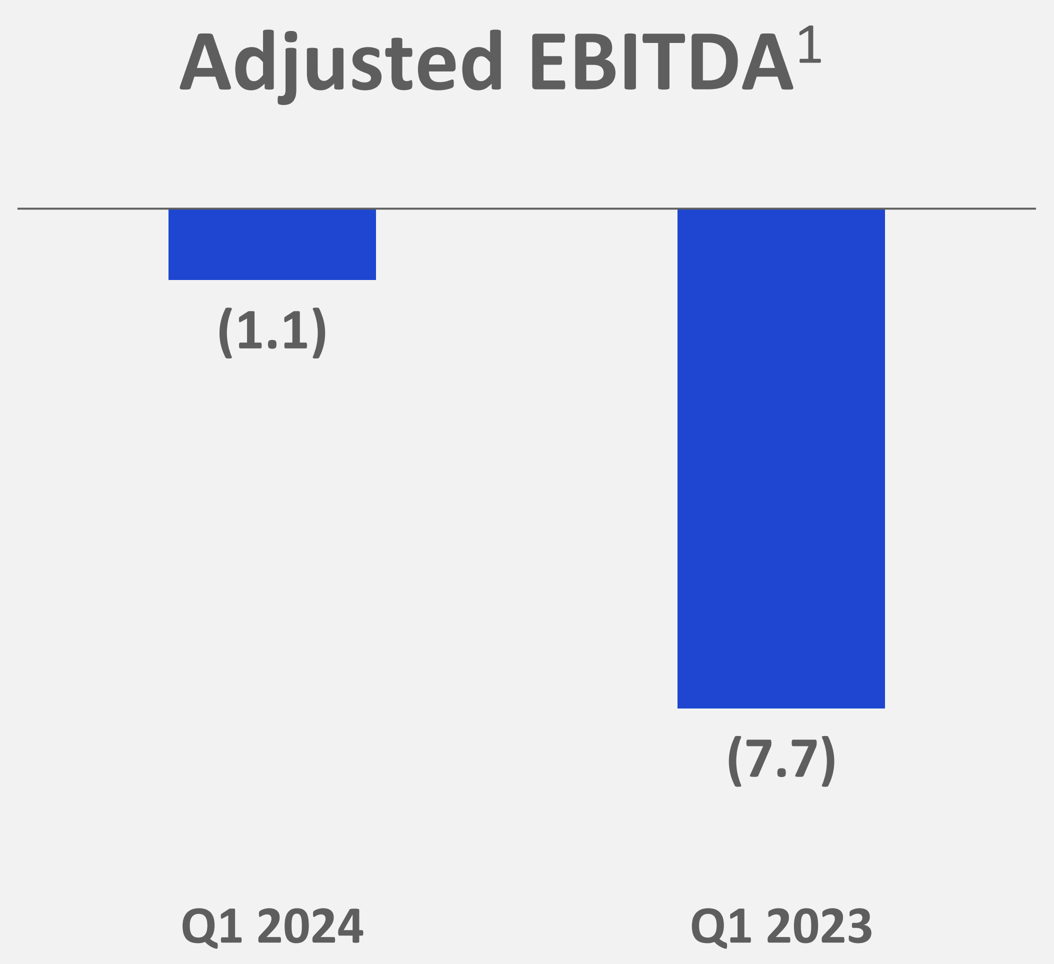
Cash & Balance Sheet Flexibility

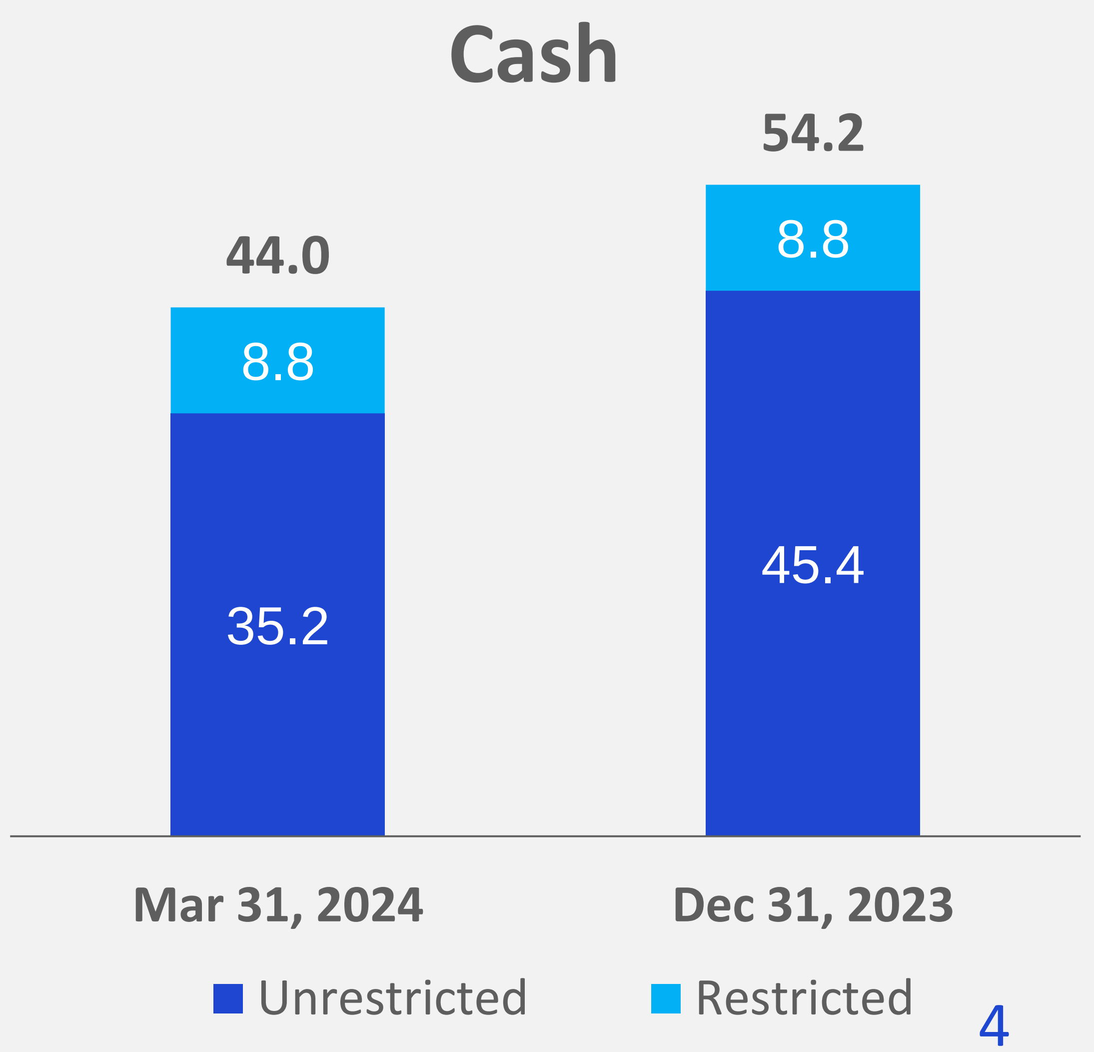
- **Cash** totaled $44.0 million as of March 31, 2024; includes $8.8 million restricted cash
- Total **debt**, inclusive of financing leases, of $20.7 million

($ million)









[1] Adjusted EBITDA is a non-GAAP measure.
[2] Related to product qualification testing for potential lead adopters of GAC product
See attached appendix for definitions and reconciliations

PAC Performance Driven by Price and Cost Cutting Enhancements

Gross margin more than doubled due to YoY ASP growth (12 of last 13 quarters) and cost cutting measures

Q1 2024:

- Highest gross margin quarter in 3 years (excluding Q4 2023 which saw significant benefits from take-or-pay enforcement)
- 4th consecutive quarter of double digit % ASP YoY increase
- Combination of reduced operating costs and increased ASP driving gross margin expansion

- +16% average YoY **ASP increase** since Q1 2023

[1] Gross Margin graphed for Q1 2023 and Q1 2024 only. Arrow not intended to imply linear growth between periods graphed.

Key Drivers of Arq's Corporate Transformation

What We're Doing

Red River Project

- Expansion to deliver incremental 25 million lbs. of GAC product
- Commissioning on target to conclude in Q4 2024
- Signed first contract for 20% of nameplate capacity at attractive pricing

Corbin Project

- Development remains on time and within budget
- Commissioning commenced
- Stockpiling feedstock

How We're Going to Do it

2024 Capex

- FY 2024 capex forecast of **$60-70 million**
- Reflects ~13% increase vs. previous range[1]
  - FY 2024 capex primarily driven by Red River, driving ~$55-60 million of the total[2]
  - Q1 2024 capex of ~$10 million, of which, ~$7 million was Red River driven[2]

Funding Sources

- Cash on hand
- Cash generation in 2024+
- Ongoing cost reduction initiatives
- Potential prepayments on GAC contracts
- Planned refinancing and expansion of existing Term Loan – advisors appointed
- Confirm no equity issuance in near-term

What it Delivers

- ✓ Targeted payback of 3 years or less for Red River project
- ✓ Expanded products and solutions portfolio
- ✓ Expansion into rapidly growing markets
- ✓ Differentiated feedstock source w/ cost & sustainability benefits
- ✓ Generate strong additional GAC cash flow to PAC foundation
- ✓ Continue transformation to environmental tech company

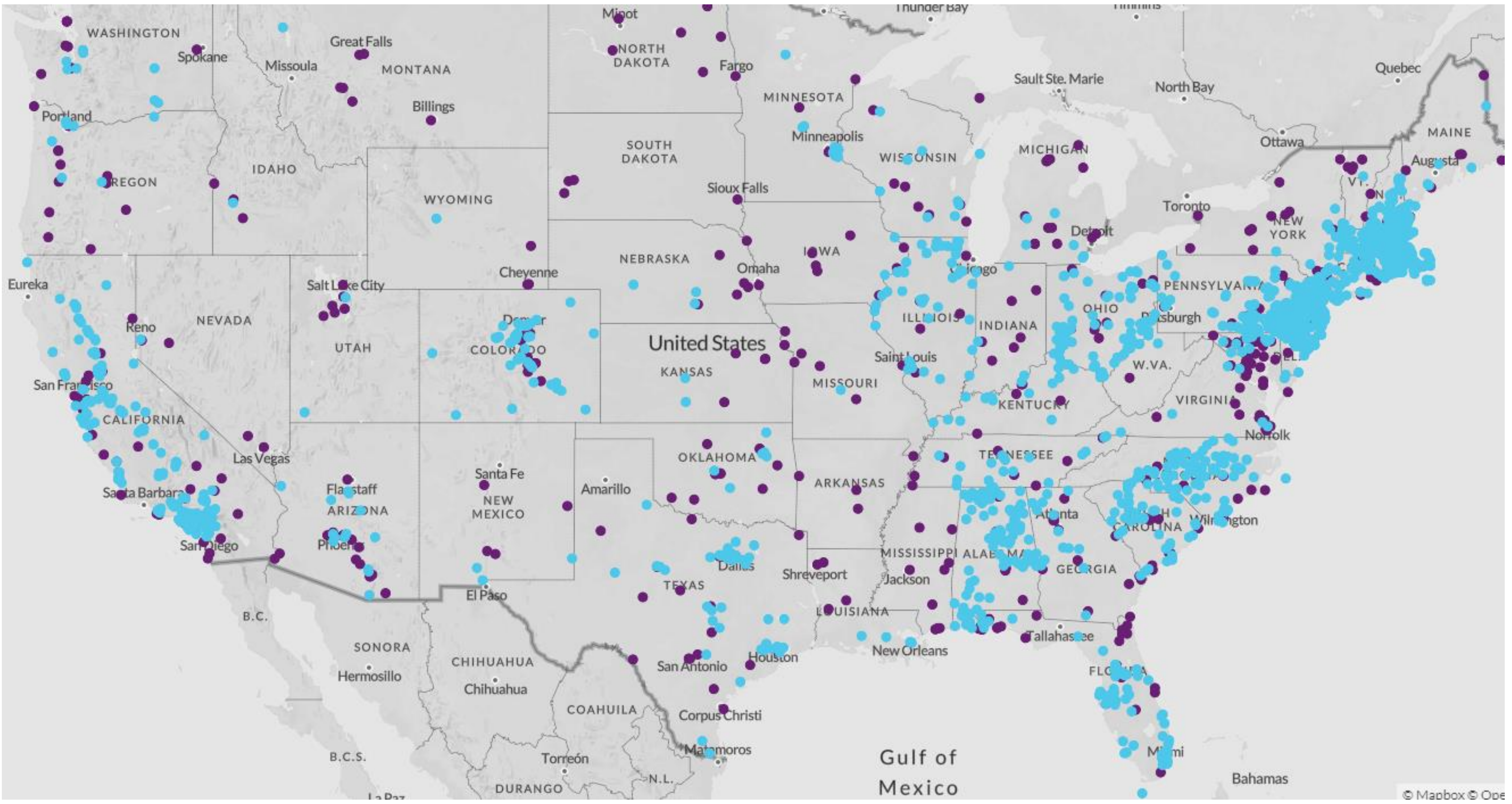
[1] Previous guidance range of $55-60 million.
[2] Non-Red River portion driven by maintenance capex & Corbin commissioning.

First GAC Contract Reflects Strategic Milestone

20% of 2025 production at attractive pricing; further wins targeted in coming months

- **First GAC contract for 5 million pounds announced May 8, 2024. Reflects third party validation of strategy and product. Attractive contract pricing that is a multiple of our average PAC pricing**
- Combination of regulatory-led demand growth and supply-side constraints leaves market in short supply
- Already robust demand expected to strengthen as new customers adopt to meet regulatory requirements
- Strong realized and expected pricing supported by recent EPA regulatory changes becoming "reality"
- New regulatory requirements expected to create a relatively price-elastic market place
- Of note, major metropolitan areas like New York, San Antonio, Dallas and Las Vegas currently have no drinking water PFAS remediation in place

PFAS Contamination in the U.S. (February 5, 2024)



Source – The Environmental Working Group

Above proposed limits
Military sites

EPA Releases Critical PFAS Regulations

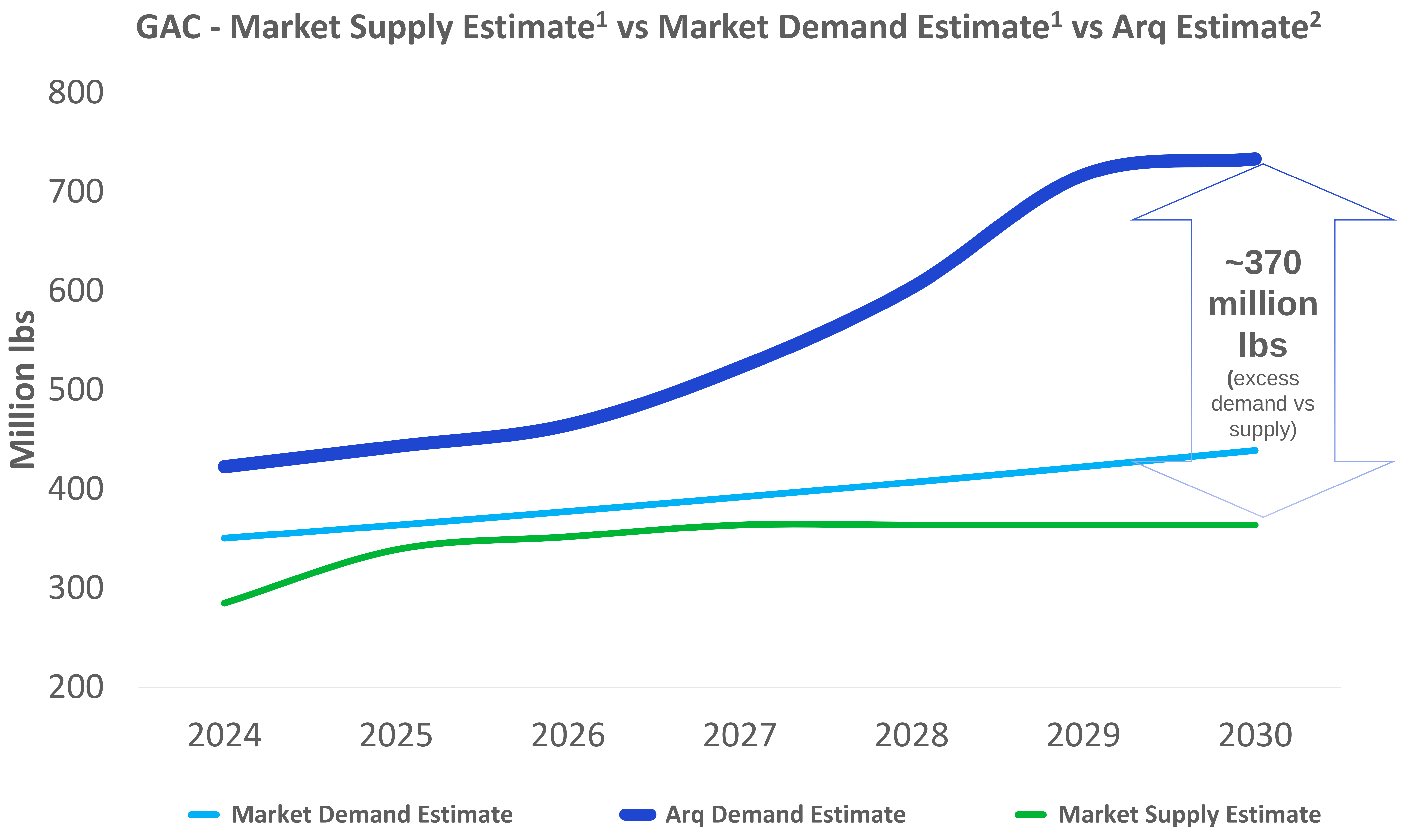
On April 10, 2024, EPA announced new National Primary Drinking Water Regulations to reduce PFAS in municipal drinking water over the next 5 years

- **Arq estimates EPA's regulations potentially increases municipal water market demand by 3-5x vs. existing ~170 million pound per year**
- **Expected to serve as significant catalyst for greater demand of Arq products and potentially exacerbating shortages of supply**
- PFAS regulations set at a very stringent 4 parts per trillion ("ppt") Maximum Contaminant Level ("MCL"), for certain PFAS compounds
- Allowable levels down from previous advisory limit of 70ppt[1]
- 4 ppt is approximately equivalent to 4 grains of sand in an Olympic-size swimming pool
- Other jurisdictions, including the EU, expected to pursue similar path, serving as further global macro tailwind
- $1bn is available to assist public water utility companies to meet the new drinking water standards; a total of $9bn is authorized under the 2021 Bipartisan Infrastructure Law (BIL) to assist communities impacted by PFAS Contamination; an additional $12bn funding is available in the BIL to improve public water infrastructure

[1] https://www.epa.gov/sdwa/questions-and-answers-drinking-water-health-advisories-pfoa-pfos-genx-chemicals-and-pfbs

North American GAC Market Fundamentals

All data suggests supply struggling to keep pace with rapid demand growth, exacerbated post EPA regulatory changes – Arq estimates this will drive a 3-5x increase in demand over the next 5 years



- Arq estimates post EPA regulations, GAC market to grow by ~75% between 2024-2029 to >700 million lbs, suggesting 370 million lbs excess demand vs supply[3] – greater than the entire North American market today
- Market supply data shows limited new entrants in the short-medium term, constrained by capital, feedstock and permits leading to a minimum 75 million lbs supply deficit[3] by 2030
- Possible that consumer-led demand may accelerate uptake before regulatory requirements make it legal obligation
- Arq anticipates demand dramatically increasing as 2029 deadline approaches and customers bring online systems to meet regulatory requirements
- **Market estimates based on 2022 data and therefore compiled before latest EPA regulatory changes**

[1] Market data source: IHS and Company estimates
[2] Arq estimates a 10% increase on previous market data in 2024 and YoY through 2026; and a 50% increase YoY in 2027 through 2029 – i.e. accelerating into the final stages of compliance with new EPA regulations
[3] Excluding any new entrants

2024 Key Objectives

1 PAC Optimization

- Drive additional market penetration (i.e. water)
- Eliminate loss-making contracts
- Improve product mix and drive higher ASP

2 GAC Customers

- Continue active dialogue with new and existing GAC customers
- Secure additional GAC contracts ahead of first production in Q4 2024

3 Corbin Facility

- Commission facility
- Stockpile bituminous waste feedstock
- Deliver feedstock to Red River GAC facility upon commissioning

4 Red River GAC Facility

- Complete commissioning in Q4 2024
- Achieve first GAC deliveries by YE 2024
- Achieve 25 million lb production capacity

Financial Detail

Consolidated Balance Sheet[1]

(in thousands, except share data)	As of March 31, 2024	As of December 31, 2023
ASSETS		
Current assets:		
Cash	$ 35,227	$ 45,361
Receivables, net	10,927	16,192
Inventories, net	21,683	19,693
Prepaid expenses and other current assets	4,201	5,215
Total current assets	72,038	86,461
Restricted cash, long-term	8,792	8,792
Property, plant and equipment, net of accumulated depreciation of $21,306 and $19,293, respectively	103,645	94,649
Other long-term assets, net	45,323	45,600
Total Assets	$ 229,798	$ 235,502
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 12,538	$ 14,603
Current portion of debt obligations	2,535	2,653
Other current liabilities	6,894	5,792
Total current liabilities	21,967	23,048
Long-term debt obligations, net of current portion	18,127	18,274
Other long-term liabilities	14,540	15,780
Total Liabilities	54,634	57,102
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: par value of $0.001 per share, 50,000,000 shares authorized, none issued and outstanding	—	—
Common stock: par value of $0.001 per share, 100,000,000 shares authorized, 38,093,129 and 37,791,084 shares issued, and 33,474,983 and 33,172,938 shares outstanding at March 31, 2024 and December 31, 2023, respectively	38	38
Treasury stock, at cost: 4,618,146 and 4,618,146 shares as of March 31, 2024 and December 31, 2023, respectively	(47,692)	(47,692)
Additional paid-in capital	154,694	154,511
Retained earnings	68,124	71,543
Total Stockholders' Equity	175,164	178,400
Total Liabilities and Stockholders' Equity	$ 229,798	$ 235,502

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2024.

Consolidated Statement of Operations[1]

(in thousands, except per share data)	Three Months Ended March 31, 2024	2023
Revenue	$ 21,740	$ 20,805
Cost of revenue, exclusive of depreciation and amortization	13,713	17,175
Operating expenses:		
Selling, general and administrative	7,666	11,283
Research and development	1,625	732
Depreciation, amortization, depletion and accretion	1,716	2,137
Gain on sale of Marshall Mine, LLC	—	(2,695)
Total operating expenses	11,007	11,457
Operating loss	(2,980)	(7,827)
Other income (expense):		
Earnings from equity method investments	—	638
Interest expense	(791)	(534)
Other	352	182
Total other (expense) income	(439)	286
Loss before income taxes	(3,419)	(7,541)
Income tax benefit	—	33
Net loss	$ (3,419)	$ (7,508)
Loss per common share:		
Basic	$ (0.09)	$ (0.32)
Diluted	$ (0.09)	$ (0.32)
Weighted-average number of common shares outstanding:		
Basic	37,062	23,770
Diluted	37,062	23,770

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2024.

Consolidated Statement of Cash Flows[1]

(in thousands)	Three Months Ended March 31, 2024	2023
Cash flows from operating activities		
Net loss	$ (3,419)	$ (7,508)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization, depletion and accretion	1,716	2,137
Stock-based compensation expense	782	563
Operating lease expense	596	738
Amortization of debt discount and debt issuance costs	149	—
Gain on sale of Marshall Mine, LLC	—	(2,695)
Earnings from equity method investments	—	(638)
Other non-cash items, net	(19)	11
Changes in operating assets and liabilities:		
Receivables and related party receivables	5,264	3,867
Prepaid expenses and other assets	1,067	3,360
Inventories, net	(1,240)	(2,312)
Other long-term assets, net	(556)	(479)
Accounts payable and accrued expenses	(3,481)	(14,025)
Other current liabilities	1,190	(210)
Operating lease liabilities	(592)	(787)
Other long-term liabilities	(931)	273
Net cash provided by (used in) operating activities	$ 526	$ (17,705)

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2024.

Consolidated Statement of Cash Flows (cont.)[1]

(in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows from investing activities		
Acquisition of property, plant, equipment, and intangible assets, net	$ (9,596)	$ (3,545)
Acquisition of mine development costs	(51)	(38)
Cash and restricted cash acquired in business acquisition	—	2,225
Payment for disposal of Marshall Mine, LLC	—	(2,177)
Distributions from equity method investees in excess of cumulative earnings	—	638
Net cash used in investing activities	(9,647)	(2,897)
Cash flows from financing activities		
Repurchase of common stock to satisfy tax withholdings	(599)	(146)
Principal payments on finance lease obligations	(280)	(295)
Principal payments on CTB Loan	(134)	(41)
Net proceeds from common stock issued in PIPE Investment	—	15,220
Net proceeds from CFG Loan, related party, net of discount and issuance costs	—	8,522
Net cash (used in) provided by financing activities	(1,013)	23,260
(Decrease) increase in Cash and Restricted Cash	(10,134)	2,658
Cash and Restricted Cash, beginning of period	54,153	76,432
Cash and Restricted Cash, end of period	$ 44,019	$ 79,090
Supplemental disclosure of non-cash investing and financing activities:		
Equity issued as consideration for acquisition of business	$ —	$ 31,205
Change in accrued purchases for property and equipment	$ 1,415	$ 520
Paid-in-kind dividend on Series A Preferred Stock	$ —	$ 157

(1) See complete, unaudited Condensed Consolidated Financial Statements and Notes related thereto within the Quarterly Report on Form 10-Q for the period ended March 31, 2024.

Note on Non-GAAP Financial Measures

This presentation presents certain supplemental financial measures, including EBITDA and Adjusted EBITDA, which are measurements that are not calculated in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and Adjusted EBITDA is defined as EBITDA reduced by the non-cash impact of equity earnings from equity method investments and gain on sale of the Marshall Mine, increased by cash distributions from equity method investments, loss on early settlement of a long-term receivable and loss on change in estimate, asset retirement obligations. EBITDA and Adjusted EBITDA should be considered in addition to, and not as a substitute for, net income in accordance with GAAP as a measure of performance. See the following slide for a reconciliation from Net income, the nearest GAAP financial measure, to EBITDA and Adjusted EBITDA.

The Company believes that the EBITDA and Adjusted EBITDA measures are less susceptible to variances that affect the Company's operating performance. The Company includes these non-GAAP measures because management uses them in the evaluation of the Company's operating performance and believes they help to facilitate comparison of operating results between periods. The Company believes the non-GAAP measures provide useful information to both management and users of the financial statements by excluding certain expenses, gains, and losses which can vary widely across different industries or among companies within the same industry and may not be indicative of core operating results and business outlook.

Adjusted EBITDA Reconciliation to Net Income (Loss)

	Three Months Ended March 31,	
(in thousands)	**2024**	**2023**
Net loss [1]	$ (3,419)	$ (7,508)
Depreciation, amortization, depletion and accretion	1,716	2,137
Amortization of Upfront Customer Consideration	127	127
Interest expense, net	432	289
Income tax benefit	—	(33)
EBITDA loss	(1,144)	(4,988)
Cash distributions from equity method investees	—	638
Equity earnings	—	(638)
Gain on sale of Marshall Mine, LLC	—	(2,695)
Adjusted EBITDA loss	$ (1,144)	$ (7,683)

[1] Included in Net loss for the three months ended March 31, 2023 is $4.4 million of transactions and integration costs incurred related to the Arq Acquisition. Additionally, for the three months ended March 31, 2023, Net loss included $0.9 million of Legacy Arq payroll and benefit costs.

Appendix

Company Overview – Who is Arq?

Arq is a diversified, environmental technology company with products that enable a cleaner and safer planet while actively reducing our environmental impact

Produce activated carbon & other environmentally beneficial carbon products

- PFAS remediation
- Soil, water and air purification
- Asphalt additives

Uniquely utilize bituminous coal waste as feedstock

- Reduced emissions
- Improved environmental footprint

Provide innovative environmental solutions for a cleaner future

- Superior products
- Differentiated supply chain
- Portfolio of applications

Note: PFAS: Per- or poly-fluorinated alkyl substances (PFAS) are a group of industrial chemicals used in everyday products and are often referred to as 'Forever Chemicals' because of their extreme persistence in the environment

Arq Investment Highlights

Vertically Integrated	Activated carbon producer with unique patent protected technology, dedicated feedstock, owned & operated production facilities and distribution network
Growth Focused	Shift to underserved and growing markets repositions business for growth through higher margin products
Environmentally Beneficial	Unique production process utilizing waste feedstock reduces CO2e emissions
Competitively Advantaged	Combination of product performance, production cost, environmental benefits and industry-leading R&D team differentiate the business
Undervalued Asset Base	Existing asset base replacement value is multiples of current market capitalization

Products and Market Applications

Activated carbons are highly engineered sorbent materials which purify, filter or remove pollutants from air, water and soil

Applications

- Potable Water
- Wastewater Treatment
- Biogas
- Mercury Emissions
- Pharma
- Specialty
- Automotive
- Food & Beverage
- Soil & Groundwater Remediation

Products	Market	Outlook
Granular Activated Carbon (GAC)	Municipal water, soil and groundwater remediation and specialty gas purification	Growing
Powder Activated Carbon (PAC)	Power generation, industrial and municipal water	Stable / declining
Colloidal Carbon Product (CCP)	Soil and groundwater remediation	Growing

Ongoing R&D addressing potential applications in diverse growing markets including carbon black additives (tires, polymer composites and coatings) and asphalt additives (infrastructure and building)

Our Key GAC Differentiators

Arq's unique products, process and supply chain are key differentiators

We will be the only GAC producer:

...with a vertically integrated domestic supply chain...

...using bituminous coal waste feedstock, enabling significant environmental benefits...

...and with estimated lower Scope 1 & 2 CO2e emissions (vs virgin coal-based GAC)

Financial advantages to our approach:

- ✓ ***Arq's own bituminous coal waste used as feedstock supply***
- ✓ ***Drives competitive sourcing vs. traditionally mined coal***
- ✓ ***Lowers operating costs by generating net positive power***
- ✓ ***Avoids negative import factors (freight, tariffs and duties)***

Arq Investor Relations

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