Arq

Nasdaq: ARQ

Investor Presentation

March 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; the ability to meet Nasdaq’s listing standards following the consummation of the Transaction; 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.

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)

Rebrand Reflects Transformation to Growth Business

Rebrand to Arq Completed in February 2024

- Reflects transformation from industrial manufacturing company serving declining industries to environmental technology company serving growth markets
- Products addressing growing markets and used to reduce or reverse environmental liabilities like PFAS or "Forever Chemicals"

Powder Activated Carbon (PAC)

- Arq's **foundational** business
- Established leading market position; strong fundamentals for ongoing demand
- Penetrating new markets (e.g. water), driving cost reduction, improving product mix and ASP, and eliminating loss-making relationships
- Achieved positive cash flow in Q4 2023 via focus on profitability over volumes
- Remains key part of our ongoing strategy and business

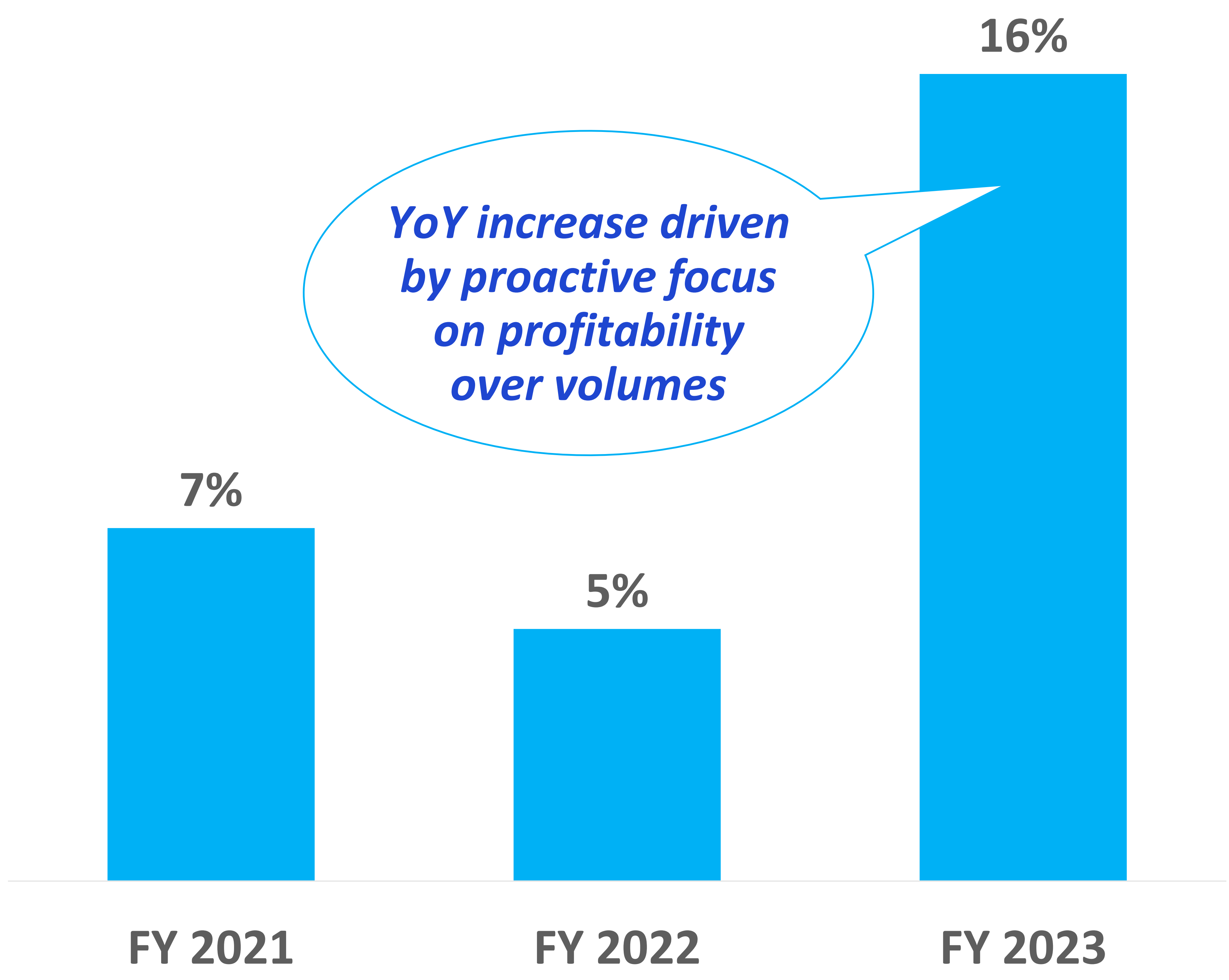
Granular Activated Carbon (GAC)

- Arq's **growth** business
- Highly attractive investment economics on first phase of production
- Unique opportunity to leverage existing asset & portfolio base to drive further differentiation
- Compelling macro tailwinds in the U.S. and globally
- Significant expansion to potential total addressable market

Execution Strategy for Foundational PAC Business

Transformation of PAC business demonstrates successful execution of strategic focus on profitability over volume

YoY Average Selling Price (ASP) Performance



- Achieved positive cash flow for existing PAC portfolio in Q4 2023
- ASP improved 18% YoY in Q4 2023
- Only 1 negative margin contract will remain as of March 31, 2024 (~2% of volumes)[1]
- Foundational PAC business will be net cash contributor in 2024

[1] Reflects percentage of forecasted 2024 volumes.

Recent Financial Highlights – Q4 2023

1st
in 8 Quarters

Achieved positive net income for the first quarter since Q4 2021

20%
revenue growth

Delivered total revenue growth of 20% vs. prior year period

50%
gross margins

Achieved 50% gross margins by focusing on profitability over volumes in PAC business

$7.2MM
Adj. EBITDA

Achieved 2nd consecutive quarter of positive Adjusted EBITDA

$54.2MM[1]
cash position

Exited YE 2023 with strong cash position and a clear / flexible plan to fund 2024 capex

[1] Cash and restricted cash.

Key Drivers of Corporate Transformation

What We're Doing

Red River Project

- Expansion to deliver incremental 25 million lbs. of GAC product
- Commissioning expected to conclude in Q4 2024

Corbin Project

- Development remains on time & within budget
- Commissioning expected to conclude in Q2 2024

How We're Going to Do it

$55-60 Million

(Total Capex 2024)

- Red River: $45-50 million
- Remainder driven by maintenance capex & Corbin commissioning

Funding Sources

- Cash on hand
- Cash generation in 2024+
- Ongoing cost reduction initiatives
- Potential prepayments on GAC contracts
- Planned borrowing (Term Loan refinancing & potential expansion; no equity issuance)

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

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)***

Strong & Growing GAC Market Drivers

Compelling macro tailwinds driven by potential regulation

- Latest EPA update (Feb 2024) highlighted scope of ambition to specifically reduce PFAS ("Forever Chemicals") in our communities
- Initial proposals expected imminently; should they become formal regulation, will serve as significant catalyst for greater demand of Arq products
- If current proposal enacted, potentially adds 3-4x in demand volume beyond existing ~170 million pound annual municipal water market
- Other jurisdictions, including the EU, expected to pursue similar path, serving as further global macro tailwind

Why this matters…

- **Could establish new materially higher standards for drinking water across USA**
- **Could add multiple PFAS compounds as hazardous constituents**
- **Could create increased demand for effective remediation products (e.g. GAC), exacerbating shortages of supply**

Trend for stricter regulations and constrained supply anticipated to be replicated globally, further increasing product demand

PFAS – "Forever Chemicals" Awareness Gathering Pace

- Per- or poly-fluorinated alkyl substances (PFAS) are a group of industrial chemicals typically used in everyday products to make them non-stick, waterproof or stain resistant
- Often referred to as 'Forever Chemicals' because of their extreme persistence in the environment
- 98% of US population estimated to have some form of negative PFAS exposure*
- High levels of exposure have been linked to cancer, liver and kidney damage**
- In 2023, EPA set new legal limits for PFOS and PFOA of 4 parts per trillion (ppt), the limit of detection for both chemicals
- 4 ppt is approximately equivalent to 4 grains of sand in an Olympic-size swimming pool. This was a reduction from previous advisory health limit of 70 ppt ***

Investors raise pressure over 'forever chemicals' amid growing litigation

Personal injury claims could reach $66bn in crisis akin to asbestos liabilities

Source – Financial Times [1]

US Food Faces PFAS Challenge as European Rules, Policies Expand

Source – Bloomberg Law [2]

At least 60% of US population may face 'forever chemicals' in tap water, tests suggest

Source – The Guardian [4]

EPA proposes some 'forever chemicals' be considered hazardous

Source – CNN [5]

3M to Pay Up to $12.5 Billion to Settle Forever-Chemicals Lawsuits

Source – Bloomberg [3]

* https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7879379/
** https://www.atsdr.cdc.gov/pfas/health-effects/index.html
*** https://www.epa.gov/sdwa/questions-and-answers-drinking-water-health-advisories-pfoa-pfos-genx-chemicals-and-pfbs
1 – LINK. 2 – LINK. 3 – LINK. 4 – LINK. 5 - LINK

Arq Investment Conclusions

- *Vertically integrated*
- *Growth focused*
- *Environmentally beneficial*
- *Competitively advantaged*
- *Undervalued asset base*

Appendix

Arq At a Glance

Producing Activated Carbon Since 2008

Strong asset and customer base; ~195 patents & applications across large & diverse markets

Top 3 Activated Carbon Supplier

~17% North American market share

Material Environmental Benefits

Reduced lifecycle environmental footprint

Fully Integrated Supply Chain

Enables cost control, supply surety and margin enhancement

Robust Financial Performance

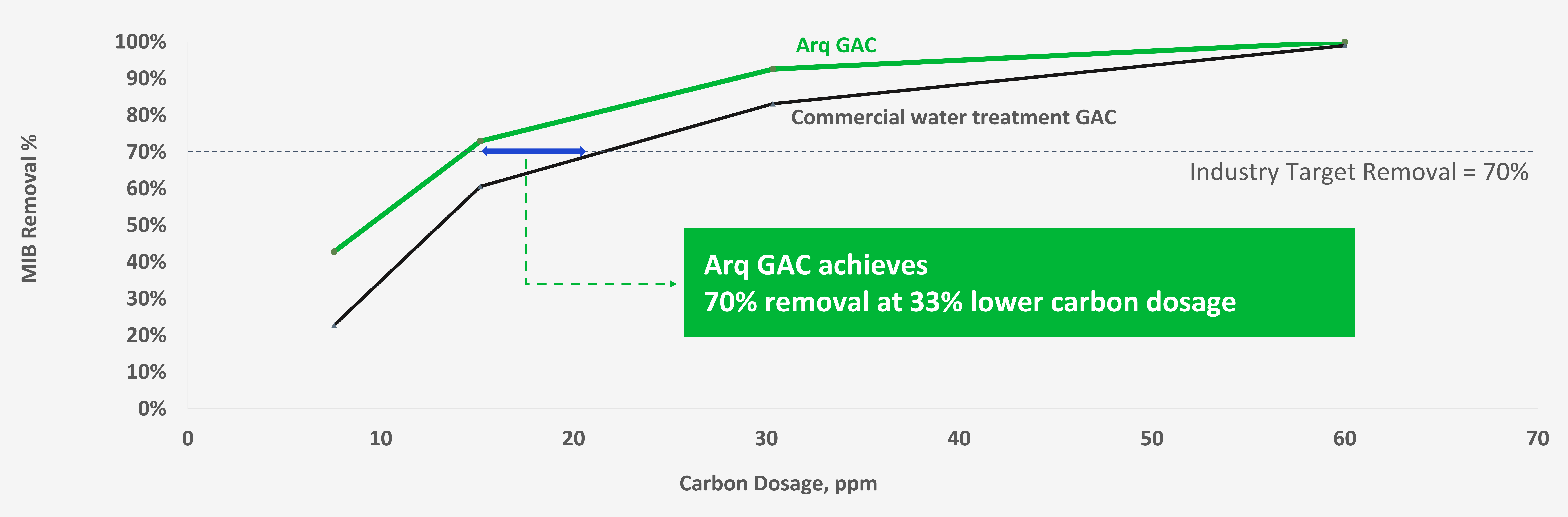
$99 million revenue (FY 23)

$54 million cash (FY 23)

Our Performance Benefits

Municipal water customer testing of our GAC product demonstrates improved performance in water purification for key contaminants

Methyl-Isoborneol (MIB) Removal



Significant and Undervalued Asset Base

Provides springboard for growth into higher margin products

- Estimated replacement value of existing assets >$500 million*
- Legacy PAC business provides infrastructure, sales team, customer relationships and market expertise mitigating expansion plan risk
- GAC products carry higher market price points and margins and applications in faster-growing markets
- Shift toward GAC production from existing facilities and strategic expansion projects increases our market breadth and repositions business for growth

* Source: Based on Company's estimates of potential greenfield projects

Consolidated Balance Sheet[1]

(in thousands, except share data)	As of December 31, 2023	As of December 31, 2022
ASSETS		
Current assets:		
Cash	$ 45,361	$ 66,432
Receivables, net	16,192	13,864
Inventories, net	19,693	17,828
Prepaid expenses and other current assets	5,215	7,538
Total current assets	86,461	105,662
Restricted cash, long-term	8,792	10,000
Property, plant and equipment, net of accumulated depreciation of $19,293 and $11,897, respectively	94,649	34,855
Other long-term assets, net	45,600	30,647
Total Assets	$ 235,502	$ 181,164
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 14,603	$ 16,108
Current portion of long-term debt	2,653	1,131
Other current liabilities	5,792	6,645
Total current liabilities	23,048	23,884
Long-term debt, net of current portion	18,274	3,450
Other long-term liabilities	15,780	13,851
Total Liabilities	57,102	41,185
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock: par value of $.001 per share, 50,000,000 shares authorized, none outstanding	—	—
Common stock: par value of $.001 per share, 100,000,000 shares authorized, 37,791,084 and 23,788,319 shares issued and 33,172,938 and 19,170,173 shares outstanding at December 31, 2023 and 2022, respectively	38	24
Treasury stock, at cost: 4,618,146 and 4,618,146 shares as of December 31, 2023 and 2022, respectively	(47,692)	(47,692)
Additional paid-in capital	154,511	103,698
Retained earnings	71,543	83,949
Total stockholders' equity	178,400	139,979
Total Liabilities and Stockholders' equity	$ 235,502	$ 181,164

[1] See complete, Consolidated Financial Statements and Notes related thereto within the Annual Report on Form 10-K for the period ended December 31, 2023.

Consolidated Statements of Operations[1]

(in thousands, except per share data)	Three Months Ended December 31, 2023	Three Months Ended December 31, 2022	Years Ended December 31, 2023	Years Ended December 31, 2022
	(unaudited)			
Revenue:				
Consumables	$ 28,104	$ 23,409	$ 99,183	$ 102,987
Total revenue	28,104	23,409	99,183	102,987
Operating expenses:				
Consumables cost of revenue, exclusive of depreciation and amortization	14,105	17,473	67,323	80,465
Payroll and benefits	2,672	3,082	15,154	10,540
Legal and professional fees	1,528	2,060	9,588	9,455
General and administrative	3,464	2,483	12,641	8,145
Depreciation, amortization, depletion and accretion	3,267	1,651	10,543	6,416
Gain on sale of Marshall Mine, LLC	—	—	(2,695)	—
Other	(36)	34	(36)	34
Total operating expenses	25,000	26,783	112,518	115,055
Operating income (loss)	3,104	(3,374)	(13,335)	(12,068)
Other income, net:				
Earnings from equity method investments	111	319	1,623	3,541
Interest expense	(859)	(77)	(3,014)	(336)
Other	1,120	174	2,630	155
Total other income, net	372	416	1,239	3,360
Income (loss) before income tax expense	3,476	(2,958)	(12,096)	(8,708)
Income tax expense	186	209	153	209
Net income (loss)	$ 3,290	$ (3,167)	$ (12,249)	$ (8,917)
Income (loss) per common share:				
Basic	$ 0.10	$ (0.17)	$ (0.42)	$ (0.48)
Diluted	$ 0.10	$ (0.17)	$ (0.42)	$ (0.48)
Weighted-average number of common shares outstanding:				
Basic	32,367	18,506	29,104	18,453
Diluted	32,952	18,506	29,104	18,453

[1] See complete, Consolidated Financial Statements and Notes related thereto within the Annual Report on Form 10-K for the period ended December 31, 2023.

Consolidated Statements of Cash Flows[1] - Cont.

(in thousands)	Years Ended December 31, 2023	2022
Cash flows from operating activities		
Net loss	$ (12,249)	$ (8,917)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization, depletion and accretion	10,543	6,416
Operating lease expense	2,757	2,709
Gain on sale of Marshall Mine, LLC	(2,695)	—
Stock-based compensation expense	2,648	1,981
Earnings from equity method investments	(1,623)	(3,541)
Amortization of debt discount and debt issuance costs	546	—
Other non-cash items, net	(111)	530
Changes in operating assets and liabilities:		
Receivables and related party receivables	(2,264)	1,169
Prepaid expenses and other current assets	4,777	(876)
Inventories, net	(2,571)	(9,686)
Other long-term assets, net	(4,762)	245
Accounts payable and accrued expenses	(12,061)	(911)
Other current liabilities	(184)	1,008
Operating lease liabilities	(168)	1,521
Other long-term liabilities	764	(6)
Distributions from equity method investees, return on investment	—	2,297
Net cash used in operating activities	(16,653)	(6,061)
Cash flows from investing activities		
Acquisition of property, equipment and intangible assets, net	(27,516)	(8,914)
Mine development costs	(2,690)	(583)
Cash and restricted cash acquired in acquisition of business	2,225	—
Payment for disposal of Marshall Mine, LLC	(2,177)	—
Distributions from equity method investees in excess of cumulative earnings	1,623	3,636
Proceeds from sale of property and equipment	—	1,253
Net cash used in investing activities	(28,535)	(4,608)

[1] See complete, Consolidated Financial Statements and Notes related thereto within the Annual Report on Form 10-K for the period ended December 31, 2023.

Consolidated Statements of Cash Flows[1] - Cont.

(in thousands)	Years Ended December 31, 2023	2022
Cash flows from financing activities		
Net proceeds from common stock issuance	$ 15,220	$ —
Net proceeds from CFG Loan, related party, net of discount and issuance costs	8,522	—
Principal payments on finance lease obligations	(1,130)	(1,246)
Net proceeds from common stock issuance, related party	1,000	—
Principal payments on Arq Loan	(473)	—
Repurchase of shares to satisfy tax withholdings	(230)	(388)
Dividends paid	—	(45)
Net cash provided by (used in) financing activities	22,909	(1,679)
Decrease in Cash and Restricted Cash	(22,279)	(12,348)
Cash and Restricted Cash, beginning of year	76,432	88,780
Cash and Restricted Cash, end of year	$ 54,153	$ 76,432
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,727	$ 334
Cash (received) paid for income taxes	$ (1,697)	$ 3
Supplemental disclosure of non-cash investing and financing activities:		
Equity issued as consideration for acquisition of business	$ 31,206	$ —
Change in accrued purchases for property and equipment	$ 914	$ 532
Paid-in-kind dividend on Series A Preferred Stock	$ 157	$ —
Acquisition of property and equipment under finance lease	$ —	$ 1,641

[1] See complete, Consolidated Financial Statements and Notes related thereto within the Annual Report on Form 10-K for the period ended December 31, 2023.

Note on Non-GAAP Financial Measures

To supplement our financial information presented in accordance with accounting principles generally accepted in the United States ("GAAP"), we provide non-GAAP measures of certain financial performance. These non-GAAP measures include EBITDA (EBITDA Loss) and Adjusted EBITDA (Adjusted EBITDA Loss). We have included these non-GAAP measures because management believes that they help to facilitate period to period comparisons of our operating results and 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. Management uses these non-GAAP measures in evaluating the performance of our business.

These non-GAAP measures are not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from, and may not be comparable to, similarly titled non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. These measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

We define EBITDA (EBITDA Loss) as net income (loss) adjusted for the impact of the following items that are either non-cash or that we do not consider representative of our ongoing operating performance: depreciation, amortization, depletion, accretion, amortization of upfront customer consideration that was recorded as a component of the Marshall Mine, LLC Acquisition ("Upfront Customer Consideration"), interest expense, net and income tax expense. We define Adjusted EBITDA (Adjusted EBITDA Loss) as EBITDA (EBITDA Loss), reduced by the non-cash impact of equity earnings from equity method investments and other infrequent or unusual non-cash gains or losses, and increased by cash distributions from equity method investments. Because Adjusted EBITDA (Adjusted EBITDA Loss) omits certain non-cash items, we believe that the measure is less susceptible to variances that affect our operating performance.

When used in conjunction with GAAP financial measures, we believe these non-GAAP measures are supplemental measures of operating performance which explain our operating performance for our period to period comparisons and against our competitors' performance. Generally, we believe these non-GAAP measures are less susceptible to variances that affect our operating performance results.

We expect the adjustments to EBITDA (EBITDA Loss) and Adjusted EBITDA (Adjusted EBITDA Loss) in future periods will be generally similar. These non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as a substitute for analyzing our results as reported under GAAP.

Adjusted EBITDA Reconciliation to Net Income (Loss)[1]

	Three Months Ended			Years Ended	
	September 30,	December 31,		December 31,	
(in thousands)	2023	2023	2022	2023	2022
Net (loss) income	$ (2,175)	$ 3,290	$ (3,167)	$ (12,249)	$ (8,917)
Depreciation, amortization, depletion and accretion	2,711	3,267	1,651	10,543	6,416
Amortization of Upfront Customer Consideration	127	127	127	508	508
Interest expense, net	224	346	(66)	1,168	97
Income tax expense	—	186	209	153	209
EBITDA (EBITDA Loss)	887	7,216	(1,246)	123	(1,687)
Cash distributions from equity method investees	412	111	320	1,623	5,933
Equity earnings	(412)	(111)	(319)	(1,623)	(3,541)
Gain on sale of Marshall Mine, LLC	—	—	—	(2,695)	—
Loss (gain) on change in estimate, asset retirement obligation	—	(37)	—	(37)	34
Loss on early settlement of an account receivable	—	—	—	—	535
Adjusted (EBITDA loss) EBITDA	$ 887	$ 7,179	$ (1,245)	$ (2,609)	$ 1,274

[1] Included in Net loss for the year ended December 31, 2023 and 2022 was $4.9 million and $5.0 million, respectively, of transaction and integration costs incurred related to the Arq Acquisition. Additionally, for the year ended December 31, 2023, Net loss included $4.9 million of Legacy Arq payroll and benefit costs and $1.7 million of severance expense related to three executive employees.

Arq Investor Relations

Contacts:

Anthony Nathan, Arq
Marc Silverberg, ICR
investors@arq.com

8051 E. Maplewood Ave, Suite 210
Greenwood Village, CO 80111