



TELECONFERENCE BRIEFING

BY CEO RIGGS ECKELBERRY

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(Transcript from recording)

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Riggs:

This is the 13th of December and we are once again doing our Thursday call. We had today our company holiday lunch which was great. We discussed what's going on. The first thing that's going on is that we basically have with respect to mergers and acquisitions, a plan A and then a plan B. So plan A is big and plan B is less big. Obviously plan A is the one we want to do, but if we're not going to do a Hail Mary pass then we need to do at least plan B. So that's been my position all along. It's like whatever we do, let's do something and let's do it soon.

The good news is that we heard today that plan A is on, so doesn't look like we'll have to go to a plan B. Obviously we'll have to see where that goes, but that was very good news for the company holiday lunch. That was really fantastic. The other thing that's going on is that we are working very hard to build a more sophisticated business model for the water systems that we built. Now, typically people in water do what's called design and build, but if you really want a profitable business, you want to do design, build, own and operate. D-B-O-O.

It's relatively easy to design and build. You've got to be, of course, a good designer. You've got to be able to build stuff well and deliver it, but if all you're selling is widgets, then you're going to make a lot less money than if you continue to be the person basically guaranteeing that that water is going to be treated right, that it's going to be proper quality, that it's going to be recycled, etc.. In other words, a management contract. So you can get in a situation where let's say someone brings you into a particular city to do their water



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treatment and you do the design and build. You're there. You do the hard work. You leave. You get paid, and the other company that brought you in does the management.

Of course they didn't have to do the hard work, and they end up with the profitable business. So, it's really, really important to be in that business. In fact back in the '80s, IBM transitioned from selling mostly hardware, mainframes and mini computers, into what ended up being IBM Global Services, and easily more than half of their margin started to come from services. The same thing happened with Oracle, where they typically do about 30% of their business from services. So, it's really, really important for a company to have a strong service component. So, one of my good friends is getting involved who has been doing this as a business and people get very excited about water and the ability to do something about that, and they are much more interested in that than, let's say, marketing paperclips.

So this friend of mine in fact is very excited about getting into doing something about water because the better the business model, the more deals you could do, the more change you can bring about in the water industry which is a very difficult industry to change because it's so massive. Massive, slow moving, the projects are gigantic often and how do you effect change? Well, you effect change through the velocity of deals and profitability of deals and of course, better technology. All those things are vital.

So, what we're working on now especially during this break is something that we're going to have a chance to really build, is Modular Water Systems, MWS.

MWS is a great business because it is not a huge, new technology. We've learned that even though there is tremendous upside in new technology, it takes quite a while to get it implemented in water because the water industry changes very slowly and so that's why, when I had the chance to create Modular Water Systems back in late June of this year, around Dan Early, I jumped at it, and did whatever I could to make it happen because it's an incremental change.

In other words, treat the water all you want, do what you do, desalination, portable water, whatever it is you do, but just do it in a different package, and the package permits assembly line production. It permits prefabrication. It's, let's say, four times more durable than concrete or steel. It's typically less expensive, 5 to 15% less expensive. So, it's a faster, better way to do it and it reminds me very much of what Compaq Computer did back in the day when it



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came out with the first laptop and it was literally the first time somebody was making something that could be carried around. Now, it was not so much a laptop as what they used to call a luggage. It was basically a suitcase, but they totally changed the computer industry by only changing the package, and it created a very successful company that later merged with Hewlett-Packard and so forth, a multi-billion dollar company.

That really tells us that by merely providing a better package, we can dramatically increase the velocity of water treatment systems being delivered throughout the world, and to that, we need to add not just the machine and so forth, but also monitoring it and managing it because one thing in this modern era where users are being required to do their own treatment more and more — what we call point of use water treatment or decentralized water treatment — is that they don't need the hassle. The companies that service them are [also] better off not being involved with having to run down and fix something because after a while you get 20, 30, 40 customers and you run out of time, and that limits your expansion.

So everybody can benefit from something more automated, something more remote-management, and in high tech, we have the model of let's say Salesforce.com. Salesforce.com was built on the concept of, "Don't pay \$200,000 for your customer relationship management system (CRM system or in this case sales force automation system, SFA). Just pay by the month, etc.etc. and we'll take care of all the running of it. Just log in and go to work." That was a revolution.

What you end up with in a water system that's fully managed is, first of all let's assume that the customer bought the system. The customer will buy a system that includes a service agreement. So, the system goes in and then the vendor warrants that a certain amount of level of performance will be met. It'll be good for this, that and the other thing, so much recycling will happen, etc., etc., and now the user can step back and not have to worry so much about running it.

For example these breweries that we're selling into, they have chiller systems, refrigeration systems that are on a management contract so that you don't get a sudden loss of temperature, etc.. So, these companies, these breweries, are paying a small fee every month to keep everything running properly, and the more they do that, the more they have a business that's not going to have catastrophic failures. That's why when you go shop online you would rather use



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an e-commerce system that is very standardized like Shopify. I mean, you go to a Shopify vendor, guess what? It picks up your information from some other Shopify site and that's why Amazon is so good, [too].

So, you want to have a highly standardized experience as a user because then you can get on with your core business which is not, in this case, treating water. So, the first part of this model is let's say you're spending half a million dollars on a system, and then there's going to be an additional component which will be a monthly or annual recurring revenue, MRR or ARR portion which will be composed of a Network Operations Center hooked up to your water system with internet connected sensors and so forth and the Network Operations Center runs things. People show up if they need to, etc., etc. It's just like your home alarm system, it's managed.

Now, the other part of it that is interesting is you can get into telling the customer, "Don't even pay for the system up front. We will finance the whole thing." When we finance it, let's say a million-dollar system could become a two or three million dollar loan or lease with all the services. So the customer prepays for X number of years of services all in the initial package and that makes for a very, very successful transaction for the vendor because the vendor's getting a lot more money up front and can build it into his operation.

Then the final level of this is where you tell the customer, "Don't even bother taking out a loan or lease. We will just provide you with a service. Water as a Service: WaaS." That is the ultimate model because the customer simply goes, "Oh, you know what? Sign on the dotted line and guess what? Your water gets treated and it's an operating expense, not a capital expense." And even companies that are very well funded, have a much slower process for funding capital budgets than they do for funding [their] operating budgets. Operating budgets are routine. You spend X amount of money on whatever it is and it is what it is.

So decision-making on operating budgets is much, much simpler than decision making around capital budgets, and then if you don't have enough money, that's even more important. So, the holy grail is a fully developed system. We call it a throughput system, where you're being paid for the amount of water being processed through and to a certain level of quality, etc., and we take care of all the trouble. But essentially what you're doing is you're providing not the equipment, you're providing the service. That is the most profitable by far, and here's why it's important.



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We are looking at how Wall Street is going to value us in 2019. In 2018 we went from being a what you might call aspirational company. All the things we were going to do, and Lord knows our investors have been patient and supportive and know that we want to change the world, but it was high time that we went from being aspirational to operational. So as you become operational, the question is, what's your multiple? What's the valuation multiple? If you are doing just widget sales, then your valuation as a company is, I don't know, two or three times revenue. Something like that. If you're doing something that's more high-tech with a much longer customer life cycle, then you can say, "Hey, guess what? This customer's not a three-month life cycle. It is a 10-year life cycle." It's worth a lot more.

Now we have this business with a present value that's much, much higher, and that's where you get into very high valuations: seven, eight, ten, twelve times revenue potentially. That varies again by how much you've implemented and as I say, the ultimate is this throughput thing which is a lot like how Solar City works, because Solar City solved the problem that home owners had, which was that if they wanted a solar panel, they had to put up \$25,000 and take out a second trust deed to have the thing installed, and they the ROI on this would take 10, 20 years, which is not very stable for a homeowner because often when they sell the house they don't realize the benefits and so on.

Solar City said, "You know what? We'll pay for the system. You just pay us instead of paying your monthly utility." This has been amazing. Not just residential but also for commercial customers. It's exactly the same model and it's very powerful for the valuation of a company. So, we see this as a way to tap into tremendous amounts of capital floating around in banking and equity markets in America and the world. There are just billions looking to be placed. Now, they're looking to be placed with quality deals. It's called yield hunger, they're looking for yield and also of course they don't want to have risk. So, reduce the risk, increase the yield.

If they can get a very strong company with a strong technology that's already got a pipeline of a lot of customers that are named and ready to go and that have agreed the technology is great and they're working their way towards a deal, and if you can make it a much more sophisticated model, now, A, those deals will happen faster because these people don't have to come up with a chunk of cash, and B, they'll be much more profitable and the valuation will be great. So, that's what we're working on and as I say, my good friend who does this and has been setting it up for other companies got so excited about doing it



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that he and his partner want to do it entirely on performance, which is amazing, because the bane of my existence as a CEO is that everybody wants to get money up front before they perform. It's unfortunately the way it is, so when I hear that, I go, "Okay, now this person really, really does intend to do this good stuff." So we'll be working on this over the holidays, putting this together, and it's our intention that everything that we do as a company, not just be about building systems etc. but be about the systems and the service envelope around it which is built into the financing of it.

Now, let's go back to our licensing business. Remember, our core technology business. We now have a network of licensees in a dozen countries and they're ramping up. The technology is beginning to be accepted and larger and larger deals are happening and so forth, but if we can do a technology transfer not just of our way of treating water, our unique way of treating the worst water the way nobody else can, which is really our signature, and on the other side, treating the clean water that still has nasty stuff in it that, again, is very bad, if that business that we have is upgraded to include this service envelope for our licensees, then it will dramatically increase the revenue of our licensees, make us much more attractive, make it much more difficult for people to copy what we do, and ultimately return much greater royalties.

Also it's definitely our plan to take the core technology business and do more than just license, so in 2019 you'll see us begin to do much more direct sales and sales to resellers and so forth of our own manufactured equipment that is our core technology, Electro Water Separation™ and Advanced Oxidation™. That is in the plan because I think it's time for us to rev things up.

So now let's wrap up the vision. At the base level there is what you call organic growth and that is where we don't acquire companies —we simply grow what we've got, and as part of that organic growth, we can rev it up by putting in place these sophisticated managed services or models (and there'll be much more on that), which will create its own growth and then there's the other scenario which I'm increasingly confident about, which is we do manage to acquire more companies and then we take all the companies and we implement this amazing managed services model for all of them because these companies, most of them are just selling widgets. They're very strong companies. They're profitable. They're doing a fine job. They're stable, etc., but they have not stepped into the 21st century for all this high-tech Network Operations Center etc.



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That's, I believe, the number one way we can dramatically increase the profit ratio or the profit percentage, shall we say, and the customer life cycle, so that when a customer is first acquired, not only does the customer keep ordering more membranes and filters, that's fine, but actually is actively managed and therefore [almost] never goes away. I think that's going to be the real powerful model that OriginClear is going to get into and we think that it's a winner whether we achieve these acquisitions or not, but as I say, acquisition is definitely in the works. I just really cannot pretend to you that it's on or not, because that would be saying more than I am allowed to but nonetheless I'm very, very positive about it.

Okay, so we're going to wrap this up. I'm not yet sure we're going to do a call next week but stay tuned. Meanwhile we're going to go ahead and ask you, and this time I do have the extensions, Call 323-939-6645, and Ken's extension is 201. Devin's extension is 116.

What about this private placement is so important? Number one, it is dramatically less risk for you because we commit to returning all of your principal secured by our valuation, our intellectual property patent portfolio. We're paying you a cash dividend and we've been paying out these checks already because we've been doing this round since August; and then right away you get a substantial stock grant of, all yours. You don't have to buy the stock. It is yours.

So, in our opinion, it's a win-win. There's dramatically reduced risk. There's never no risk in anything of course, but we think that we've done an amazing job of providing something that really is as powerful as it gets and I really appreciate all of the amazing support we've had on this round. It has made it possible for us to dramatically ramp up the operation of Modular Water Systems and start to make these deals as I've been saying and furthermore there remains something like about \$450,000 to go, so we only have a few days. Basically it's over at the end of the year, December 31st, so I strongly encourage you to take a small stake, little stake, large stake, whatever you feel you can do. We're not worried about the amount you do. We just want you to benefit, and every time that you invest we can do more. We can make the company succeed.

I believe that OriginClear will be a major player starting in 2019. We have a great team. We have great resources. We know how to make it work, and I think that we're going to be building a company that you'll look back at 2018



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and go, "Wow, that is when OriginClear went from being aspirational to operational."

So again, 323-939-6645, extension 201 for Ken, extension 116 for Devin, and thank you very much. If I don't speak to you before the break, have a wonderful holiday and remember to stay cool, stay warm if you're in a cold area, but whatever you do, remember your family, your friends. That's really all that matters. So have a good night. Thank you and I really appreciate all of your support. Bye-bye now.

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