

# Water Intelligence Trading Statement

RNS Number : 3068J  
Water Intelligence PLC  
04 December 2018



## Water Intelligence plc

### Q3 Trading Update; American Leak Detection Annual Convention

Water Intelligence plc (AIM: WATR.L) (the “Company” or “Water Intelligence”), a leading multinational provider of precision, minimally-invasive leak detection and remediation solutions for both potable and non-potable water is pleased to provide a trading update for Q3 2018.

#### Highlights

- Strong fundamentals deliver 40% sales growth to \$18.52m over comparable period (Q3 17: \$13.27m), already higher than full year 2017 (\$17.62m)
  - Strong sales performance in all business lines
  - Consistent sequential quarterly growth
- Underlying profits before tax comfortably in-line with expectations, despite significant reinvestment expenses
- Continued reacquisition of selected territories enabling regional corporate hubs across the US to grow core American Leak Detection brand
- Technology implementations expected to further growth in 2019 and beyond
- Successful annual franchise convention affirming 2017’s five-year growth plan

Commenting on the Group’s performance, Executive Chairman, Dr. Patrick DeSouza remarked: “We are having yet another good year and we have delivered strong results. However, we are not taking our foot from the proverbial gas pedal. There is a big addressable market to attack and our entire team – franchise and corporate – wants to capitalize on the market opportunity.”

**Trading Overview.** First, the Company’s financial bottom-line. We have stated that our primary operating objective is sustainable multinational growth. We have been deploying resources during 2018 accordingly and we continue to deliver on our growth objective.

We are reinforcing guidance from the 1H interim update (the “Interim Update”). As stated in that communication, 2018 has been a productive year so far. There has been market volatility over

the last couple of months but our fundamentals underscore consistent strength. Through 1H, sales were growing at 39% half year over half year. Through Q3, sales growth is running a little higher at 40% growth over the same period in 2017 reaching \$18.52 million (Q3 2017: \$13.27 million). Once again, at \$18.52 million, we have passed sales for the previous full-year during Q3 of the current year (Full year 2017: \$17.62 million). This is a repeat of the same high growth performance achieved in Q3 2017. (Full year 2016: \$12.18 million; Q3 2017: \$13.27 million). And such top-line growth was matched by profits growth. In the Interim Update, we stated that profits before tax showed strong growth at 48% growth year over year to \$1.25 million and that the Company was comfortably in line with expectations. Through Q3 we reinforce that guidance with profits before tax continuing to show strong growth and comfortably in line with expectations. And “comfortably in line with expectations” *includes* accelerated reinvestment expenses, especially with respect to maintaining technology leadership for sustaining future multinational growth, which as noted above is our primary operating objective.

As a balance sheet matter, our cash position is strong. First, we generate cash through organic growth as discussed herein. Second, our March financing added growth capital to enable us to execute our growth plans across US, UK, Australian and Canadian operating geographies. As discussed below in the Corporate Development section, we have put money to work.

After such investments, at the end of Q3 Water Intelligence had cash and accounts receivable of \$10.0 million (Q3 2017: \$4.1 million). Meanwhile, total liabilities (both short term and long term) were \$7.2 million (Q3: 2017: \$4.6 million). Year over year at the end of Q3 the ratio of Quick Assets (i.e. liquidity) to Total Liabilities improved to 1.4 from 0.9. This metric presents a conservative balance sheet despite a fast-growing income statement that would be expected to need working capital. Because we have available financial resources to commit to growth projects, we are in a balance sheet position to accelerate our efforts even further.

**Financial and Operating Performance.** Financial components of this overall picture all show strength. In evaluating performance in the Interim Update, we focused on two operating dimensions for assessing our sustainable growth trajectory: i) grow both US and UK operating subsidiaries strongly to reinforce our brand across residential and commercial (American Leak Detection) and municipal (Water Intelligence International) markets; and ii) fuel further organic growth with corporate development transactions ranging from franchise reacquisitions to investment in technologies. In organizing performance indicators below, we are executing well along both operating dimensions.

- (i) US and UK Subsidiaries. American Leak Detection (“ALD”), the core operating business of Water Intelligence plc, continues to grow strongly when comparing the same period year over year. The primary focus of the business is pin-pointing and remediating residential and commercial leaks; yet assisted by Water Intelligence International, municipal work is now also supplementing growth. Through Q3, total ALD revenue grew 39.0% to \$16.36 million (Q3 2017: \$11.77 million). A key component - royalty income from franchisees - grew 5.7% through Q3 to \$4.88 million (Q3 2017: \$4.62 million). The absolute growth in royalty income is noteworthy given that franchise reacquisitions, discussed below, continue to remove royalty income from the pool of franchisee sales to third parties. Such continued

franchise system growth has been partly fuelled by the growth of the insurance business to business channel. This national account strategy takes advantage of the American Leak Detection franchise sales footprint across the United States. Through Q3, the insurance channel doubled to \$3.6 million in sales over the same period in 2017. Meanwhile, corporate-operated sales for ALD grew strongly at 60.1% to \$7.27 million (Q3 2017: \$4.54 million). Strong corporate-operated growth after franchise reacquisition continues to unlock value from the franchise system. Profits contribution from corporate-run ALD operations through Q3 rose to a 13.5% pre-tax margin, a significant improvement from full year 2017 which showed a pre-tax margin of 6%. The profits performance of corporate-operated locations, taken as a whole, is accretive to shareholder value because the yield is higher than what would have been received as royalty income from the same locations (13.5% corporate-operated net vs 7.5% average royalty).

Water Intelligence International (“WII”), the principal driver of our multinational municipal business, has also shown strong growth and provided leadership for a supplementary business line for ALD. WII, launched in fall 2016, is a corporate-run operation and has facilities in the UK and Sydney. Together both operations achieved \$2.16 million in sales, a 45% growth from Q3 2017 (Q3 2017: \$1.49 million). Our UK operation showed an 18% growth to \$1.23 million (Q3 2017: \$1.05 million); our Sydney operation doubled in size to \$0.93 million in sales. (Q3 2017: \$0.47 million). Importantly, each of these operations turned a profit resulting in \$0.05 million in profits at the end of Q3 after approximately \$0.1 million in start-up losses at the end of Q3 2017.

- (ii) Corporate Development. We continue to execute our plan of selective franchise reacquisitions. Our strategy has been to use the reacquisitions to set up corporate operations that can not only add critical mass of revenue and earnings to Water Intelligence but also most importantly help link and grow franchise operations through regional touchpoints. In our Interim Update, we reported 1H reacquisitions in South Florida; Louisville, Kentucky; and Bakersfield, California. These three reacquisitions have strengthened franchisee execution in the Southeast, Midwest and Southwest of the United States. Effective October 1<sup>st</sup>, we reacquired a significant operation with approximately \$1 million in 2017 sales in Portland, Oregon. With that addition, we now have a corporate presence in the Northwest of the United States. We expect the Portland operation to provide a corporate anchor during 2019 for Northwest franchises and the introduction of WII’s municipal business, an opportunity that already has a strong base in the Northwest.

Technology Dimension of Corporate Development. As we communicated during our March capital raise, we planned to use some of the proceeds to strengthen the value propositions of both US and UK businesses. First, we announced at the beginning of 2018 a partnership with Tagasauris and Flo Technologies to leverage the national sales footprint of ALD. We have worked with Tagasauris, a video technology company, to invest in developing a leading edge video player that would enable Water Intelligence both to market its services through direct streaming on YouTube

but also to sell home services products, such as Flo (water monitoring) from such videos – a 21<sup>st</sup> century version of the Home Shopping Network. We are pleased to report that we have made great progress and demonstrated the video player at November's American Leak Detection Annual Convention discussed below. Second, as announced during 1H, we acquired certain intangible assets from Reece Group in the UK, to create a proprietary device to analyse blockages in sewer lines. Such a product would give Water Intelligence a competitive advantage in bidding for municipal work. We are pleased to report progress in the product development and have deployed the product in UK field trials. We expect to introduce the product for ALD field services during Q1 2019. Like our video player, we demonstrated the product at our ALD Annual Convention and generated significant enthusiasm from our franchisees.

**American Leak Detection Annual Convention.** In November 2017, franchisees from across the United States met in Boston for our annual convention and, as reported in last year's Q3 Update, discussed our next five-year growth plan. The theme of the Boston Convention was innovation with commitments to expand our service footprint, solutions and international brand definition through technology. During 2018 we have delivered just that for our franchisees including ensuring a multi-year innovation commitment with our March capital raise. This November, we met our franchisees in Austin, Texas and, as noted above, unveiled our direct streaming video player and sewer diagnostic product. Morale has never been higher and both franchisees and corporate staff have consensus on strong growth targets over our five-year plan. We anticipate working more closely with our franchisees on growth objectives, especially with the integration of our WII municipal brand. After meetings with Australian franchisees at this year's Convention, we will commitment resources during 2019 to leverage our Sydney corporate operation to accelerate the growth trajectory throughout Australia for both franchise and corporate operations.

**Conclusion.** 2018 is the first year of our five-year growth plan. As noted above, it is shaping up to be quite a productive start. Our operating businesses are growing organically and we continue to help shape our business through corporate development. Our national account approach through an insurance channel has enabled us to cross \$100 million in total annual System-wide sales to end-users from corporate operations and franchise operations. As a reporting matter, franchise sales to end-users are translated into royalty income. However, as we continue with selective franchise reacquisitions, we expect a portion of that \$100 million in *current* System-wide sales to add to the critical mass of Water Intelligence. Royalty income from our core ALD business should still grow in absolute terms despite reacquisitions given our national channels. Emerging from our November Convention, both franchisees and corporate staff have ambition and a little Texas swagger for our 2019 line of sight.

*The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014*

**For further information about this announcement please contact:**

Water Intelligence plc Patrick DeSouza, Executive Chairman

Tel: +1 203 654 5426

finnCap Ltd

Julian Blunt / Giles Rolls (Corporate Finance)

Camille Gochez (Corporate Broking)

Tel: +44 (0)20 7220 0500