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Water Intelligence PLC
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Water Intelligence plc

2018 Full Year Trading Results

Confirmation of Board Appointment

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 unaudited Trading Results for full year 2018. Audited 2018 results are expected during early May as traditionally released. The Company had a very strong 2018 as discussed herein.

Highlights

- Results ahead of market expectations for both revenue and adjusted profits before tax
- Water Intelligence revenue growth once again strong at 44% year-over-year reaching \$25.3 million (2017: \$17.6 million)
 - o Last three-year CAGR (Compound Annual Growth Rate) exceeds 40%
 - o Core business units - American Leak Detection (ALD) and Water Intelligence International (WII) - each grew strongly enabling broader mix of residential, commercial and municipal offerings, as well as clean and waste water
 - o ALD revenue grew 45% to \$22.5 million (2017: \$15.5 million)
 - § Royalty income from franchisees grew in absolute terms by 5.7% to \$6.3 million (2017: \$5.9 million) despite continued franchise reacquisitions
 - § Selective franchise reacquisitions continue, increasing corporate presence for national accounts implementation
 - § Corporate locations sales grew 70% year-over-year to \$10.1 million (2017: \$5.9 million)
 - § Total sales to customers reaches \$100 million (implied gross sales by franchisees from which royalty reporting is derived plus direct sales from corporate locations)
 - o WII revenue grew 38% to \$2.9 million for 2018 after launch in Q4 2016

- Water Intelligence statutory profits before tax grew strongly by 58% to \$1.8 million (2017: \$1.1 million)
 - o Reinforced yearly profits growth path from 2017 over 2016 which was 48%
 - o Corporate locations profit margins scaling to 12% in 2018 from 4% in 2017 despite reinvestment to sustain 70% sales growth
- Water Intelligence profits before tax adjusted for non-core costs* and non-cash amortization expense at \$2.5 million exceeds market expectations of \$2.2 million (48% growth over 2017 at \$1.7 million)
- Water Intelligence Balance Sheet strong
 - o Net Cash: +\$2.6 million (cash less borrowings)
 - o Total Funding Coverage: +\$0.2 million (net cash minus deferred payments for all franchise reacquisitions)
- Technology reinvestment
 - o Public demonstrations of proprietary sewer diagnostic product at Water and Wastewater Equipment, Treatment and Technology Show in Indianapolis in February 2019
 - o E-commerce and video display technology advancing with demonstrations in Tokyo during week of 18 March with major Japanese corporation
- Successful annual franchise convention in Austin, Texas affirming 2017's five-year growth plan
- Confirmation of new Board Member, Bobby Knell, who is the retired owner of the successful Dallas franchise and been Managing Director in charge of franchise relations for the last five years
- 2019 starts fast with franchise reacquisitions in February (Ontario, Canada) and March (South Atlanta) and announcement of sale of new franchise territory in Youngstown, Ohio

Commenting on the Group's performance, Executive Chairman, Dr. Patrick DeSouza remarked: "We have delivered another strong year growing all business units and exceeding market expectations; the operative concept is 'sustained growth' which we first articulated in the Chairman's Statement in 2015 and reiterated during each of the last three years. And we have delivered just that with 40%+ compounded annual revenue growth since 2016 and back-to-back years of statutory profits before tax growth averaging above 50%. We remain ambitious reinvesting in technology to provide solutions to both clean and waste water problems. Water and infrastructure solutions are needed globally no matter what the background macroeconomic or political conditions."

* Non-core costs include items such as legal expenses on transactions and investments, and certain share based payments relating to acquisitions

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Trading Overview As stated in our last three Annual Reports, our mission at Water Intelligence is to build a "world-class multinational growth-oriented company." And we have delivered at a strong pace. Communicated in our 2016 Annual Report, we delivered 38% sales growth in 2016 over 2015 reaching \$12.2 million. Communicated in our 2017 Annual Report, we delivered sales growth in 2017 of 45% over 2016 reaching \$17.6 million. Now, for our 2018 results, we report 44% sales growth over 2017 reaching \$25.3 million. Importantly, increasing levels of profits have followed our reinvestment to push market capture. For our 2017 Annual Report, we delivered statutory profits before tax growth of 48% over 2016 reaching \$1.1 million. Now for our 2018 results, we report 58% statutory profits before tax growth over 2017 reaching \$1.8 million. We have exceeded market expectations achieving \$2.5 million profits in before tax when adjusted for non-core expenses such as legal costs for transactions and non-cash amortization of intangibles.

We are working to continue the compounding nature of our year-to-year performance. As outlined in our January and February 2019 releases, we have started Q1 in strong fashion in every aspect of our business including now selling new territory for our franchise system. Consistent with last week's release about the reacquisition of South Atlanta, "we aim high and deliver".

Business Model and Strategy Before breaking down our operating results, it is important to underscore that we are pleased that our business model is evolving nicely according to our stated plan. This underlying objective is important for scaling the company and for developing appropriate key performance indicators (KPIs) that underpin our valuation multiple.

We are currently classified by analysts as "Support Services." However, three attributes of our business model and ability to sustain growth need to be distinguished. All three are synergistic. First, we are really a distribution platform. This platform concept is a valuable asset sometimes overlooked when thinking about service-oriented companies. We have a structural advantage given American Leak Detection's (ALD) national sales footprint across the United States and ever-growing presence in the UK, Australia and Canada. None of our leak detection competitors have a comparable installed base. We have national accounts, such as major insurance companies, that are providing increasing numbers of jobs with reduced customer acquisition costs because we are a "One Stop Shop." We are able to upsell solutions and resell third-party offerings because of our geographic presence and position at the front end of the water value chain in finding leaks with minimal invasion. As important, we can cross-sell Water Intelligence International (WII) offerings into our ALD base of franchise and corporate locations, layering in a complementary customer group - municipalities - onto our base in residential and commercial areas.

Second, we are really a technology company, not a conventional support services company. We use infrared and acoustic technologies (some proprietary) to provide minimally invasive solutions that support our margins because they convey real value for customers. We are investing in new technologies not only to provide additional high margin solutions - for example our sewer diagnostic product - but also to leverage our distribution platform - for example our video display technology. Note that companies such as Google and Amazon are currently transforming the market for "smart home services" with on-line technologies.

Third, we have financial characteristics that unlock equity value by optimizing our entire platform. We have recurring royalty income from our franchise business. Royalty income is an asset characteristic more typical of technology licensing companies than it is of support services companies. The perpetuity character of this stream of income enables us to pursue efficient capital formation with an optimal mix of equity and non-dilutive debt. It should be highlighted that royalty income has continued to grow in absolute terms even as we blend in converted corporate stores because we continue to grow the "whole pie" with our national accounts strategy.

ALD and WII Operating Performance Strong execution results at our two operating subsidiaries have reinforced our business model transformation to create a "multinational growth company" - one that can sustain a high value profile in a competitive landscape. Our platform now has a solid product matrix for residential, commercial, municipal customers and clean water and waste water applications.

Our core business, ALD, had a great 2018 growing 45% to \$22.5 million (2017: \$15.5 million). Execution proceeded smartly with franchise and corporate operations working together in an unprecedented fashion culminating with the promotion to the Board of a leading retired franchise owner. National accounts, especially insurance, enable ALD to drive its sales and brand recognition. Sales from the dedicated insurance channel almost doubled year-over-year to \$5.0 million (2017: \$2.6 million) with ALD providing solutions for approximately 200,000 homes.

Royalty income grew 5.7% to \$6.3 million (2017: \$5.9 million). Importantly, royalty income grew in absolute terms despite ALD pursuing a selective franchise-to-corporate conversion strategy which removed royalty from the franchise system in exchange for revenue and profits. Corporate locations grew in accelerated fashion by 70%, reaching \$10.1 million (2017: \$5.9 million). Implied gross sales by franchisees (from which royalty income is derived) and direct sales by corporate locations together amounted to approximately \$100 million of sales to end-users of our services. With global market demand for water conservation increasing and the price of water rising, such critical mass of existing sales will provide us with a significant launch point for a strong growth trajectory.

Importantly, we are executing well at corporate locations with increasing profitability while maintaining a growth path of over 70% year-over-year. During 2018, profit margins at corporate locations improved to 12% from 4% during 2017. These incremental gains in terms of margin drive our consolidated profits for Water Intelligence. We still have room for further improvement given that our franchisees operate at a significantly higher margin.

Separately, two years ago, we launched a UK-based municipal business to complement ALD's growth. Our objective was to layer in municipal solutions to respond to an expected increase in global infrastructure spending for the next decade and to capture new business in communities where ALD franchisees currently provide residential and commercial solutions but lack the skills or bandwidth to add municipal work. We are pleased that Water Intelligence International (WII) gained traction during 2018 reaching \$2.9 million of sales which amounted to 38% growth year-over-year (2017: \$2.1 million). In addition, WII posted a maiden profit performance, which we expect to grow significantly over time as we expand WII's reach and improve the technology-led offering that it provides. During 2018 WII won contracts in the U.S. and Australia working with our ALD locations and in the UK and EU as a standalone operation. We anticipate that in the near term the synergies for cross-selling both ways between our US/UK sister companies will take hold with ALD offering opportunities for WII and, in turn, ALD following WII's municipal market penetration to capture new residential and commercial markets around the world.

2018 Balance Sheet

During Q1 of 2018, Water Intelligence increased its cash resources to fuel growth by executing a limited equity issuance and a non-dilutive bank financing. We put the resources to work by: (i) continuing our sales efforts in building our national insurance channel for our franchise system; (ii) enacting selective franchise reacquisitions to establish regional corporate hubs; and (iii) reinvesting in technology products to

further distinguish our brand and sustain long-run growth. As of 31 December 2018, cash on hand was approximately \$5.0 million. After one also takes into account borrowings, net cash is approximately \$2.6 million. After one also takes into account deferred payments for all franchise reacquisitions spread over the next five years, cash available is approximately \$0.2 million. However, debt amortization is spread out over five years and covered not only by cash on hand today but also by ongoing ALD royalty income. Moreover, Water Intelligence generates additional cash each year that can be reinvested. As a result, the Company has enough resources to execute its growth plan and remains prudent in its financing strategy.

First Quarter 2019

We have begun Q1 in strong fashion. We are executing our growth strategy in the same way that we have proceeded over the last three years - a period that has produced 40%+ compounded annual revenue growth and back-to-back years of statutory profits before tax growth averaging above 50% per year. Our insurance channel is growing, deepening our sales footprint. We have executed two franchise reacquisitions - Ontario, Canada and South Atlanta - advancing our corporate regional hub strategy. We have also sold new franchise territory. Finally, we are unveiling our technology investments: (i) our sewer diagnostic device in Indianapolis at the WWETT show in February and (ii) our video display and ecommerce application in Tokyo in mid-March with a major Japanese corporation.

Conclusion

We are excited about the prospects for extending the growth path that we have accelerated over the last three years. We envision that Q2 and, ultimately, 2019 will continue the strong pace of Q1.

Our resource deployment will continue to build on our three business model attributes in order to create a multinational growth company: (i) distribution through our installed base of locations to upsell more solutions along the water value chain; (ii) technology solutions to take advantage of the emerging smart home services market; and (iii) the ability to optimize our franchise system and cross-sell solutions from sister companies.

As we scale with strong execution, we may consider aiming even higher and putting more resources to work to deliver, even faster, equity value for our shareholders and a winning, world-class multinational growth company as is our stated mission.

Board Appointment

As announced on 17 January 2019, the Company is pleased to confirm that Bobby Knell has now been appointed to the board as a Director, with immediate effect. Mr. Knell has been serving as a managing director at Water Intelligence responsible for franchise relations for the last five years. Prior to this role, Mr. Knell founded and grew the Dallas franchise of American Leak Detection into a multimillion dollar operation; an operation now run by his son.

Robert Richard Knell, aged 68, holds or has held in the past 5 years the following directorships or partnerships:

Current	Past
River Mountain Ranch - Wimberley Property Owners	American Leak Detection-DFW, Inc
	Robwill Enterprises, Inc.
	Waterpure Technologies Corporation
	Seascape Property Owners Association, Inc.

Mr Knell currently owns 20,500 Ordinary Shares, equivalent to 0.13% of the issued voting share capital of the Company. There is no further information to be disclosed pursuant to Schedule Two, paragraph (g) of the AIM Rules for Companies.

The information communicated within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.