RNS Number : 8304Y
Water Intelligence PLC
14 September 2015

Water Intelligence plc (AIM: WATR.L)
("Water Intelligence", the "Group" or the "Company")
Interim Results for the six months ended 30 June 2015

Water Intelligence, a leading provider of non-invasive, leak detection and remediation services, is pleased to present its interim results for the period ended 30 June 2015.

Results Highlights

- **Revenue growth of 25.2% to $4.4 million (2014: $3.5 million)**
- **Royalty Income component growth of 6.6% to $2.72 million (2014: $2.55 million)**
- **Corporate owned stores component growth of 60.3% to $1.12 million (2014: $0.70 million)**
- **"Other" component (eg. equipment) growth of 110.5% to $0.56 million (2014: $0.26 million)**
- **Profit before tax up 48.6% to $0.91 million (2014: $0.61 million)**
- **Successful reacquisition of franchise territories in New York, Miami and Detroit**

Patrick DeSouza, Executive Chairman of Water Intelligence, commented: "We are pleased that the strategic choices we have made to grow our brand - national sales channels and reinvigorated corporate presence via selective franchise re-acquisition - are bearing fruit. Our entire franchise system is unified behind our direction and reinvesting for future growth."

Water Intelligence plc
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WH Ireland Limited
Adrian Hadden / James Bavister Tel: 020 7220 1666

Executive Chairman's Statement

In the 2014 Annual Report, I noted that we had begun to see, at the start of 2015, strong positive effects of investment decisions that we had made during the second half of 2014. Our key components - royalty income, corporate store sales and "Other" sales (which include product and equipment sales) - have all shown positive growth.

We are pleased to report after our first half results that we have confidence regarding our full year path. Our 1H 2015 numbers compared with 1H 2014 have shown marked improvement. Revenue is up 25.2% to $4.4 million. Profit before tax is up 48.6% to $0.91 million. Adjusted operating profit (earnings before interest, taxes and depreciation) is up 33.3% to a little over $1.1 million. Moreover, we are pleased that during the first half, we were able to successfully balance our profit objective and with our reinvestment objective. During the first half, administrative costs increased by 20% to $2.9 million as we hired more people to execute upon our corporate store growth plan and opened a regional corporate office and warehouse in Miami to improve on our nation-wide US execution reach. While revenue growth should remain strong for the full year and exceed analyst expectations, we expect that adjusted operating profits will remain in-line with analyst expectations for full year because of planned increased spending for the second half outlined below that will feed future growth. This has proved to be a winning formula over the last two years in achieving our current trajectory.

Each of our key components show the same trend for both sales and profit before tax. First, royalty income grew 6.6% to $2.72 million. Profits on royalty income grew 20% to $0.97 million. Hence our franchise system remains healthy and we seek to push past $70 million in total system-wide sales. Corporate store sales grew 60.3% to $1.12 million. Profits on corporate store sales grew 54% to $67 thousand. Such accelerated growth is in line with our overall business strategy of selectively re-acquiring a portion of the existing $70 million in system-wide sales. Finally, sales in our category of "Other", which includes equipment sales, more than doubled to $0.56 million. Profits for this category have now turned from negative to positive at $50 thousand. We are pleased with growth in this category because it indicates that our franchisees are also re-investing for growth through equipment purchases.

Beyond the observation of 60% growth in corporate store sales with accompanying profits, we should also acknowledge the transformational value of the launch of our corporate store strategy. The franchise system sales and royalty income continue to grow steadily as we develop our national sales channels with insurance companies. However, from our existing base of $70 million in system-wide sales, during the first half of 2015, we began to harvest shareholder value in different ways. We acquired corporate revenue and earnings with our reacquisition of the Detroit franchise and we gained "greenfield" territory from which we were receiving little royalty income by reacquiring the New York franchise and a significant portion of the Miami franchise. In New York and Miami, we have already achieved strong accretive sales. We have also made some operational changes that have produced accelerated organic growth in our Palm Springs corporate location. Hence, as evidenced by our franchise reacquisition strategy, shareholders should continue to benefit from the various ways that we plan to unlock revenue and earnings while still growing royalty income. Such a reacquisition strategy is also complementary with our franchisees incentive to exit profitably after having built a great business over a career. Our company's critical mass is effectively much bigger than reflected in our simple profit and loss statement and we will continue to optimize the balance between franchise sales and corporate store sales unlocking more revenue and earnings in 2016 and beyond.

As stated in the Company's 2014 annual report, if all continues as expected, the board will revisit our dividend policy because increasing profits before taxes are accompanying sales growth as outlined above in the segmental analysis. Such leverage on incremental sales growth provides us with decision-making flexibility with respect to our operating plan. Our priority, however, remains sales growth and increasing market share because our existing nationwide sales footprint in the U.S. is a competitive barrier to entry that only makes our franchise and brand more valuable for the future.

The board recognizes that we are only at the beginning of building a strong, world-wide growth brand. The addressable market for solutions to reduce water loss is significant and the issue is salient as water becomes more expensive. To more effectively achieve this objective, we need to reinvest in reaching a greater critical mass. First, we need to continue to invest in training and recruitment to put more skilled service technicians in the field because demand for our solutions is strong. Second, we need to reinvest to expand our sales footprint geographically. As noted in the Chairman's Statement of the 2014 Annual Report, we have opportunities to grow outside of the United States which we are in the process of exploring. We have existing growing franchises in Australia and Canada to build upon and corporate launch points in the southern US to expand into Mexico. We continue to look for openings with water utilities in the UK. Third, to improve execution, we need to invest in some more regional corporate locations as we did in Miami, Florida during the first half of 2015. Finally, since our franchise re-acquisition program is off to a good start, we plan to selectively continue this program during 2016. Hence, much like the second half of 2014, we plan to increase reinvestment during the second half of 2015. With this prudent approach to building a valuable company, our board will revisit the dividend matter as we approach year-end and can properly balance our level of profit with long-run strong growth.

Interim Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 $	Six months ended 30 June 2014 $	Year ended 31 December 2014 $
		Unaudited	**Unaudited**	**Audited**
Revenue	4	4,397,601	3,513,737	7,215,097
Cost of sales		(384,001)	(260,613)	(525,055)
Gross profit		**4,013,600**	**3,253,124**	**6,690,042**
Administrative expenses				
Share-based payments		-	(6,592)	-
- Amortisation of intangibles		(130,846)	(149,621)	(341,870)
- Other administrative costs		(2,907,399)	(2,416,510)	(5,639,319)
Total administrative expenses		(3,038,245)	(2,572,723)	(5,981,189)
Operating profit		**975,355**	**680,401**	**708,853**
Finance income		7,134	8,443	18,154
Finance expense		(72,660)	(76,464)	(141,837)
Profit before tax		**909,829**	**612,380**	**585,170**
Taxation expense		(325,139)	(270,521)	(209,118)
Profit for the period		**584,690**	**341,859**	**376,052**
Other comprehensive income				
Exchange differences arising on translation of foreign operations		(72,854)	(30,856)	(50,622)
Total comprehensive profit for the period		**512,106**	**311,003**	**325,430**
Earnings per share		**Cents**	**Cents**	**Cents**
Basic	5	5.5	3.2	3.6
Diluted	5	5.5	3.1	3.6

Consolidated Statement of Financial Position as at 30 June 2015

	At 30 June 2015	At 30 June 2014	At 31 December 2014
	$	$	$
	Unaudited	**Unaudited**	**Audited**
ASSETS			
Non-current assets			
Goodwill	941,211	899,868	801,211
Other intangible assets	3,345,030	3,110,529	3,003,215
Property, plant and equipment	171,135	55,601	57,948
Trade and other receivables	56,708	23,053	29,076
	4,514,084	4,089,051	3,891,450
Current assets			
Inventories	286,647	155,536	205,477
Trade and other receivables	1,339,960	889,565	830,272
Cash and cash equivalents	1,157,530	1,909,954	1,756,014
	2,784,137	2,955,055	2,791,763
TOTAL ASSETS	7,298,221	7,044,106	6,683,213
EQUITY AND LIABILITIES			
Equity attributable to holders of the parent			
Share capital	12,733,307	12,732,564	12,732,564
Share premium	4,828,116	4,800,610	4,800,610
Shares to be issued	-	-	29,510
Capital redemption reserve	6,517,644	6,517,644	6,517,644
Merger reserve	8,501,150	8,501,150	8,501,150
Share based payment reserve	-	117,272	-
Other reserves	(183,920)	(91,300)	(111,066)
Reverse acquisition reserve	(27,758,088)	(27,758,088)	(27,758,088)
Retained loss	(870,085)	(1,599,648)	(1,454,775)
	3,768,124	3,220,204	3,257,549
Non-current liabilities			
Borrowings	1,789,435	2,303,897	2,048,472
Deferred consideration	320,000	-	-
Deferred tax liability	350,953	410,235	195,319
	2,460,028	2,714,132	2,243,791
Current liabilities			
Trade and other payables	475,568	622,564	667,997
Borrowings	514,501	446,103	502,029
Deferred consideration	80,000	-	-
Provision of onerous contracts	-	41,103	11,847
	1,070,069	1,109,770	1,181,873

TOTAL EQUITY AND LIABILITIES	7,298,221	7,044,106	6,683,213

Interim Consolidated Statement of Changes in Equity
For the six months ended 30 June 2015

	Share Capital	Share Premium	Capital Redemption Reserve	Reverse Acquisition Reserve	Merger Reserve	Share based payment reserve	Other Reserves	Retained Losses	Total Equity
	$	$	$	$	$	$	$	$	$
As at 1 January 2014	**12,732,564**	**4,800,610**	**6,517,644**	**(27,758,088)**	**8,501,150**	**110,680**	**(60,444)**	**(1,941,507)**	**2,902,609**
Share based payment expense	-	-	-	-	-	6,592	-	-	6,592
Total Comprehensive Income	-	-	-	-	-	-	(30,856)	341,859	311,003
As at 30 June 2014 (unaudited)	**12,732,564**	**4,800,610**	**6,517,644**	**(27,758,088)**	**8,501,150**	**117,272**	**(91,300)**	**(1,599,648)**	**3,220,204**
Issue of ordinary shares	-	-	-	-	-	-	-	-	-
Shares to be issued	29,510	-	-	-	-	-	-	-	29,510
Release of share-based payment reserve	-	-	-	-	-	(117,272)	-	117,272	-
Profit for the period	-	-	-	-	-	-	-	27,601	27,601
Other comprehensive loss	-	-	-	-	-	-	(19,766)	-	(19,766)
As at 31 December 2014 (audited)	**12,762,074**	**4,800,610**	**6,517,644**	**(27,758,088)**	**8,501,150**	**-**	**(111,066)**	**(1,454,775)**	**3,257,549**
Shares to be issued	(29,510)	-	-	-	-	-	-	-	(29,510)
Issue of ordinary shares	743	27,506	-	-	-	-	-	-	28,249
Profit for the period	-	-	-	-	-		-	584,690	584,690
Other comprehensive loss	-	-	-	-	-	-	(72,854)	-	(72,854)

As at June 2015 (unaudited)	**12,733,307**	**4,828,116**	**6,517,644**	**(27,758,088)**	**8,501,150**	**-**	**(183,920)**	**(870,085)**	**3,768,124**

Interim Consolidated Statement of Cash Flows
For the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015	Six months ended 30 June 2014	Year ended 31 December 2014
		$	$	$
		Unaudited	Unaudited	Audited
Net cash generated from operating activities	6	514,013	582,702	673,328
Cash flows from investing activities				
Purchase of plant and equipment		(113,631)	(46,000)	(56,589)
Purchase of intangible assets		(472,660)	-	(58,490)
Additional goodwill		(140,000)	(98,657)	-
Net cash used in investing activities		(726,291)	(144,657)	(115,079)
Cash flows from financing activities				
Issue of share capital		743	-	-
Share premium from issue of share capital		27,506	-	-
Shares to be issued		(29,510)	-	-
Interest received		7,134	8,443	18,154
Interest paid		(72,660)	(76,464)	(141,837)
Proceeds from borrowings		-	1,040,786	1,000,000
Principal payments on long term debt		(246,565)	(260,497)	(419,209)
Net cash used in financing activities		(313,352)	712,268	457,108
Net (decrease)/increase in cash and cash equivalents		(525,630)	1,150,313	1,015,357
Cash and cash equivalents at the beginning of period		1,756,014	792,468	792,468
Effect of foreign exchange rate changes		(72,854)	(32,827)	(51,811)
Cash and cash equivalents at end of period		1,157,530	1,909,954	1,756,014

Notes to the Interim Consolidated Financial Information for the six months ended 30 June 2015

1 General information

The Group is a leading provider of non-invasive, leak detection and remediation services. The Group's strategy is to be a "one-stop shop" of water leak solutions (including products) for residential, commercial and municipal customers.

The Company is a public limited company domiciled in the United Kingdom and incorporated under registered number 03923150 in England and Wales. The Company's registered office is 201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT.

2 Adoption of new and revised International Financial Reporting Standards

No new IFRS standards, amendments or interpretations became effective in the six months to 30 June 2015 which had a material effect on this interim consolidated financial information.

3 Significant accounting policies

Basis of preparation
The accounting policies adopted are consistent with those of the previous financial year.

This interim consolidated financial information for the six months ended 30 June 2015 has been prepared in accordance with IAS 34, 'Interim financial reporting'. This interim consolidated financial information is not the Group's statutory financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been delivered to the Registrar of Companies. The auditors have reported on those accounts; their report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis of matter without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The interim consolidated financial information for the six months ended 30 June 2015 is unaudited. In the opinion of the Directors, the interim consolidated financial information presents fairly the financial position, and results from operations and cash flows for the period. Comparative numbers for the six months ended 30 June 2014 are unaudited.

This interim consolidated financial information is presented in US Dollars ($), rounded to the nearest dollar.

Foreign currencies
(i) Functional and presentational currency
Items included in this interim consolidated financial information are measured using the currency of the primary economic environment in which each entity operates ("the functional currency") which is considered by the Directors to be the Pounds Sterling (£) for the Parent Company and US Dollars ($) for American Leak Detection Holding Corp. This interim consolidated financial information has been presented in US Dollars which represents the dominant economic environment in which the Group operates and is considered to be the functional currency of the Group. The effective exchange rate at 30 June 2015 was £1 = US$ 1.5717 (*30 June 2014: £1 = US$* 1.7028).

Critical accounting estimates and judgments

The preparation of interim consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the resulting accounting estimates will, by definition, seldom equal the related actual results.

In preparing this interim consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

4 Revenues

In the opinion of the Directors, the operations of the Group currently comprise four operating segments, being the franchises, corporate owned stores, other activities including product and equipment sales and head office costs.

The Group mainly operates in the US, with operations in the UK and certain other countries. In the six months to 30 June 2015, 99.6% (2014: 100%) of its revenue came from the US based operations; the remaining 0.4% (2014: Nil) of its revenue came from either UK or overseas based operations.

No single customer accounts for more than 10% of the Group's total external revenue.

Segment information
The Group adopted IFRS 8 Operating Segments with effect from 1 July 2008. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group.

Information reported to the Group's Chief Operating Decision Maker (being the Executive Chairman), for the purpose of resource allocation and assessment of division performance is separated into three segments:

- Franchisor royalties;
- Corporate-operated stores; and
- Other activities including product and equipment sales.

The following is an analysis of the Group's revenues, results from operations and assets:

Revenue	**Six months ended 30 June 2015 $ Unaudited**	**Six months ended 30 June 2014 $ Unaudited**	**Year ended 31 December 2014 $ Audited**
Royalties from franchisees	2,715,151	2,547,269	4,916,984
Corporate-operated Stores	1,122,690	700,541	1,460,895
Other activities	559,760	265,927	837,218
Total	**4,397,601**	**3,513,737**	**7,215,097**

Profit before tax	**Six months ended 30 June 2015 $ Unaudited**	**Six months ended 30 June 2014 $ Unaudited**	**Year ended 31 December 2014 $ Audited**

Royalties from franchisees	983,379	818,664	826,265
Corporate-operated Stores	67,134	43,606	(45,991)
Other activities	51,323	(2,862)	275,843
Unallocated head office costs	(192,007)	(247,028)	(470,947)
Total	**909,829**	**612,380**	**585,170**

Assets	**Six months ended 30 June 2015 $ Unaudited**	**Six months ended 30 June 2014 $ Unaudited**	**Year ended 31 December 2014 $ Audited**
Royalties from franchisees	6,772,251	6,875,730	6,790,773
Corporate-operated Stores	1,272,057	385,921	422,193
Other activities	(746,087)	(217,545)	(529,753)
Total	**7,298,221**	**7,044,106**	**6,683,213**

For the purpose of monitoring segmental performance, no liabilities are reported to the Group's Chief Operating Decision Maker.

Geographic information

Total revenue

Total revenue from activities by geographical area is detailed below:

Revenue by geography	**Six months ended 30 June 2015 $ Unaudited**	**Six months ended 30 June 2014 $ Unaudited**	**Year ended 31 December 2014 $ Audited**
US	4,269,450	3,393,737	6,452,396
International	128,151	120,000	363,612
Total	**4,397,601**	**3,513,737**	**6,816,008**

Revenue from franchisor activities by geographical area is detailed below.

Royalties from franchisees	**Six months ended 30 June 2015 $ Unaudited**	**Six months ended 30 June 2014 $ Unaudited**	**Year ended 31 December 2014 $ Audited**
US	2,604,151	2,427,269	4,357,523
International	111,000	120,000	252,840
Total	**2,715,151**	**2,547,269**	**4,610,363**

5 Earnings per share

The earnings per share has been calculated using the profit for the period and the weighted average number of ordinary shares outstanding during the period, as follows:

	Six months ended 30 June 2015	**Six months ended 30 June 2014**	**Year ended 31 December 2014**
	Unaudited	**Unaudited**	**Audited**
Earnings attributable to shareholders of the Company ($)	584,690	341,859	376,052
Weighted average number of ordinary shares	10,593,064	10,567,650	10,567,650
Diluted weighted average number of ordinary shares	10,593,064	10,909,511	10,567,650
Earnings per share (cents)	5.5	3.2	3.6
Diluted earnings per share (cents)	5.5	3.1	3.6

The Company issued nil share options in the six months to 30 June 2015 (six months to 30 June 2014: nil).

6 Notes to the statement of cash flows

	Six months ended 30 June 2015	**Six months ended 30 June 2014**	**Year ended 31 December 2014**
	$	**$**	**$**
	Unaudited	**Unaudited**	**Audited**
Cash flows from operating activities			
Profit/(Loss) before interest and taxation	975,354	680,401	708,853
Adjustments for:			
Depreciation of plant and equipment	444	1,717	12,161
Amortisation of intangible assets	130,846	149,621	341,870
Gain on disposal of fixed asset	-	-	-
Share based payments	-	6,592	-
Operating cash flows before movements in working capital	1,106,644	838,331	1,062,884
(Increase)/Decrease in inventories	(81,170)	(10,243)	(60,184)
(Increase)/Decrease in trade and other receivables	(537,321)	(143,540)	(90,269)
Increase/(Decrease) in trade and other payables	350,999	(46,161)	(29,985)
Cash generated by operations	839,152	638,387	882,446
Income taxes	(325,139)	(55,605)	(209,118)

Net cash generated from operating activities	514,013	582,782	673,328

7 Reacquisition of franchisee's territories

On 17 February 2015, the Group reacquired a significant amount of territory from its Miami franchisee, through its wholly owned subsidiary, ALD.

On 25 March 2015, the Group announced the completion of its reacquisition of its New York franchisee, also through ALD, with the issuance of 50,000 ordinary shares of 1p each in the Group to the former owner. The 50,000 shares were admitted to AIM on the 30 March 2015, with a total of 10,617,500 shares in issue following admission.

On 6 May 2015, the Group reacquired its Detroit/Eastern Michigan franchisee through its wholly-owned subsidiary ALD. Provisional fair values have been included in the consolidated financial statements.

8 Publication of announcement and the Interim Results

A copy of this announcement will be available at the Company's registered office (201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT) from the date of this announcement and on its website - www.waterintelligence.co.uk. This announcement is not being sent to shareholders.