



Water Intelligence plc

2019 Full Year Trading Results

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 an unaudited Trading Update for full year 2019. Audited results for 2019 are expected during mid-May as traditionally released.

As in prior years, the Company had a very strong 2019 as set forth below. Based on analyst expectations, the Company’s results are approximately one year ahead of schedule and higher than market expectations for revenue and profits before tax adjusted.

Highlights

- Water Intelligence revenue growth was once again strong at 27% year-over-year reaching \$32.4 million (2018: \$25.5 million)
 - Core business units – American Leak Detection (ALD) and Water Intelligence International (WII) – each grew strongly enabling a broader mix of residential, commercial and municipal offerings for both clean water and waste water
 - Implied total sales to customers approximately \$120 million (implied gross sales from which franchise royalty is derived plus direct sales from corporate locations)
 - ALD revenue grew 29% to \$29.1 million (2018: \$22.6 million)
 - Royalty income from franchisees grew in absolute terms by 4% to \$6.5 million (2018: \$6.3 million), despite continued franchise reacquisitions reducing the pool of royalty income
 - Business-to-business insurance channel grew 41% to \$7.1 million (2018: \$5.0 million); Selective franchise reacquisitions continue, increasing corporate presence for national account implementation
 - Corporate location sales grew 44% year over year to \$14.5 million (2018: \$10.1 million)
 - WII revenue grew 14% to \$3.3 million (2018: \$2.9 million)
- Water Intelligence statutory profits before tax grew strongly by 33% to \$2.4 million (2018: \$1.8 million)
 - Corporate locations profit margins continue to scale to 13.5% in 2019 from 12% in 2018 despite reinvestment to sustain 44% sales growth
- Water Intelligence profits before tax adjusted for non-core costs* and non-cash amortisation expense grew 36% to \$3.4 million (2018: \$2.5 million)
- Water Intelligence Balance Sheet strong at 31 December 2019
 - Cash: \$5.3 million

- Net Cash: +\$1.8 million (Bank Debt of \$3.5 million with amortization through 2022)
- Technology reinvestment
 - Commercial readiness of proprietary sewer diagnostic product
 - Successful launch of e-commerce and video display technology via exclusive license from Entertainment AI plc
- Equity Investment in Entertainment AI plc
 - Capital Gain of \$692,000 as of 31 December 2019

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

Commenting on the Group’s performance, Executive Chairman, Dr. Patrick DeSouza remarked:

“We had another strong year for all of our stakeholders. First, our customers, especially our business-to-business national accounts, value our service footprint across the US and ready delivery of proprietary, minimally invasive solutions to water leaks. Second, our franchisees support our growth plans and the number of franchisees producing over one million in sales continues to increase. Third, our shareholders continue to realize equity value from our growth trajectory in terms of both sales and profits. Global market demand for water infrastructure solutions is only increasing and our company continues to scale.

We are pleased to underscore that over the last five years we have produced a very strong compounded annual growth of 35% in terms of sales and 33% in terms of profits before tax.

We look forward to communicating an ambitious next five-year plan both at our annual franchise convention – this year in Scottsdale Arizona - in mid-March and in the pages of our Annual Report in May. We look forward to providing a preview at the Eighth Annual Investor Growth Forum in London on 11 February.”

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

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Trading Overview. As stated in our last several Annual Reports, our mission at Water Intelligence is to build a multinational company whose strong growth-orientation can be sustained. As noted above, for the last five years, our compounded annual growth in sales has been 35% and profits before tax 33%. Global demand for preventing water loss through infrastructure products and services is only accelerating. We recognize that sustaining such growth requires reinvestment through the roll-out of new solutions during 2020.

As reflected by our 2019 results, we are scaling nicely. For 2018, our statutory profits before tax grew faster than revenue despite strong revenue growth and reinvestment. Once again, for 2019, the rate of growth in statutory profits before tax at 33% exceeded the rate of growth of revenue at 27%; of course, we were pleased by both. Moreover, we displayed such scaling in the context of strong revenue growth in absolute terms to \$32.4 million and critical mass of market presence to approximately \$120 million of total sales to third parties (direct corporate sales and indirect sales to third parties from which franchise royalty income is derived). We have continued to reinvest to sustain future growth, especially through new technology products being commercially introduced during 2020. In fact, we are almost a year ahead of schedule as reflected by expectations communicated in analyst reports.

KPIs. The six KPIs that reflect our business plan – set forth more fully in the Strategic Report to the Annual Accounts – were all strongly positive during 2019. First, royalty growth from the American Leak Detection (“ALD”) Franchise System remains strong. During 2019, ALD royalty income grew 4% to \$6.5 million (2018: \$6.2 million) in absolute terms despite four strategic reacquisitions that removed royalty income from the pool: Ontario, Canada; South Atlanta; Orlando; and Tucson. The latter two locations previously contributed significant royalty income. The health of our franchise system is important because its sales and execution contribute market presence. Such reach across the United States results in an efficient multiplier effect enabling Water Intelligence to be a significant distribution platform for additional follow-through sales to customers.

Second, our insurance business-to-business channel continues to grow rapidly. During 2019, our insurance channel grew by 41% to \$7.1 million (2018: \$5.0 million). We added two national accounts which will fuel continued growth in 2020 and beyond. As noted in the Strategic Report, the business-to-business channel reinforces our franchise system and provides scaling by providing jobs to the franchise system through a centralized corporate system at lower customer acquisition costs.

Third, corporate-run operations complement our franchise system by adding to critical mass of sales presence and execution across the United States. During 2019 corporate-run operations grew 44% to \$14.5 million (2018: \$10.1 million). These fast-growing locations reinforce franchise operations with increased local marketing presence. In addition, as corporate-run operations increase profit margins while still reinvesting in growth, they unlock shareholder value because the net profits that they produce are higher than foregone net royalty income for doing the same execution activity in the location. Profit margins for corporate-run locations reached 13.5% as compared to 12% in 2018.

Fourth, our UK based municipal business – Water Intelligence International (WII) - continues to grow steadily. WII complements ALD with utility offerings and leads our multinational growth efforts. During 2019, WII grew revenue by 14% to \$3.3 million (2018: \$2.9 million). It introduced a new municipal offering in the U.S. building a book of business of \$1 million (approximately \$500,000 executed during 2019) and helping the franchise system bid for more municipal contracts during 2020. In addition, WII continues to develop in Australia through its Sydney operations and has begun to market its offerings in the EU and South Africa.

Fifth, as our business model continues to evolve from a “support services” company to a distribution platform with a mix of franchise locations and corporate-run locations all providing a matrix of residential, business-to-business and municipal solutions. Non-recurring transaction costs, especially from franchise reacquisitions, and non-cash amortization from prior acquisitions are part of the business plan and transformation of the business model to create a platform company. During 2019, such non-recurring and non-cash costs reached approximately \$1 million. When added back in a KPI to focus on on-going operating performance, profits before tax adjusted grew 36% reaching approximately \$3.4 million.

Finally, Water Intelligence’s net-borrowing position is very favourable despite our reinvestment for future growth. In general, the Company takes a conservative position despite a low interest rate environment. Cash on hand at 31 December was \$5.3 million. Net cash after bank debt was \$1.8 million. Bank debt is amortizable through 2022. In the meantime, Water Intelligence continues to grow profits (both statutory and adjusted). As noted above, statutory profits before taxes grew 33% to \$2.4 million. With its current cash position, the Company has the financial strength to execute its growth plan and continue with reinvestment to sustain growth and take advantage of market demand for water infrastructure solutions in markets around the world.

Strategic Direction.

Water Intelligence is evolving into a valuable distribution platform for technology products and services that address water infrastructure problems leading to water loss. We are establishing a market presence and solutions matrix that is robust in each segment: 46 states of the United States, serving approximately 200,000 residences and major insurance companies; across the UK serving major water utilities; across Australia and Canada serving a mix of residential and municipal customers. We use proprietary acoustic and infrared technologies to pinpoint and repair water leaks in every size pipe for the above mix of customers. Our next step is to continue to fill-in the overlaps: layer-in municipal work in the US; residential and insurance work in the UK and

insurance work in Australia and Canada. To be sure, we will expand into other geographies with the full matrix of solutions.

We are executing our plan with focus. During the first half of 2019, we focused on reinforcing the scalability of our platform. To this end, we are pleased that for the second consecutive year we grew revenue strongly and profits before tax even more strongly. We continued to execute reacquisitions of strategic franchises and signed more national insurance accounts.

During the second half of 2019, we focused on our reinvestment roadmap, especially proprietary acoustic products for wastewater problems – a big problem that includes sanitary overflow to clean water pipes. In strategic fashion, we helped launch Entertainment AI with Sumitomo Corporation of Japan and leading UK investors. In that context, we received an exclusive royalty-free technology license for EAI's technology which will enable Water Intelligence to provide its customers with the ability to purchase water-related, smart home products from the web.

As we launch our next five-year plan, sales growth and market capture will remain a priority given world-wide demand to prevent water loss. Building on our ever-growing customer base and multinational sales footprint, we plan to meet additional customer demand for follow-through solutions with sales of new products and services that fulfil our promise to be a “One Stop Shop” for solutions to water loss.

Given market demand, the consistency of our execution and our emphasis on sustainable growth, we are well-positioned for an exciting next five-years and unlocking of substantial shareholder value.