



Water Intelligence plc (AIM: WATR.L)

Interim Results

Water Intelligence plc (AIM: WATR.L) (“Water Intelligence”, “Group”, or the “Company”), a leading multinational provider of precision, minimally-invasive leak detection and remediation solutions for both potable and non-potable water is pleased to provide its Interim Results for the six months ended 30 June 2020.

1H statutory profit before tax grew strongly by 33% to \$2.01 million (1H 2019: \$1.51 million) resulting in the Group being comfortably at the top end of market expectations despite Covid-19 challenges.

3Q builds on and adds significant operational and financial momentum to Group: Two additional franchise reacquisitions, National insurance win and Salesforce.com implementation.

Brand profile sharpened for ESG Investors with receipt of the London Stock Exchange’s Green Economy Mark.

Financial Highlights

- Revenue for the period increased 8% to \$17.10 million (1H 2019: \$15.87 million)
 - All revenue channels grow
 - Royalty income up 1% to \$3.46 million (1H 2019: \$3.44 million)
 - Franchise-related activities including national channel accounts up 7% to \$4.32 million (1H 2019: \$4.05 million) with Business-to Business insurance channel component up 12% to \$3.94 million (1H 2019: \$3.52 million)
 - US corporate-operated locations up 12% to \$7.60 million (1H 2019: \$6.82 million)
 - International corporate-operated locations up 10% to \$1.71 million (1H 2019: \$1.56 million)
- Profit before tax at top-end of market expectations
 - Statutory profit before tax up 33% to \$2.01 million (1H 2019: \$1.51 million)
 - Profit before tax adjusted for non-core, amortization and share-based payments up 20% to \$2.4 million (1H 2019: \$2.0 million)
 - Continued investment in hiring and technology R&D
- EPS Growth
 - Statutory EPS up 27% to 10.0 cents (1H 2019: 7.9 cents)
 - Adjusted EPS up 14% to 12.0 cents (1H 2019: 10.6 cents)

- Balance Sheet strong
 - Cash and equivalents increase to \$7.44 million (1H 2019: \$6.03 million)
 - Net Cash at \$0.91 million (cash minus borrowings)

Corporate Development Highlights

1H 2020

- Strong Execution: Implementation of protocols and navigation of Covid-19 challenges
- Franchise Reacquisitions: 2 accretive franchise reacquisitions - Minneapolis, Minnesota and San Jose, California - add operational scale, especially in Silicon Valley, and financial scale
- Strategic relationship: Salesforce.com enabling secure automation of dispatch, scheduling, execution and reporting
- Innovation: New product launch of sewer diagnostic device for residential and commercial use

3Q Subsequent Events

- Brand: Green Economy Mark received from London Stock Exchange
- Franchise Reacquisitions: 2 accretive franchise reacquisitions: in the U.S. – Maryland; in Australia – Melbourne, adding operational scale in Australia
- Strategic Relationship: New National Account with leading Insurance company

Board Change

- David Silverstone retires from the Board effective as of the publication of the Interim Financials. Both the board and team (corporate and franchise) appreciate his board service. David will continue to assist the Company with his expertise in the municipal business as part of an Advisory Board

Dr. Patrick DeSouza, Executive Chairman of Water Intelligence, commented: “Given the challenges of operating in a Covid-19 marketplace, we are pleased, once again, to deliver strong financial and operating results during 1H that reaffirm our stated objective of sustainable multinational growth. Moreover, we accelerated during 3Q along all dimensions of our growth plan.

Each quarter has been marked by a signature event that communicates our strategic direction. During 1Q, we launched an ambitious next five-year plan at a well-attended annual franchise convention in Arizona. During 2Q, we launched a strategic relationship with Salesforce.com that will advance our business model of being an efficient distribution platform – a ‘One Stop Shop’ – for water infrastructure services and products. Finally, during 3Q we were honored to receive the Green Economy Mark from the London Stock Exchange. We are enthusiastic that this designation will further define our brand for ESG Investors. We look forward to making a difference in providing

solutions for the various challenges facing the world's most precious resource and its infrastructure."

For further information please contact:

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Chairman's Statement

Overview

We executed well and distinguished ourselves during the first half, especially in light of Covid-19 challenges facing all companies in the marketplace. World-wide lockdown orders that were in effect during parts of March, April and May adversely affected the Group, but our entire team worked relentlessly and implemented additional health and safety protocols to safeguard our stakeholders: customers, franchisees and employees.

Demand for our solutions remains strong. Water infrastructure is a strategic area for the global economy even during a pandemic. Water and wastewater solutions are "essential services" that need to be provided even when our customers are subject to "shelter-in-place" regulations. Our sense of corporate mission drives us to find and stop potable water loss from leakage and to safeguard public health by remediating clogged and leaking wastewater pipes.

Undeterred by Covid-19, we announced at our annual franchise convention last March an aggressive five-year growth plan that aims to build upon our last five-year plan which produced compounded annual growth of 35% in revenue and 33% in profit before tax over the period. Post-convention, as discussed below, we have reaffirmed this growth plan with reinvestment, customer wins and added operational scale through more franchise reacquisitions. These achievements should help sustain our growth trajectory for the remainder of 2020, 2021 and beyond.

1H Operating Results

We are off to a good start on our next five-year plan. Water Intelligence distinguished itself in the marketplace during 1H by achieving 8% growth in revenue reaching \$17.1 million (1H 2019: \$15.9 million) and an outstanding 33% growth in statutory profit before tax reaching \$2.0 million (1H 2019: \$1.5 million). As discussed in the financial section below, each of our revenue channels grew profitably.

Each quarter has been marked by a signature event that advances our business model and brand development. Our annual franchise convention was well-attended. Important for our firm culture, the Convention produced a sense of common purpose among franchisees and corporate staff towards executing our next five-year growth plan and providing green economy leadership to the marketplace. During 2Q, building on our sense of common purpose, the Company agreed to a strategic partnership with Salesforce.com to implement an enterprise application to enable secure, automated dispatch, execution and reporting across the United States. Such reinvestment in the business, by both franchisees and corporate, allows us to achieve a competitive advantage and to more rapidly scale operations. During 3Q, we were delighted to receive the Green Economy Mark from the London Stock Exchange, a recognition of our ESG credentials. Given the anticipated growth in spending on sustainability over the next decade, especially given the impact of climate change on water and infrastructure, we are in a better position to communicate our brand given our strong fundamentals.

We are well-positioned to achieve our growth plan and to help lead the Green Economy. Under our American Leak Detection and Water Intelligence International brands, we have over 140 locations (franchise and corporate) across the United States, UK, Australia and Canada from which to provide a matrix of technology-based solutions for clean water and wastewater problems facing residential, business-to-business and municipal customers. Across these franchise and corporate locations, we touch over 200,000 customers with an aggregate of over \$125 million of gross sales to third parties. With our Salesforce implementation, we will be able to automate execution to provide responsive customer service and opportunities for up-selling additional solutions. Soon we will be implementing a video e-commerce solution that will enable us to transact follow-on

business with customers in a frictionless way by offering customers both water-related products and service technicians who can then make the “smart home” a reality.

With a growing base of sales, array of offerings and a sense of mission across all of our locations, we can communicate more sharply our brand differentiation as a Green Economy platform with on-going, scalable and repeatable customer relationships. As a result, we are no longer simply a “support services” company with one-off sales, as analysts positioned us five years ago. Rather we have evolved into a distribution platform for clean water and wastewater infrastructure solutions with recurring income and scale. This model carries with it a much higher valuation multiple than “support services.” Our financial results validate our business model.

Financial Results

As noted above, we operate through two subsidiaries: American Leak Detection and Water Intelligence International. ALD focuses largely on residential and commercial leak detection and remediation in the US, Australia and Canada. WII focuses largely on municipal leak detection and remediation in the UK and Australia. Each cross-sells the other’s service offerings to ready customers in their respective geographies. While the numbers reported are for 1H, as discussed herein, the Group also has significant momentum given 3Q “Subsequent Events” that are accelerating our growth trajectory.

Four KPIs are set forth in the Strategic Report that forms part of our Annual Report. The KPIs organize our on-going evaluation of financial performance relative to our business model. First, on the franchise side of our business, we continue to grow our franchise System and our American Leak Detection brand. Royalties grew 1% to \$3.46 million (1H 2019: \$3.44 million) despite Covid-19 and despite additional franchise reacquisitions that continue to remove royalty from an eligible pool of franchise royalties. As seen in our segmental information herein, profits on royalty income grew 20% to \$0.96 million (1H 2019: \$0.80 million). Margins on royalty income improved to 28% even with increased re-investment in staffing to assist the franchise System.

During 1H, the Group reacquired franchises in Minneapolis, Minnesota, and San Jose, California. During 3Q, the Group reacquired franchises in Maryland and Melbourne, Australia. These reacquisitions help the franchise System by providing regional corporate management to work with franchisees to grow their businesses. The transitions have been seamless. Customers value the brand and appreciate the responsiveness of our trained technicians whether franchise or corporate.

Second, in tandem with the growth in royalty income, Franchise-related Activities also grew 7% to \$4.32 million (1H 2019: \$4.05 million). However, within Franchise-related Activities, our business-to-business insurance channel grew at a higher rate of 12% to \$3.94 million (1H 2019: \$3.52 million). The growth in jobs from this channel to franchisees more than offset a decrease in new equipment purchases as franchisees adjusted their budgets during Covid-19. (1H 2020: \$0.37 million vs. 1H 2019: \$0.40 million). The Group’s business-to-business channel structure reinforces recurring sales through our distribution platform and helps franchisees continue to grow. During 3Q, the Group signed a new national account with a leading U.S. insurance company. This relationship is expected to further grow our business-to-business channel.

Third, during 1H, corporate-operated locations at ALD grew 12% to \$7.60 million (1H 2019: \$6.82 million). Importantly, US corporate-operated locations improved their profit margins to 19% from 16% (1H 2020: \$1.45 million; 1H 2019: \$1.09 million). At 19% profit margin, corporate-operated locations are approaching the margins of franchise-operated locations. The transformation of indirect royalty income to higher margin direct corporate store income unlocks shareholder value and drives the Group’s profits. To illustrate: a 19% profit on a corporate-executed sale is higher than 6% franchisee royalty income and a profit yield of approximately 2% after the administrative and sales costs of royalty income is taken into account. On the other hand, a healthy royalty amount producing monthly recurring income with no bad debt is still

advantageous for optimizing capital formation because it supports our ability to use bank debt effectively, which benefits our equity holders.

Fourth, during 1H, international corporate results led by UK-based WII also continued to grow despite Covid-19. WII primarily executes our solutions for municipal customers like Thames Water and Sydney Water. Revenue grew 10% to \$1.71 million (1H 2019: \$1.56 million). Profit before tax grew marginally to \$80,000, representing a 5% profit margin. This margin also includes reinvestment expenses in building our municipal channel in the US and in Australia and in pre-marketing for our sewer diagnostic product to be commercialized during 2H.

Conclusion

Despite Covid-19 challenges, we have continued to execute on our strategy and produce top-line growth and strong bottom-line results. We feel confident in our prospects for both top-line and bottom-line growth for three reasons. First, market demand for water and wastewater solutions will only get stronger as the price of water goes up. All jurisdictions around the world – whether the US or Australia, where we operate, or India or China, where we seek to expand with partners – will need to address aging infrastructure that results in 15-40% daily water loss from leakage and additional price increases from the resulting scarcity. Second, the Group has a highly scalable and valuable business model as a distribution platform providing various technology-based clean water and wastewater solutions for residential, commercial and municipal customers. Finally, all of the Group's stakeholders – franchise and corporate teams, institutional investors, strategic partners and, most importantly, our customers – are united by a common mission to provide leadership with respect to a scarce natural resource. We are excited to build upon the Green Economy Mark from the London Stock Exchange in communicating our brand.

To reiterate, our last five-year plan produced compounded annual growth of 35% in terms of revenue and 33% in terms of profit before tax. We have launched our next five-year plan with confidence and have navigated to a strong start despite marketplace challenges.

Patrick DeSouza
Executive Chairman
September 16, 2020

Interim Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2020

		Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
	Notes	\$	\$	\$
Revenue	4	17,096,587	15,867,440	32,363,935
Cost of sales		(4,019,249)	(3,658,507)	(7,448,289)
Gross profit		13,077,338	12,208,933	24,915,646
Administrative expenses				
- Other income		13,658	(1,403)	-
- Share-based payments		(100,895)	(81,657)	(176,960)
- Amortisation of intangibles		(252,546)	(159,475)	(319,041)
- Other administrative costs		(10,582,146)	(10,350,375)	(21,723,670)
Total administrative expenses		(10,921,929)	(10,592,910)	(22,219,671)
Operating profit		2,155,409	1,616,023	2,695,975
Finance income		57,103	31,871	61,754
Finance expense		(205,231)	(135,277)	(400,241)
Profit before tax	4	2,007,281	1,512,617	2,357,488
Taxation expense		(525,000)	(396,950)	(662,062)
Profit for the period		1,482,281	1,115,667	1,695,426
Attributable to:				
Equity holders of the parent		1,470,653	1,115,460	1,695,033
Non-controlling interests		11,628	207	393
		1,482,281	1,115,667	1,695,426
Other comprehensive income				
Exchange differences arising on translation of foreign operations		(66,452)	(19,050)	(164,144)
Fair value adjustment on listed equity investment (net of deferred tax)		(574,728)	-	584,378
Total comprehensive income for the period		841,101	1,096,617	2,115,660
Earnings per share		Cents	Cents	Cents
Basic	5	10.0	7.9	11.7
Diluted	5	9.7	7.4	11.1

Consolidated Statement of Financial Position as at 30 June 2020

		At 30 June 2020	At 30 June 2019	At 31 December 2019
	Notes	\$	\$	\$
		Unaudited	Unaudited	Audited
ASSETS				
Non-current assets				
Goodwill		11,298,344	9,045,858	9,090,701
Listed equity investment		1,187,460	-	1,932,252
Other intangible assets		1,713,600	2,527,911	1,949,832
Property, plant and equipment		3,983,818	2,168,062	3,898,133
Trade and other receivables		547,520	688,442	605,234
		18,730,742	14,430,273	17,476,152
Current assets				
Inventories		428,661	443,903	334,011
Trade and other receivables		6,101,549	5,977,998	5,036,149
Cash and cash equivalents		7,439,568	6,034,649	5,280,808
		13,969,778	12,456,551	10,650,968
TOTAL ASSETS	4	32,700,520	26,886,824	28,127,120
EQUITY AND LIABILITIES				
Equity attributable to holders of the parent				
Share capital	6	114,762	113,152	114,440
Share premium	6	9,741,797	9,569,988	9,717,349
Shares held in treasury	6	(619,368)	-	(539,834)
Merger reserve		1,001,150	1,001,150	1,001,150
Share based payment reserve		517,595	321,453	416,700
Other reserves		(973,038)	(762,304)	(907,344)
Reverse acquisition reserve	6	(27,758,089)	(27,758,089)	(27,758,089)
Equity investment reserve		8,892	-	584,379
Retained profit		36,365,303	34,361,736	34,894,649
		18,399,004	16,847,086	17,523,400
Equity attributable to Non-Controlling interest				
Non-controlling interest		112,421	100,706	100,793
Non-current liabilities				
Borrowings		5,655,992	2,735,931	2,321,400
Deferred consideration	7	1,513,441	697,915	556,198
Deferred tax liability		955,883	700,378	588,684
		8,125,316	4,134,224	3,466,282
Current liabilities				
Trade and other payables		4,442,498	2,536,015	4,596,085
Borrowings		868,857	1,123,925	1,163,055
Deferred consideration	7	752,424	2,144,868	1,277,505
		6,063,779	5,804,808	7,036,645
TOTAL EQUITY AND LIABILITIES		32,700,520	26,886,824	28,127,120

Interim Consolidated Statement of Changes in Equity
For the six months ended 30 June 2020

	Share Capital	Share Premium	Shares held in treasury	Reverse Acquisition Reserve	Merger Reserve	Share based payment reserve	Other Reserves	Equity investment reserve	Retained Profit	Total	Non- controlling interest	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
As at 1 January 2019	101,915	6,887,739	-	(27,758,088)	1,001,150	239,740	(743,198)	-	33,246,277	12,975,535	100,499	13,076,034
IFRS 16 Adjustment	-	-	-	-	-	-	-	-	(44,869)	(44,869)	(99)	(44,968)
Restated as at 1 January 2019	101,915	6,887,739	-	(27,758,088)	1,001,150	239,740	(743,198)	-	33,201,407	12,930,666	100,400	13,031,066
Issue of ordinary shares	11,237	2,682,249	-	-	-	-	-	-	-	2,693,486	-	2,693,486
Share based payment expense	-	-	-	-	-	81,713	-	-	-	81,713	-	81,713
Profit for the period	-	-	-	-	-	-	-	-	1,115,460	1,115,460	306	1,115,667
Other comprehensive income	-	-	-	-	-	-	(19,106)	-	-	(19,106)	-	(19,106)
As at 30 June 2019 (unaudited)	113,152	9,569,988	-	(27,758,088)	1,001,150	321,453	(762,304)	-	34,361,737	16,847,086	100,706	16,947,792
Issue of ordinary shares	-	32,355	-	-	-	-	-	-	-	32,355	-	32,355
Options purchase	515	115,006	-	-	-	-	-	-	-	115,521	-	115,521
Share-based payment expense	-	-	-	-	-	95,247	-	-	-	95,247	-	95,247
Share buyback	772	-	(539,834)	-	-	-	-	-	(1,792)	(540,854)	-	(540,854)
Profit for the period	-	-	-	-	-	-	-	-	579,574	579,574	186	579,760
Other comprehensive income	-	-	-	-	-	-	(144,282)	583,621	-	439,339	-	439,339
As at 31 December 2019 (audited)	114,440	9,717,349	(539,834)	(27,758,088)	1,001,150	416,700	(906,586)	583,621	34,894,649	17,523,401	100,793	17,624,194
Issue of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-
Options purchase	322	24,447	(79,534)	-	-	-	-	-	-	(54,765)	-	(54,765)
Share based payment expense	-	-	-	-	-	100,895	-	-	-	100,895	-	100,895
Profit for the period	-	-	-	-	-	-	-	-	1,470,653	1,470,653	11,628	1,482,281
Other comprehensive loss	-	-	-	-	-	-	(66,452)	(574,728)	-	(641,180)	-	(641,180)
As at 30 June 2020 (unaudited)	114,762	9,741,796	(619,368)	(27,758,088)	1,001,150	517,595	(973,038)	8,893	36,365,302	18,399,004	112,421	18,511,425

Interim Consolidated Statement of Cash Flows
For the six months ended 30 June 2020

	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
	\$	\$	\$
	Unaudited	Unaudited	Audited
Cash flows from operating activities			
Profit before tax	2,007,281	1,512,617	2,357,488
Adjustments for non-cash/non-operating items:			
Depreciation of plant and equipment	708,416	257,940	1,268,463
Amortisation of intangible assets	252,545	159,475	319,041
Share based payments	100,895	81,657	176,960
Interest paid	205,231	135,277	400,241
Interest received	(57,103)	(31,871)	(61,754)
Operating cash flows before movements in working capital	3,217,265	2,115,094	4,460,439
Decrease/(Increase) in inventories	(94,650)	7,562	117,454
Increase in trade and other receivables	(1,007,686)	(1,836,453)	(811,396)
(Decrease)/Increase in trade and other payables	564,829	(33,318)	2,477,094
Cash generated by operations	2,679,758	252,885	6,243,591
Income taxes	-	(12,793)	(535,693)
Net cash generated from operating activities	2,679,758	240,092	5,707,898
Cash flows from investing activities			
Purchase of plant and equipment	(608,062)	(493,047)	(3,104,796)
Purchase of intangibles	(16,000)	(243,023)	(200,000)
Purchase of listed equity investment	(1)	-	(1,201,780)
Acquisition of subsidiaries	-	(740,225)	(741,130)
Reacquisition of Franchises	(2,393,682)	(1,757,451)	(2,480,417)
Interest received	57,103	31,871	61,754
Net cash used in investing activities	(2,960,642)	(3,201,875)	(7,666,369)
Cash flows from financing activities			
Issue of ordinary share capital	-	11,237	11,237
Premium on issue of ordinary share capital	-	2,682,249	2,714,604
Share buy-back	-	-	(540,853)
Options exercised	(54,765)	-	115,521
Interest paid	(205,231)	(135,277)	(400,241)
Proceeds from borrowings	3,342,628	1,854,936	1,854,936
Repayment of borrowings	(302,235)	(433,118)	(808,520)
Repayment of lease liabilities	(340,754)	-	(723,812)
Net cash generated by/(used in) financing activities	2,439,643	3,980,026	2,222,873
Net (decrease)/increase in cash and cash equivalents	2,158,759	1,018,243	264,402
Cash and cash equivalents at the beginning of period	5,280,808	5,016,406	5,016,406
Cash and cash equivalents at end of period	7,439,567	6,034,649	5,280,808

Notes to the Interim Consolidated Financial Information for the six months ended 30 June 2020

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 provider of "end-to-end" solutions for the problems of water loss through leakage. The Group is a "one-stop shop" for residential, commercial and municipal customers whether for potable or non-potable water issues.

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 27-28 Eastcastle Street, London, W1W 8DH.

2 Significant accounting policies

Basis of preparation and changes to the Group's accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial information are consistent with those of the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019. Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessee's accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic. This amendment had no effect on this interim consolidated financial information.

This interim consolidated financial information for the six months ended 30 June 2020 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 2019, 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 2020 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 2019 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 2020 was £1 = US\$ 1.2698 (30 June 2019: £1 = US\$ 1.2760).

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 2019.

3 Significant events and transactions

The World Health Organisation declared coronavirus and Covid-19 a global health emergency on 30 January 2020. With respect to the Covid-19 pandemic of 2020, the Group has reviewed all applicable Shelter-in-Place Orders and have determined that our operations qualify as essential/critical infrastructure and that we are able to continue to operate under those Orders. Our service technicians are essential to the minimum basic operations of our business. All non-essential personnel have been notified to work remotely until further notice. Employees who are critical to the minimum basic operations of the business have been instructed to comply with social distancing rules/requirements in their jurisdictions, as well as other safety and health precautions.

Analytical review of operations indicates that for a short period (March to May 2020) it is estimated that revenue may have been negatively impacted by at least \$750,000 and net profit by at least \$150,000. As mentioned in the financial highlights, despite this COVID-19 impact, over the course of 1H revenue grew by 8% and net profit before taxes grew by 33%. The Group continues to execute its growth plan and to build scale as an "essential service provider" for water and wastewater infrastructure solutions despite the challenges of Covid-19 affecting the broader marketplace.

PPP Program - The Paycheck Protection Program (PPP) brings much needed relief to business owners affected by the coronavirus. Not only does this loan program provide funding to maintain payroll and other expenses, but if used for qualifying purposes, part or all of the loan can be forgiven. ALD applied for and received funding of \$1,869,800 under this program in April 2020. Final rules for applying for forgiveness have not been released as of the report date. Management expects that the total funding will be forgiven given that, among other things, payroll and expenses have been maintained.

4 Segmental information

In the opinion of the Directors, the operations of the Group currently comprise four operating segments: (i) franchise royalty income, (ii) franchise-related activities including business-to-business sales and product and equipment sales, (iii) corporate-operated locations led by the Group's U.S.-based American Leak Detection subsidiary and (iv) international corporate locations led by the Group's UK-based Water Intelligence International.

The Group mainly operates in the US, with operations in the UK, Canada and Australia. In the six months to 30 June 2020, 89.6% (1H 2019: 90.2%) of its revenue came from the US-based operations; the remaining 10.4% (1H 2019: 9.8%) of its revenue came from its international corporate operated locations.

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

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 four income generating segments that serve as key performance indicators (KPI's):

- Franchise royalty income;
- Franchise-related activities (including product and equipment sales and Business-to-Business sales);
- US corporate operated locations; and

- International corporate operated locations.

Items that do not fall into the four segments have been categorised as unallocated head office costs and non-core costs which largely reflect transaction costs associated with the Group's franchise re-acquisition strategy.

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

Revenue	Six months ended 30 June 2020 \$ Unaudited	Six months ended 30 June 2019 \$ Unaudited	Year ended 31 December 2019 \$ Audited
Franchise royalty income	3,464,489	3,435,521	6,499,045
Franchise related activities	4,322,401	4,054,399	8,049,570
US corporate operated locations	7,600,601	6,816,359	14,446,286
International corporate operated locations	1,709,096	1,561,161	3,369,034
Total	17,096,587	15,867,440	32,363,935

Profit before tax	Six months ended 30 June 2020 \$ Unaudited	Six months ended 30 June 2019 \$ Unaudited	Year ended 31 December 2019 \$ Audited
Franchise royalty income	958,079	796,929	1,603,149
Franchise related activities	303,151	394,489	601,281
US corporate operated locations	1,449,825	1,090,578	2,025,095
International corporate operated locations	79,932	73,826	226,215
Unallocated head office costs	(745,716)	(577,357)	(1,605,252)
Non-core costs	(37,990)	(265,848)	(493,000)
Total	2,007,281	1,512,617	2,357,488

Assets	Six months ended 30 June 2020 \$ Unaudited	Six months ended 30 June 2019 \$ Unaudited	Year ended 31 December 2019 \$ Audited
Franchise royalty income	12,317,290	9,737,259	9,412,402
Franchise related activities	2,006,273	1,007,599	1,862,887
US corporate operated locations	14,208,693	10,700,439	11,772,004
International corporate operated locations	4,168,264	5,441,527	5,079,827
Total	32,700,520	26,886,824	28,127,120

Geographic Information

The Group has two wholly-owned subsidiaries – American Leak Detection (ALD) and Water Intelligence International (WII). Operating activities are captured as both franchise-executed operations and corporate-executed operations. ALD has both US franchises and corporate-operated locations. It also has international franchises, principally located in Australia and Canada. Operations focus on residential and commercial water leak detection and remediation with some municipal activities. By comparison, WII has

only corporate operations located outside the United States. These WII international operations are principally municipal activities. As noted herein, the Group's vision is to become a multinational growth company.

Total Revenue

	Six months ended 30 June 2020			Year ended 31 December 2019		
	Unaudited			Audited		
	US	International	Total	US	International	Total
	\$	\$	\$	\$	\$	\$
Franchise royalty income	3,402,402	62,087	3,464,489	6,355,811	143,234	6,499,045
Franchise related activities	4,322,401	-	4,322,401	8,049,570	-	8,049,570
US corporate operated locations	7,600,601	-	7,600,601	14,446,286	-	14,446,286
International corporate operated locations	-	1,709,096	1,709,096	-	3,369,034	3,369,034
Total	15,325,404	1,771,183	17,096,587	28,851,667	3,512,268	32,363,935

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	Six months ended	Year ended
	30 June 2020	30 June 2019	31 December 2019
	Unaudited	Unaudited	Audited
Earnings attributable to shareholders of the Company (\$)	1,470,653	1,115,460	1,695,033
Weighted average number of ordinary shares	14,702,371	14,127,248	14,426,694
Diluted weighted average number of ordinary shares	15,237,545	15,096,052	15,244,422
Earnings per share (cents)	10.0	7.9	11.7
Diluted earnings per share (cents)	9.7	7.4	11.1

Earnings per share are computed based on Ordinary shares. There is a class of B Ordinary Shares discussed in Footnote 6 that are not admitted to trading.

6 Share capital

The issued share capital at the end of the period was as follows:

Group & Company	Ordinary	Shares held in	Total Number
	Shares of 1p each	treasury Number	
	Number		
At 30 June 2020	14,702,371	170,000	14,872,371
At 30 June 2019	14,702,371	-	14,702,371
At 31 December 2019	14,702,371	145,000	14,847,371

On 7 August 2020 the Group reserved and issued options for 500,000 shares to incentivize, based on performance goals, a new group of executives who have joined or been promoted within the Company. These new options vest upon the completion of three years and have an exercise price of \$5.60 which is more than 35% higher than the market price at the time of grant. The net number of options including the new grants and leavers from the Company during 2020 is approximately 1,925,000.

Subsequent to 30 June 2020, the Company bought back 10,000 shares for treasury resulting in 180,000 shares in treasury.

The Company has also issued 2,200,000 Partly Paid Shares (B Ordinary Shares) that carry voting rights but no economic rights and are will not be converted into Ordinary Shares until fully paid.

Group & Company	Share Capital	Share Premium	Shares In Treasury
	\$	\$	\$
At 30 June 2020	114,762	9,741,797	(619,368)
At 30 June 2019	113,152	9,569,989	
At 31 December 2019	114,440	9,717,349	(539,833)

Reverse acquisition reserve

The reverse acquisition reserve was created in accordance with IFRS3 Business Combinations and relates to the reverse acquisition of Qconnectis Plc by ALDHC in July 2010. Although these Consolidated Financial Statements have been issued in the name of the legal parent, the Company it represents in substance is a continuation of the financial information of the legal subsidiary ALDHC. A reverse acquisition reserve was created in 2010 to enable the presentation of a consolidated statement of financial position which combines the equity structure of the legal parent with the reserves of the legal subsidiary. Qconnectis Plc was renamed Water Intelligence Plc on completion of the reverse acquisition on 29 July 2010.

7 Reacquisition of franchisee territories in the period

On 30 April 2020, the Group completed the reacquisition of its Minneapolis, Minnesota franchise within the Group's ALD franchise business. Minneapolis is a significant reacquisition that enables the Group to add further scale to Water Intelligence financially and operationally. The purchase price was approximately \$1.3 million to be paid evenly over four years. 2019 sales for the Minneapolis franchise location was approximately \$0.98 million and pre-tax profits were approximately \$0.31 million. Operationally, the reacquisition of Minneapolis creates a corporate base in the Upper Midwest region of the United States. During 2019, the Group executed several significant municipal contracts in the Upper Midwest affording cross-selling opportunities from the Group's Water Intelligence International subsidiary.

On 1 June 2020, the Group completed the reacquisition of its San Jose, California franchise territory within the Group's ALD franchise business. San Jose is a strategic reacquisition because of its location in Silicon Valley. The Group plans to use this corporate base to advance its innovation roadmap and R&D. The reacquisition also enables the Group to add further scale to Water Intelligence financially and operationally. The purchase price was approximately \$1.05 million. 2019 sales for the San Jose franchise location were approximately \$0.7 million and pre-tax profits were approximately \$0.2 million. The reacquisition also reinforces growth in the Bay Area with its multimillion dollar franchises in the San Francisco and Berkeley territories.

8 Subsequent events

Franchise Reacquisitions

On 17 July 2020, the Group completed the reacquisition of its Maryland franchise territory (entire state of Maryland) within the Group's ALD franchise business. Maryland is a significant reacquisition. As noted, the

franchise territory covers the entire state of Maryland which includes significant cities such as Baltimore, Bethesda, and Annapolis. The reacquisition enables the Group to add further scale to Water Intelligence, both operationally and financially. For full-year 2019, Maryland generated approximately \$1.07 million of sales and approximately \$0.4 million of pre-tax profits. The purchase price for the reacquisition which includes all assets to conduct operations (trucks, equipment etc.) is \$1.35 million.

On 4 August 2020, the Group completed the reacquisition of its franchise operation in Melbourne, Australia within the Group's ALD franchise business. Due to strong demand for water conservation – residential, commercial and municipal - and an existing base of corporate and franchise operations to fulfil such demand, Australia is an important geography for the Group's strategic growth plan. Melbourne is a significant reacquisition because it complements the Group's other corporate base in Sydney. Between Melbourne and Sydney, the Group can better support growth of its existing franchise locations in the eastern half of Australia. For the trailing twelve months, which includes six months of Covid-impacted results, the Melbourne operation generated AUD\$1.29 million in sales and AUD\$0.27 million in profits. The purchase price for the reacquisition which includes all assets to conduct operations (trucks, equipment etc.) is AUD\$1.77 million.

Corporate Transactions

On 7 August 2020 the Group reserved and issued options for 500,000 shares to incentivize, based on performance goals, a new group of executives who have joined or been promoted within the Company. These new options vest upon the completion of three years and have an exercise price of \$5.60 which is more than 35% higher than the market price at the time of grant.

Transaction in Own Shares – pursuant to the authority approved by shareholders at the Company's Annual General Meeting dated 29 July 2020, the Company purchased the following shares (all to be held in treasury).

6 August 2020 – 2,500 ordinary shares of 1 penny each at 324 pence.

7 August 2020 – 2,500 ordinary shares of 1 penny each at 319 pence.

10 August 2020 – 5,000 ordinary shares of 1 penny each at 315 pence.

Board

David Silverstone retires from the Board effective as of the publication of the Interim Financials. Both the board and team (corporate and franchise) appreciate his board service. David will continue to assist the Company with his expertise in the municipal business as part of an Advisory Board.

9 Publication of announcement and the Interim Results

A copy of this announcement will be available at the Company's registered office (27-28 Eastcastle Street, London, W1W 8DH) from the date of this announcement and on its website – www.waterintelligence.co.uk. This announcement is not being sent to shareholders.