Water Intelligence plc

2020 Full Year Trading Results

Issue of Shares / PDMR Dealing

Water Intelligence plc (AIM: WATR.L) (the "Group" 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 its unaudited Trading Update for full year 2020.

The Group successfully navigated the challenges of a Covid-affected marketplace as an "essential service provider". Statutory profits before tax grew very strongly by 78% to $4.2 million, which exceeded market expectations.

Water Intelligence is pleased that during 2H it received the Green Economy Mark from the London Stock Exchange and has been added to various MSCI Indices, positioning the Company for ESG institutional investors.

Audited results for 2020 are expected during mid-May as traditionally released.

Highlights

- Water Intelligence revenue grew strongly by 17% year-over-year reaching $37.9 million (2019: $32.4 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 wastewater problems.
    - Implied total sales to customers (implied gross sales from which franchise royalty is derived plus direct sales from corporate locations) surpassed $130 million providing critical mass
  - ALD revenue grew by 15% to $33.6 million (2019: $29.1 million)
    - Royalty income from franchisees grew in absolute terms by 3% to $6.7 million (2019: $6.5 million), despite continued franchise reacquisitions that reduced the available pool of royalty income
    - Franchise-related sales (national accounts; parts and equipment; franchise territory sales) grew 18% to $9.5 million (2019: $8.0 million)
      - Key insurance business-to-business channel grew 20% to $8.5 million (2019: $7.1 million)
    - Corporate location sales grew 21% year over year to $17.4 million (2019: $14.4 million); Selective franchise reacquisitions continue, increasing corporate presence for working with franchisees under one ALD brand

    - WII revenue grew 27% to $4.3 million (2018: $3.4 million)
- Water Intelligence statutory profits before tax grew very strongly by 78% to $4.2 million (2019: $2.4 million)
    - Corporate locations profit margins continue to scale to 23% in 2020 from 14% in 2019 driving profit growth
- Water Intelligence profits before tax adjusted for non-core costs*, non-cash amortisation expense and share-based payments grew 49% to $5.1 million (2019: $3.4 million)
- Water Intelligence Balance Sheet strong at 31 December 2020
    - Cash: $6.8 million
    - Net Debt: $2.0 million (Bank Debt of $8.7 million with amortization through 2025)
    - Subsequent Event: Expansion of Credit Facility by $3.2 million on 3 February resulting in Cash of $10 million and Net Debt of $2.0 million
- Technology reinvestment
    - Commercialization of proprietary sewer diagnostic product begun in UK
    - Development of e-commerce and video display technology via exclusive license from SEEEN plc for water sector
    - Salesforce CRM integration to create automated service delivery platform

* Non-core costs include one-time items such as legal expenses on transactions

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

"We had an extraordinary year for all of our stakeholders. We faced the challenges of navigating a Covid-influenced marketplace across the UK, US, Australia and Canada. We executed well and, consistent with our track-record over the last five years, delivered very strong results in terms of revenue and profits growth. Our results are ahead of market expectations, despite Covid, which makes a very positive statement regarding shareholder value and our execution.

Our results and reinvestment for further growth have enhanced our capital markets profile. First, as an "essential service provider," we are acyclical. We grow revenue and profits in both good times and bad times. Second, we have a global addressable market for water infrastructure services to tap into that itself is growing. Third, we are a prime example of unlocking shareholder value through "technology-enabled services" – an important investment thesis emerging from Silicon Valley. Finally, we are delighted to receive the Green Economy Mark from the London Stock Exchange and to be included in various MSCI indices. Hence, we are well-positioned as it is expected that ESG institutional investment will be applied to drive the Green Economy over the next decade. We hope to provide market leadership with solutions for the world's most precious resource."

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

Enquiries:

Water Intelligence plc

Patrick DeSouza, Executive Chairman	Tel: +1 203 654 5426
Adrian Hargrave, VP Corporate Development	+44 (0)7775 701 838
WH Ireland Limited - NOMAD & Broker	Tel: +44 (0)207 220 1666
Adrian Hadden	
James Sinclair-Ford	
Matthew Chan	
Dowgate Capital – Joint Broker	Tel: +44 (0)20 3903 7721
Stephen Norcross	

Trading Overview.

We are scaling nicely even during a Covid-influenced marketplace. Much like 2018 and 2019, our statutory profits before tax grew faster than revenue growth, even though we still maintained strong revenue growth and reinvestment. For 2020, Group revenue increased 17% to approximately $37.9 million while statutory profits before tax grew 78% to approximately $4.2 million. We produced a set of results that are ahead of market expectations. These results also reinforced our sustainable growth trajectory. Our compounded annual growth rate (CAGR) since 2016 has been 33% in terms of revenue and 53% in terms of profits before tax.

Our overall market presence passed $130 million in sales to customers – indirect sales by franchisees from which royalty income is derived plus direct sales from corporate operations. Such critical mass of sales alongside our reinvestment in technology creates a strong platform from which to attack a global market for water infrastructure solutions that itself is growing. We are well-positioned for the future and our profile is rising with the Green Economy Mark from the London Stock Exchange and addition to various MSCI indices.

KPIs. Water Intelligence Key Performance Indictors ("KPIs") are explained more fully in the Strategic Report to the Annual Accounts. Our 2020 KPI results underscore the acceleration of our growth trajectory. First, royalty growth from the American Leak Detection ("ALD") Franchise System remains strong. During 2020, ALD royalty income grew by 3% in absolute terms to $6.7 million (2019: $6.5 million). This absolute growth is noteworthy because, as part of the Group's strategy to unlock shareholder value, the Group doubled 2019's rate of franchise reacquisitions thus removing royalty income faster than ever before from the pool of potential 2020 royalty income. Eight strategic reacquisitions were executed during 2020. As discussed below with respect to corporate operations, these reacquisitions strengthened the Group's execution – both franchise and corporate - across its geographies. ALD's franchise system still provides over 100 locations across the US from which the Group may deliver solutions and then engage in follow-through sales of additional products and services to households, businesses and municipalities.

Second, our franchise-related activities reinforce the continued growth of royalty income. Franchise-related activities include: (i) national accounts such as insurance; (ii) franchisee purchases of equipment; and (iii) sales of franchise territory. Our national account channel which feeds jobs to both franchisees and corporate locations continued to grow. During 2020, our insurance channel grew by 20% to $8.5 million (2019: $7.1 million). We added three more national insurance accounts during 2020, which will fuel continued growth in 2021 and beyond. In addition, franchisee purchases of equipment grew 11% in absolute terms to $0.95 million (2019: $0.85 million), despite the reacquisitions. Such growth shows continued franchisee commitment to reinvesting in the growth of the ALD brand. This positive KPI feature is remarkable given that Covid generally had a negative impact on reinvestment in the broader marketplace.

Third, U.S. corporate-run operations complement our franchise system by adding to the critical mass of sales presence and execution across our operating geographies. During 2020, corporate-run operations grew 21% to $17.4 million (2019: $14.5 million). These fast-growing locations reinforce franchise operations with increased regional marketing presence. During 2020, the Group completed reacquisitions in each region of the United States: Southeast, South, Upper Midwest and Northwest. The Northwest set of transactions - combining 2 locations in Silicon Valley and reacquiring Seattle to link existing Portland operations and a greenfield target of Vancouver – is expected to yield significant collateral benefits in terms of scaling our business. Importantly, a corporate presence to connect the sales corridor between Silicon Valley and Seattle will also accelerate technology sourcing. Further, the critical mass of existing municipal operations in Seattle will support the establishment of a US headquarters for our UK-based Water Intelligence International ("WII") subsidiary to further its market penetration in the US.

The Group has efficiently executed the transition after franchise reacquisitions from franchise operations to corporate operations. Corporate-run operations have been continually increasing profit margins, while still reinvesting in growth. As a result, reacquisitions are unlocking 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 under the same brand. Profit margins for corporate-run locations reached 23% as compared to 14% in 2019. Such margin expansion contributed to the jump in Water Intelligence profits during 2020.

Fourth, our WII municipal business continues to grow steadily. WII complements ALD's residential and business-to-business focus with larger scale utility offerings; moreover, given the WII team's professional experience globally, WII leads the Group's multinational growth efforts. During 2020, WII grew revenue by 27% to $4.3 million (2019: $3.4 million). Despite Covid, WII also productized and introduced a new sewer diagnostic product in the UK and conducted field trials in the US. In addition, WII continues to expand in Australia led by its Sydney operations. Franchise reacquisitions during 2020 in Melbourne and Brisbane, combined with WII's Sydney operations, now give WII a critical mass of corporate operations in the 3 largest population centers in Australia. Australia is anticipated to be a strong growth geography for integrating all of the Group's offerings from municipal to residential given its initial base of ALD franchisees.

Finally, Water Intelligence has a strong capital foundation from which to execute its growth plan. In general, the Company takes a conservative position despite the current low interest rate environment. Water Intelligence's net-borrowing position is very favourable despite its reinvestment for future growth and acceleration of reacquisitions. During 4Q 2020, the Group expanded the use of its credit facilities to $8.7 million and reamortized its debt through 2025 at a favorable interest rate of 3.6%. In tandem, the Group added cash of approximately $3.1 million through a limited offering at a much higher share price from prior rounds. Cash on hand at 31 December was $6.8 million. Net debt was $2.0 million. In January, the Company expanded its existing credit facility drawing an additional $3.2 million in cash enabling the Company to have approximately $10 million in cash on its balance sheet while not changing its net debt position. Given that the bank debt has straight-line amortization through 2025, and that the Group produces organic cash yearly, the Group is still very prudent with its balance sheet.

With its current balance sheet, the Group has the financial strength despite Covid to execute its growth plan and to continue with reinvestment to sustain growth for the future. As a result, the Group can take advantage of market demand for water infrastructure solutions in markets around the world. If needed, because of its still relatively conservative balance sheet, the Group still has additional room to expand its credit facilities to take advantage of new opportunities.

Strategic Direction.

Water Intelligence is evolving into a valuable multinational distribution platform for technology products and services that address water infrastructure problems leading to clean water loss or waste-water blockage. We are establishing a broad market presence with a solutions matrix that is robust: (i) 46 states of the United States, serving approximately 200,000 residences and major insurance companies; (ii) across the UK serving major water utilities; and (iii) across Australia and Canada serving a mix of residential and municipal customers. We use proprietary acoustic and infrared technologies in all of these jurisdictions 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; add residential and business-to-business (insurance) channels in the UK and add business-to-business (insurance) channels in Australia and Canada. To be sure, we will expand into other geographies with the full matrix of solutions.

Through reinvestment, we are reinforcing our technology profile as part of our growth plan to transform water infrastructure services. During 2020, we began to commercialize a new technology-driven solution for diagnosing sewer blockages more effectively. Especially given Covid, as homeowners dispose of sanitary wipes, they are unfortunately creating sewer back-ups leading to collateral public health issues. We seek traction for our acoustic-based product in the UK and the US and look to accelerate the growth of this line of business during 2021.

We are also investing in enabling-technologies to drive our reach to customers more efficiently and to achieve scale more rapidly. During 2020, we launched a strategic relationship with Salesforce.com to automate our entire business from secure data management to scheduling to dispatch to reporting. Such cloud-based management enhances our existing data security processes. During 2021 and beyond we will be able to reach more customers with reduced wait times alleviating some of the backlog in customer demand. We will also be able to add more service trucks and locations with efficiency. We have also invested in video e-commerce technology to enable customers to access our solutions more readily. Given the changed Covid-influenced marketplace, we are well-positioned for responding to consumer preferences for on-line shopping.

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. In announcing today's results, we are well ahead of market expectations.

Issue of Shares and PDMR Dealing

Bobby Knell, a director of the Company, has agreed to convert his accrued 2019 and 2020 director fees into 6,500 ordinary shares of 1 penny each in the Company ("Ordinary Shares"). These Ordinary Shares have been issued at 475 pence each, the fundraising price in October 2020. Following this issue of Ordinary Shares, Bobby Knell holds 27,000 Ordinary Shares, representing 0.15 per cent. of the total voting rights in the Company.

Admission of Ordinary Shares and Total Voting Rights

Application has been made for the New Ordinary Shares to be admitted to trading on the AIM market ("AIM") of London Stock Exchange plc (the "London Stock Exchange"), ("Admission"). Admission is expected to occur on or around 8.00 a.m. on 12 February 2021.

Upon Admission, the issued share capital of the Company is 17,641,284 shares, divided into 15,441,284 ordinary shares of 1 penny each which are admitted to trading on AIM and which entitle the holder to one vote per ordinary share; 2,200,000 B Ordinary Shares of 1 penny each which are not admitted to trading on AIM, but do still entitle to holder to one vote per ordinary share, but no economic rights; and 65,538 Ordinary Shares held by the Company in Treasury. Accordingly, the Company's total voting rights are 17,641,284 shares. This total voting rights number may be used by shareholders at Admission as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change to their interest in the Company under the FCA's Disclosure Guidance and Transparency Rules.

1.	Details of the PDMR / person closely associated	
a)	Name	Bobby Knell
2.	Reason for the notification	
a)	Position / status	PDMR
b)	Initial notification / amendment	Initial notification
3.	Details of the issuer, emission allowance market participant, auction platform, auctioneer or auction monitor	
a)	Name	Water Intelligence plc
b)	LEI	213800AL3BNXJ1HQLP10
4.	Details of the transaction(s): section to be repeated for (i) each type of instrument; (ii) each type of transaction; (iii) each date; and (iv) each place where transactions have been conducted	
a)	Description of the financial instrument,	Ordinary Shares GB00BZ973D04

	type of instrument Identification code	
b)	Nature of the transaction	Issue of Ordinary Shares in lieu of Director's Fees
c)	Price(s) and volume(s)	6,500 Ordinary Shares issued at 475p each
d)	Aggregated information - Aggregated volume - Price	N/A (single transaction)
e)	Date of the transaction	9 February 2021
f)	Place of the transaction	London Stock Exchange, AIM Market