

BUY

Executive Summary

Price:	390p
Shares in issue:	17.4m
52 week high/low:	574p/250p
Market cap:	£68m
Market:	AIM
Broker:	Dowgate/WHI/RBC
Ticker:	WATR.L
Target:	800p

Performance	1m	3m	12m
Absolute (%)	9	10	(27)
Rel Index (%)	10	8	(22)
Relative to FTSE All Share			

Activities

Water Intelligence is an environmental services and technology company focused on detecting, finding and remediating water leaks using minimally invasive technology solutions.

Management

Dr Patrick DeSouza	Exec Chairman
Pat La Marco	CFO

Major Shareholders, %

Patrick DeSouza	25.1
Plain Sight Systems	12.5
Canaccord	10.1
Berenberg	7.3
Amati	4.7

Analysts

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FY23 Trading Update

Water Intelligence has reported a strong Trading Update and we raise our FY23 Adjusted EBITDA & PBT estimates by +2% to \$13.4m/\$8.7m. Network Sales rose +3% to \$170m which we view as a creditable outcome given macroeconomic headwinds. Revenues grew +7% to \$76.0m, strengthening from the +6% reported at the 10m stage. Growth was led by Franchise Related Activities (+6%), Corporate Locations (+6%) and International (+14%) with Royalty Income maintained despite reacquisitions. Adjusted EBITDA advanced +9% to \$13.4m, ahead of DCe \$13.2m, and Adjusted PBT by +12% to \$8.7m (DCe \$8.5m). The balance sheet remains strong and the group has today announced the reacquisition of the underperforming Pittsburgh franchise for \$0.5m (1x sales, 4x net income). Water Intelligence made strong operational progress in 2023 and is set fair for 2024. We were particularly encouraged to see that the investment in Salesforce is already starting to pay back, with the group highlighting that the deployment was a major factor in securing two insurance customers this year with more in the pipeline. Water Intelligence has also invested in proprietary products and services in addition to a new training facility. We believe the group has navigated the challenging market conditions in 2023 well and its investments lay the platform for a strong performance in 2024.

- **Revenues.** Network Sales rose +3% to \$170m. Group revenues grew +7% to \$76.0m, ahead of DCe \$75.4m, and an acceleration from +6% at the 10m stage. Franchise Royalty income grew +3% underlying and was maintained at \$6.7m allowing for reacquisitions. Franchise Related Activities grew +6% to \$11.3m. US Corporate Locations also grew +6% to \$50.4m, with underlying growth of +2% fortified by reacquisitions. Water Intelligence International leapt +14% to \$7.6m.
- **Profit.** Adjusted EBITDA grew +9% to \$13.4m (DCe \$13.2m) with margin increasing +30bp to 17.7%. Adjusted PBT rose +12% to \$8.7m (DCe \$8.5m).
- **Balance sheet.** Gross cash finished the year at \$15.8m and total debt including deferred payments was -\$22.8m. Total net debt of -\$7.0m is 0.5x Adjusted EBITDA and the group has significant M&A capacity. Water Intelligence has recently increased its bank facilities by \$5m with M&T Bank.
- **Board compensation.** Pat DeSouza, Laura Hills, Dan Ewell and Phil Meckley have elected to receive Water Intelligence shares in lieu of compensation for 2023. The 25,000 shares will be drawn from treasury.

Financial Summary

Year to December (\$m)	2021	2022	2023E	2024E
Revenues	54.5	71.3	76.0	78.6
Normalised PBT	6.9	7.8	8.7	9.4
Normalised EPS, c	30.2	29.5	34.2	37.2
Normalised EPS, p	23.3	24.6	27.7	29.7
DPS, p	0.0	0.0	0.0	0.0
Net cash/{debt}	15.5	6.2	(0.7)	0.8
Adjusted P/E, x	16.8	15.9	14.1	13.1

Source: Company data, Dowgate Capital estimates

Profit & Loss

Year to December	2021	2022	2023E	2024E
Revenues				
Franchise royalty income	6.8	6.7	6.7	6.7
Franchise related activities	9.8	10.6	11.3	11.6
US corporate operated locations	31.9	47.3	50.4	52.4
Int'l corporate operated locations	6.1	6.7	7.6	7.8
Group Revenues	54.5	71.3	76.0	78.6
Growth, %	44	31	7	3
Adjusted EBITDA				
Adjusted EBITDA	10.3	12.4	13.4	14.7
Margin, %	18.9	17.4	17.7	18.7
Depreciation				
Depreciation	2.5	3.2	3.4	3.6
Adjusted Operating Profit	7.8	9.2	9.9	11.1
Operating margin, %	14.3	12.9	13.1	14.1
Net interest				
Net interest	(0.9)	(1.4)	(1.3)	(1.7)
Share Based Payments				
Share Based Payments	(0.4)	(0.4)	(0.4)	(0.4)
Normalised PBT				
Normalised PBT	6.9	7.8	8.7	9.4
Headline PBT				
Headline PBT	6.5	7.3	8.3	9.0
Tax charge - Normalised				
Tax charge - Normalised	(2.1)	(2.6)	(2.7)	(2.9)
Tax rate, %	30.0	33.8	31.5	31.0
Normalised Earnings				
Normalised Earnings	4.8	5.1	6.0	6.5
Average shares in issue, m				
Average shares in issue, m	16.0	17.4	17.4	17.4
Normalised EPS, c				
Normalised EPS, c	30.2	29.5	34.2	37.2
Normalised EPS (diluted), c				
Normalised EPS (diluted), c	27.5	27.6	33.2	36.1
Normalised EPS, p				
Normalised EPS, p	23.3	24.6	27.7	29.7
Normalised EPS (diluted), p				
Normalised EPS (diluted), p	21.2	23.0	26.9	28.9
Dividend per share, c				
Dividend per share, c	0.0	0.0	0.0	0.0

Source: Company data, Dowgate Capital estimates

Cash Flow & Balance Sheet

Year to December	2021	2022	2023E	2024E
Cash Flow, \$m				
Operating Profit	7.8	9.2	9.9	11.1
Depreciation	2.5	3.2	3.4	3.6
Working Capital	(2.8)	(1.0)	(1.4)	0.0
Other	(0.3)	(1.3)	(0.6)	0.0
Cash from Operations	7.2	10.1	11.3	14.7
Interest	(1.0)	(1.2)	(1.3)	(1.7)
Taxation	(1.0)	(1.7)	(2.7)	(2.9)
Net Cash from Operating Activities	5.2	7.3	7.3	10.1
Acquisitions	(3.1)	(6.3)	(1.3)	0.0
Capex	(0.5)	(1.2)	(2.1)	(2.0)
Reacquisition of Franchises	(5.2)	(1.6)	(3.4)	(0.5)
Net Cash used in Investing Activities	(8.8)	(9.1)	(6.8)	(2.5)
Issue of Shares	23.0	(0.5)	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
FX/ Other	(3.9)	(7.0)	(7.4)	(6.0)
Net Cash from Financing Activities	19.1	(7.5)	(7.4)	(6.0)
Net Flow	15.5	(9.3)	(6.9)	1.6
Closing Net Cash/ (Debt)	15.5	6.2	(0.7)	0.8
Deferred consideration	(13.7)	(12.6)	(6.3)	(0.3)
Net Cash/(Debt) including DC	1.8	(6.4)	(7.0)	0.5

Source: Company data, Dowgate Capital estimates

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We expected the indicated target price to be achieved within 12 months of the date of publication. Expected absolute returns:

- BUY is an expected return greater than 10%
- HOLD is an expected return -10% to +10%
- SELL is an expected return less than -10%

Distribution of Investment Recommendations as per 31/12/2023

	Corporate	Corporate, %	Total	Total, %
Buy	364	100	364	100
Hold	0	0	0	0
Sell	0	0	0	0

Valuations, Key Assumptions and Risks

Details relating to valuation (including material information about proprietary models), key assumptions and risks are available by contacting compliance@dowgate.co.uk