EQUITY RESEARCH

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February 15, 2024

Water Intelligence PLC

In-line FY profits - on track for acceleration in 2024

Our view: The FY update is largely in line with expectations, the main positive is a strong margin performance and a tick up in growth at the end of the year. We are not changing profit forecasts for 2024 and expect an acceleration in organic growth with potential upside risk from further M&A. We continue to believe the de-rating over the last 2 years (24E FCF Yield over 10%) presents an attractive buying opportunity into a genuine growth business with a scaleable platform.

Key points:

FY trading update in line - Sales growth was 7% (vs 6% at 10m and vs 9% in H1), adjusted EBITDA growth was 9% (vs 9% at 10m) and adjusted PBTA growth was 12% (vs 14% at 10m). Growth in H2 was impacted by a weaker consumer and the impact on new build construction, but growth looks to have picked up in Q4 and management has done a good job controlling costs to offset this, with EBITDA margins +40bp. The balance sheet remains strong, with gearing at 0.5x, providing ammunition for further M&A/ franchise buy-ins. WATR has announced small buy-in of Pittsburgh today.

No forecast changes - Profit forecasts are largely unchanged. We expect a pick-up in organic growth in 2024 given soft comparatives, the insurance deals signed to date (with potentially more to come), the non-recurrence of the drag from the housebuilder channel and a likely better performance on job cancellations resulting from the Salesforce implementation.

Outlook - The overall outlook from management remains positive despite the macro environment. It remains confident in its strategic growth plan and competitive strategy, especially as it realises the benefits of prior investments in new technology solutions. The completion of the Salesforce implementation, along with the new training centre should allow for accelerated growth and efficiencies into 2024/25, whilst the balance sheet provides capacity for EPS enhancing acquisitions to add to the organic growth potential.

Well positioned in structural growth markets - WATR is the US market leader in the large, defensive, high single-digit growth leak detection arena, where we believe there are significant competitive advantages from its national network, technology capability and matrix of solutions across the water and wastewater value chain. We believe structural drivers remain strong and there are multiple value levers to pull from expanding the national account channels, expanding into new geographies and executing further franchise buy-ins.

Significant valuation upside, in our view - The FY24E P/E is now c.13.5x with the FCF Yield over 10%, a material discount to the defensive growth names in the sector. Our DCF price target remains at 800p, which comprises 630p for the core business and 170p for further franchise buy-ins/M&A.

Outperform

LSE: WATR; GBp 390.00

Price Target GBp 800

WHAT'S INSIDE	
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Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
255.00	390.00	800.00	1,075.00
↓35%		↑105%	↑176%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	17.4	Market Cap (MM):	68
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	15,706

Market Cap in GBP

RBC Estimates

FY Dec	2022A	2023E	2024E	2025E
Revenue	71.3	76.2	85.5	92.7
Prev.		80.1	88.0	95.4
EPS, Adj Diluted	25.50	30.40	35.90	39.50
Prev.		30.50	36.10	40.40
P/AEPS	19.2x	16.1x	13.7x	12.4x
DPS	0.00	0.00	0.00	0.00
Div Yield	0.0%	0.0%	0.0%	0.0%

All market data in GBp; all financial data in USD; dividends paid in GBp.
Priced as of prior trading day's market close, EST (unless otherwise noted).

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FY results broadly in line and consistent with the 10m statement

The FY trading update in line with our expectations at the adjusted EBITDA level albeit slightly light at the revenue level.

Exhibit 1 - FY headlines

Year ended 31 Dec ($m)	2023A	2023E	%	2022A	Change YoY
Total revenue	76.0	80.1	-5%	71.3	7%
Adjusted EBITDA	13.4	13.4	0%	12.4	9%
Adjusted EBITDA margin	17.7%	16.8%		17.3%	
Adjusted PBTA	8.7	9.0	-4%	7.8	12%
Adjusted PBTA margin	11.4%	11.3%		10.9%	

Source: Company reports, RBC Capital Markets estimates

Sales – FY sales growth was 7% (vs 9% in H1 and 6% after 10m), with revenue growth remaining subdued in H2 given the tougher Consumer environment and weak new construction. However, these numbers suggest some pick-up towards the end of the year, in line with management commentary at the 10m update.

Overall organic network growth was c.3.0% (vs 10.5% last year), with same store sales in the US corporate operated locations +2%.

Exhibit 2 - Revenue breakdown

Year ended 31 Dec ($m)	FY23	FY22	Change YoY
Franchise royalty income	6.7	6.7	0%
Franchise-related activities	11.3	10.6	6%
US corporate operated locations	50.4	47.3	7%
International corporate activites	7.6	6.7	14%
Total revenue	**76.0**	**71.3**	**7%**

Source: Company reports

Adjusted EBITDA – Adjusted EBITDA was up 9% to £13.4m (vs +9% at 10m). The margin was up c.40bp (vs +50bp at H1). This was a good performance given inflationary cost pressures, especially in terms of wages, healthcare costs and continued investments. Management remains focused on controlling overheads and reaping the benefits of various investments made in prior years to reinforce its long-run growth trajectory.

Adjusted PBTA – Adjusted PBTA grew 12%, with the margin +50bp – this was marginally below expectations.

Balance Sheet – The Balance Sheet position is in line with expectations, with gearing is at 0.53x (including deferred consideration).

Corporate development in 2023 - WATR has had a busy year in terms of corporate developments:

- **New training centre** - The Group launched a new training, product assembly and R&D facility in Bridgeport, Connecticut to supply more trained technicians and specialised equipment to meet market demand for solutions; the facility will also be a showcase to support the sale of new American Leak Detection franchises for which there is current demand. It expects this to be completed by Q124.

- **Salesforce implementation**: Salesforce and related web applications continue to be developed and implemented across all US locations (automating all aspects of workflow: scheduling and delivery; marketing follow-up; e-commerce; highest level of data security in Salesforce Cloud).
- **Franchise Acquisitions:** Nashville, Tennessee; Covina, California. In addition, WATR has announced the reacquisition of its Pittsburgh franchise – the purchase price is $0.5m, equating to 4.2x net income. The Group believes that the Pittsburgh location was underperforming as a franchise and sees an opportunity to increase its growth trajectory.
- **New Service Offerings developed and commercialized:** Municipal and Residential Pulse (sewer diagnostic tools); Municipal LS1 (snapshot survey tool) and Ditch Lining Water Management product.
- **Expansion of Acquisition Credit Facilities** - additional $5m available at a capped interest rate of approximately 8% through 2028 with interest rates to adjust lower if market rate falls)

Outlook – The overall outlook from management remains positive despite the macro environment. It remains confident in its strategic growth plan and competitive strategy, especially as it realises the benefits of prior investments in new technology solutions. The completion of the salesforce implementation, along with the new training centre should allow for accelerated growth and efficiencies into 2024/25, whilst the balance sheet provides capacity for EPS enhancing acquisitions to add to the organic growth potential.

Management remains confident in its strategic growth plan and the attractiveness of the water and wastewater infrastructure platform that it is building for both customers and investors. During H124 it will be upgrading its web presence to enable the Group to communicate more effectively with the marketplace through video and social media. It remains confident in its opportunity to take a leadership position in the market given its differentiated technology brand and growing operating footprint.

Minimal forecast changes at this point

We have adjusted forecasts to reflects the numbers given in the update (although we won't have a full P&L and cashflow until the audited accounts later in a couple of months).

Exhibit 3 - Forecast changes

To 31 Dec ($m)	2023E (New)	2023E (Old)	Change	2024E (New)	2024E (Old)	Change
Revenue	76.2	80.1	-5%	85.5	88.0	-3%
Adjusted EBITDA	13.4	13.4	0%	15.0	14.8	1%
Adjusted EBITA	10.1	10.1	0%	11.3	11.2	1%
Adjusted PBTA	**9.0**	**9.0**	**0%**	**10.5**	**10.5**	**-1%**
Adjusted EPS (RBCe, $c)	**30.4**	**30.5**	**0%**	**35.9**	**36.1**	**-1%**

Source: RBC Capital Markets estimates

Overall changes are largely immaterial. We have reduced revenue forecasts slightly for 2024, although profit forecasts are unchanged. We continue to forecast a pick-up in organic growth this year given soft comparatives, the insurance deals signed to date (with potentially more to come), the non-recurrence of the drag from the housebuilder channel and a likely better performance on job cancellations from the Salesforce implementation.

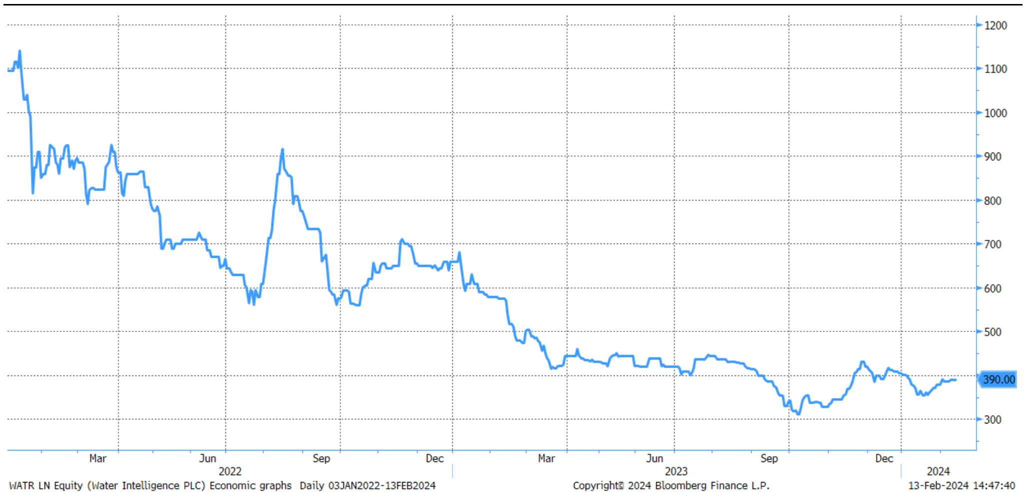
We would note that our forecasts don't include further franchise buy-ins, although the statement (and incremental debt facility) suggest that these could be accelerated in 2024.

Share price performance

The shares have performed poorly over the last 2 years. This partly reflects the impact of bond yields going up on growth stocks as interest rates have risen, along with the general malaise of UK mid-cap names given fund outflows, where the lack of liquidity in WATR also hasn't helped.

In addition, organic growth has slowed at WATR due to the macro, whilst we continue to believe that corporate governance remains an issue. It is our view that the company has an excellent long-term structural growth story, but will not get the rating it deserves until it gets a fully independent Board and splits the chairman/CEO role.

Exhibit 4 - Share price performance since 2023



Source: Bloomberg

Valuation

The shares have de-rated materially over the past 2 years and now trade on a 24E PE of c.13.5x and a FCF Yield of >10% - these valuations look very attractive, in our view, in the context of the sector given the organic revenue growth potential plus the likelihood of further franchise buy-ins (at very attractive valuations).

To this end, our core valuation analysis comprises a two-stage DCF of the business on an 'as is' basis, plus our estimate of the future value creation from self-funded franchise buy-ins.

Our price target values the core 'as is' business, including M&A announced to date, at 630p per share (based on a WACC of 9.5% and terminal growth of 2.0%), plus a discrete valuation of future franchise re-acquisitions (we think highly value accretive) at a further 170p per share, (assuming WATR buys back c.3% of franchise revenue p.a.) combining to create our 800p price target. Our bull and bear case analyses point to wide range of outcomes, driven by the company's relative strategic youth, but we believe risks are firmly skewed to the upside.

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Business Services

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Share price (£) **Priced at 14/2/24**
3.90
Market cap (£m)
68
Year to 31 December

P&L ($m)	**2022A**	**2023E**	**2024E**	**2025E**
Revenues	**71.3**	**76.2**	**85.5**	**92.7**
% change YoY	30.8%	6.8%	12.2%	8.4%
Adjusted EBITDA (co. APM)	**12.4**	**13.4**	**15.0**	**16.1**
% change YoY	19.7%	8.5%	11.8%	7.6%
Adjusted EBITA (co. APM)	**9.1**	**10.1**	**11.3**	**12.1**
% change YoY	16.3%	10.8%	11.7%	7.2%
EBITA margin	12.8%	13.3%	13.2%	13.1%
Net finance expense	(1.3)	(1.1)	(0.8)	(0.7)
Tax	(1.8)	(2.5)	(3.0)	(3.3)
Other charges (net)	(2.4)	(1.5)	(1.6)	(1.6)
Net income	**3.6**	**5.0**	**5.9**	**6.5**
Shares outstanding y/e (m)	17.4	17.4	17.4	17.4
Reported EPS (basic) - ₵	20.5	28.6	34.1	37.7
Underlying EPS (basic) - ₵	**25.5**	**30.4**	**35.9**	**39.5**
% change YoY	-6.9%	19.1%	18.0%	10.0%
DPS - ₵	**0.0**	**0.0**	**0.0**	**0.0**

MARGIN and RATIO ANALYSIS	**2022A**	**2023E**	**2024E**	**2025E**
EBITDA margin (%)	17.3	17.6	17.5	17.4
EBITA margin (%)	12.8	13.3	13.2	13.1
Net profit margin (%)	5.0	6.5	6.9	7.1
FCF margin (on revenue) (%)	6.0	9.7	10.7	11.1
Interest cover (x)	n/m	n/m	n/m	n/m
Effective interest rate (%)	-24.2	-20.0	-8.5	-4.3
Revenue/Total assets (x)	0.7	0.8	0.9	0.9
P/E (adj)	**19.2x**	**16.1x**	**13.6x**	**12.4x**
Dividend yield	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	6.4	5.9	5.2	5.2
EV/EBITA	8.7x	7.9x	6.9x	7.0x
PEG Ratio	(2.8x)	0.8x	0.8x	1.2x
FCF Yield (%)	5.0	8.7	10.7	12.0
Net debt/EBITDA	-0.4x	-0.4x	-0.6x	-1.0x
ROE (post-tax)	9.7	10.7	11.8	12.2
ROIC (post-tax)	10.1	10.4	11.9	13.2

CASH FLOW ($m)	**2022A**	**2023E**	**2024E**	**2025E**
EBITA	9.1	10.1	11.3	12.1
Depreciation/amortisation	3.2	3.3	3.7	4.0
Working capital	(1.0)	(1.2)	(0.9)	(0.7)
Taxes, Interest & other	(3.5)	(3.1)	(3.2)	(3.3)
CF from operations	**7.9**	**9.1**	**10.9**	**12.1**
Capex (inc. new leases)	(3.6)	(1.6)	(1.8)	(1.9)
Equity FCF	**4.3**	**7.4**	**9.1**	**10.2**
M&A/Other investments	(5.5)	(2.0)	-	-
Net equity movements	(0.5)	-	-	-
Dividend to shareholders	(0.0)	-	-	-
Others /FX	(8.3)	(5.5)	(4.9)	(3.5)
Change in net debt	**(10.0)**	**(0.0)**	**4.2**	**6.7**
Y/e net (debt)/cash (ex leases)	**5.5**	**5.5**	**9.7**	**16.5**

KEY OPERATING STATISTICS	**2022A**	**2023E**	**2024E**	**2025E**
Constant currency growth rate (%)	30.8%	6.8%	12.2%	8.4%
Capex/Depreciation	1.1x	0.5x	0.5x	0.5x
Tax Rate (%)	33.4%	33.0%	33.0%	33.0%

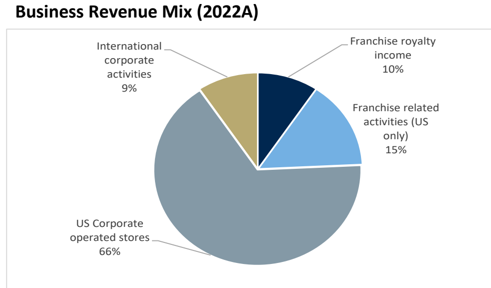
SHARE OWNERSHIP	**%**
Patrick Desouza	27.8
Plain Sight Systems Inc	13.9
Cannacord Genuity	12.2
Berenberg AM	7.2
George D Yancopoulous	5.0
Amati	4.7
Herald	3.7

BALANCE SHEET ($m)	**2022A**	**2023E**	**2024E**	**2025E**
Tangible fixed assets (inc. RoUAs)	9.2	7.3	5.1	2.7
Intangible fixed assets	51.0	50.5	50.1	49.7
Receivables	15.5	16.3	18.0	19.4
Cash	23.0	23.0	23.0	29.6
Other	(2.1)	(2.1)	(2.2)	(2.3)
Total assets	**96.6**	**95.0**	**94.0**	**98.9**
Borrowings (inc. leases)	20.9	21.0	17.0	17.0
Payables	6.3	5.9	6.6	7.2
Provisions/Def. consideration	12.3	7.2	5.3	4.8
Deferred tax	1.9	2.4	3.0	3.7
Other liabilities	0.0	(0.0)	(0.0)	0.0
Total liabilities	**41.4**	**36.5**	**31.9**	**32.6**
Share capital, reserves, others	55.2	58.5	62.1	66.3
Total equity	**55.2**	**58.5**	**62.1**	**66.3**
Book value per share ($/sh)	3.18	3.37	3.58	3.82

VALUATION

We value the core business on a DCF basis and then assume a buy-in of c.3% of its franchise revenue every year.

Business Revenue Mix (2022A)



For RBC Capital Markets valuation comparatives, recent research, and other data please see RBC Insight or Bloomberg <RBCR> GO
Source: RBC Capital Markets estimates, Company Reports, Refinitiv

Key fundamental questions

	Our view
What are the market growth drivers?	There are a number of growth drivers – population growth, climate change, poor water infrastructure, the poor state of US housing and the propensity for leaks, the rising costs to insurers and potentially increased regulation given an increased focus on water scarcity. Whilst it is tough to scale the overall market size, market estimates suggest the market is growing at c.6-10% pa.
Why is ALD well positioned?	ALD is the market leader in minimally invasive leak detection in the US. It has a national footprint with network sales of c.$147m, with over 200k customers in 46 states. The market remains extremely fragmented, ranging from one-man-band plumbers to specialist leak detection players and so the national network is a key competitive advantage. It has strong technology capability, has now started to leverage the business into national accounts (with insurers) and has the opportunity to expand further internationally.
How important is technology?	We believe WATR's technology offering is a key differentiation, especially versus some of the smaller players. It also reflects a realisation that using the best technology can produce the best, least invasive service for customers which is key for recurring future revenues. Having both strong technology and the national network provides a strong competitive advantage.
What is the potential uplift from buying back franchises?	WATR has been selectively re-acquiring franchises where it makes sense from an operational and/or financial perspective. This has no impact on the overall network sales but is positive from a financial perspective, as these deals tend to be very accretive. We estimate that using the current financial headroom of $18m to buy back franchises would be 30% accretive to profits.
Isn't the headline valuation too high?	We believe the headline valuation is now attractive given: (1) other network businesses in high structural growth defensive end markets trade on high valuations in the US (e.g. Ecolab, Rollins, Cintas, etc.); and (2) the significant accretion on buying back franchises needs to be taken into account.
Can the business fund its own growth?	WATR is a relatively high margin business and post a recent placing ($10m in July 2021), the Group has a modest net cash position. The company currently has sufficient resources to deliver its growth plan, although we would not rule out further equity raises should there be an acceleration of franchise buy-ins or should other attractive M&A opportunities present themselves.

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Key ESG questions

This section is intended to highlight key ESG discussion points relevant to this company, as well as our views on the outlook. Both the questions we highlight and our responses will evolve over time as the dialogue between management, analysts and investors continues to advance. We welcome any feedback on the topics.

Our view

What are the most material ESG issues facing this company?

Given the people-intensive nature of the business, the importance of advanced human capital to a technology and services-led business is high. Maintaining a safe and motivated and well-trained workforce are the key issues for the group. On the Environmental side, the overall ethos of the Group is about reducing water leakage for customers - the key issue for WATR is to control its own environmental footprint, with the key variants being carbon and emissions from truck and its technology, and the carbon footprint from office usage. From a Governance perspective, the key issues are that the Chairman is the main shareholder and that there is no CEO, hence there is key man risk.

Does the company integrate ESG considerations into its strategy?

The Group's brand stands for the conservation of water and the importance of providing solutions to potable and non-potable water leaks, so sustainability credentials are high. ESG is important for the Group, and it recognises that as a fast-growing business it needs to improve disclosure. As such, there is minimal disclosure around the environmental footprint at present. However, WATR did receive the Green Economy Mark from the London Stock Exchange during 3Q20, and was also added to indices by a well-known ESG vendor during 4Q. On the Social side, the Group is committed to achieving equal opportunities and to complying with relevant anti-discrimination legislation. It established its Group policy to offer employees and job applicants the opportunity to benefit from fair employment, without regard to their sex, sexual orientation, marital status, race, religion or belief, age or disability. Employees are encouraged to train and develop their careers. We note the recent appointment of a Chief People Officer as a step in further formalising and disclosing processes. On the Governance side, we would note the recent strengthening of the Board and the appointment of incremental key management positions - e.g., Chief Innovation Officer. We believe there is more to do here over time, and would note there is currently no CEO position, with the Chairman and major shareholder running the business on a day-to-day basis.

What is diversity like at board / management level?

One out of five directors is female. We expect added disclosure on diversity as the Group improves its ESG disclosures over time.

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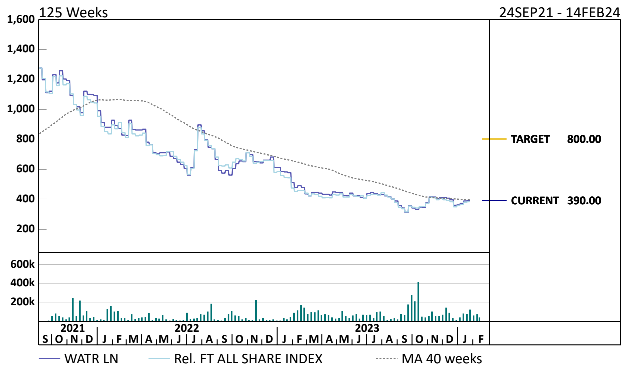
Target/Upside/Downside Scenarios

Water Intelligence PLC



Source: Bloomberg and RBC Capital Markets estimates for Target

Valuation

Our price target is based on a two-stage DCF, valuing the core 'as is' business, including M&A announced to date, at 630p per share (based on a WACC of 9.5% and terminal growth of 2.0%) plus a discrete valuation of future franchise reacquisitions (we think highly value accretive) at a further c.170p per share, combining to create our 800p price target. We believe this material upside potential supports our Outperform recommendation.

Upside scenario

Franchise reacquisition activity steps up to 8% of PY franchise sales p.a.; all other core assumptions maintained. This generates an implied valuation of 1,075p.

Downside scenario

255p - Assumes 10% miss vs FY24E EPS and stock de-rates to 10x FY24E P/E

Investment summary

- **Strong US market position in growth market** - WATR is the US market leader in minimally invasive leak detection. It has an established national footprint in a large, highly fragmented market with a number of structural growth drivers. Whilst it is tough to address the overall market size, market estimates suggest the market is growing at c.6-10% pa.
- **Potential to roll out more widely** - As well as the potential to grow the existing US business, there is scope to further grow the national account channel with insurers as well as to grow geographically in both municipal and residential markets. ALD already has businesses in Canada, UK and Australia.
- **Technology is a differentiator** - We believe WATR's investment in technology, along with its licences, IP, patents and preferred partner agreements is a competitive advantage, especially versus the smaller players. Its investment in Salesforce's field automation software and associated SOC II environment is an attractive attribute for national account customers.
- **Value from buying back franchises** - WATR has been selectively reacquiring franchises where it makes sense from an operational and/or financial perspective. These reacquisitions have been typically done at 3.5-6.5x profits and are highly accretive.

Risks to rating and price target

- **Growth costs** - The business is in a high-growth phase and investment in people and systems will be needed over time. This may cause some lumpiness in the cost base.
- **M&A** - The timing, price and funding of further franchise buybacks and any incremental M&A could potentially impact valuation.
- **Management bandwidth and ESG** - As the business continues to grow, it will need to add further management and capability. From an ESG perspective, we expect better disclosure over time, whilst from a Governance point of view, we would note there is currently no CEO position, which presents some key man risk.
- **Is technology a real advantage?** There is some risk that new technology will be developed that will usurp current products.
- **High headline valuation -** Headline valuations are high, although other network businesses in high growth markets also trade on high valuations. In addition, the significant accretion on buying back franchises needs to be taken into account. The ability to continue to do franchise buy-ins thus remains a risk.
- **Forex** - With the majority of revenues in USD and a GBP share price, there is a translation risk.

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Company description

Water Intelligence PLC is a holding company for two wholly owned subsidiaries:

American Leak Detection (ALD) - Established in 1974, ALD is largely a US-based franchise business with strategic corporate-operated locations. ALD is a leader in using both proprietary and third party technology to pinpoint and repair water leaks without destruction. Solutions target both residential and business-to-business customers, such as insurance companies, which value its “minimally invasive” value proposition. The critical mass of sales is derived from direct sales via corporate-operated locations and indirect sales measured by royalty income from franchisees, which, in turn, is based on franchisee gross sales to end-users. With its installed and growing base of residential customers, ALD can also up-sell technology-based home services products to meet growing consumer demand for solutions to water loss and water quality.

Water Intelligence International - WII, its UK-based operation, focuses on municipal solutions given the world-wide problem of failing water infrastructure. WII’s solutions are also technology-based. It is exclusively a corporate-run unit that leads the group’s international expansion. WII does have the capability to execute ALD service offerings and is currently doing so at its corporate-operated locations in Australia. WII also cross-sells complementary municipal offerings and residential wastewater solutions to ALD for municipal customers in the US.

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Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.
Ratings
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.
Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.
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The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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Distribution of ratings
RBC Capital Markets, Equity Research
As of 31-Dec-2023

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [Outperform]	829	57.17	253	30.52
HOLD [Sector Perform]	575	39.66	154	26.78
SELL [Underperform]	46	3.17	6	13.04

Legend:
O: Outperform; SP: Sector Perform; U: Underperform; R: Restricted; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List - RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list; Rtg: Rating.

Created by: BlueMatrix

References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List. As of April 3, 2023, U.S. RBC Wealth Management's quarterly reports will serve as the primary communication for its models and will highlight any changes to the model made during the quarter.

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Water Intelligence PLC

Valuation

Our price target is based on a two-stage DCF, valuing the core 'as is' business, including M&A announced to date, at 630p per share (based on a WACC of 9.5% and terminal growth of 2.0%) plus a discrete valuation of future franchise reacquisitions (we think highly value accretive) at a further c.170p per share, combining to create our 800p price target. We believe this material upside potential supports our Outperform recommendation.

Risks to rating and price target

- **Growth costs** - The business is in a high-growth phase and investment in people and systems will be needed over time. This may cause some lumpiness in the cost base.
- **M&A** - The timing, price and funding of further franchise buybacks and any incremental M&A could potentially impact valuation.
- **Management bandwidth and ESG** - As the business continues to grow, it will need to add further management and capability. From an ESG perspective, we expect better disclosure over time, whilst from a Governance point of view, we would note there is currently no CEO position, which presents some key man risk.
- **Is technology a real advantage?** There is some risk that new technology will be developed that will usurp current products.
- **High headline valuation -** Headline valuations are high, although other network businesses in high growth markets also trade on high valuations. In addition, the significant accretion on buying back franchises needs to be taken into account. The ability to continue to do franchise buy-ins thus remains a risk.
- **Forex** - With the majority of revenues in USD and a GBP share price, there is a translation risk.

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