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Water Intelligence PLC

Franchise reacquisition and sale of new franchise

May 9, 2024

RBC Europe Limited

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LSE: WATR | GBp 360.00 | Outperform | Price Target GBp 800

Sentiment: Positive

WATR has announced the reacquisition of its Fresno franchise and also announced the sale of a new franchise in Albany and Saratoga. Both of these are in line with strategy and according to WATR, the former will be accretive. We will wait for the Q1 update next week, but continue to see upside risk to EPS forecasts both from an acceleration in organic growth and further franchise/buy-ins. 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 scalable platform.

Fresno reacquisition - The purchase price of \$2.9m equates to a PBT multiple of 4.8x, in line with historical deals, with \$2m payable immediately and \$0.9m in 12m.

Fresno is strategically located between the Bay Area and LA and fits in with the Group's strategy of establishing regional corporate hubs in the US that fuel growth in adjacent franchise locations. Fresno is in the heart of US agribusiness; an area in which market demand for water savings is strong. The operation is growing and should benefit from the deployment of ALD's Ditch Liner offering that will be helpful for agribusiness and Pulse for municipal and residential sewer blockages.

New franchise sale for Albany and Saratoga - The upfront price for launch is \$0.1m and ALD expects to receive royalty income from sales starting in July. Located between this new franchise location in Albany and ALD's corporate location on the Canadian side of Niagara Falls, there are several large cities – Buffalo, Syracuse and Rochester – in upstate New York around which ALD can deliver future growth whether through corporate operations or selling more franchises. Albany is the state capital; Saratoga is the center of a series of resort locations in upstate New York and known for horse racing and wine growing. Several of ALD's national partners from insurance companies to property management have sought the ALD national brand and quality of solution delivery for the area.

Positive thesis unchanged - 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. Short-term, we expect a pickup in organic growth and a return to positive EPS momentum to be key catalysts for the shares.

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