

BUY

## Executive Summary

Price:	350p
Shares in issue:	17.4m
52 week high/low:	450p/288p
Market cap:	£61m
Market:	AIM
Broker:	Dowgate/RBC
Ticker:	WATR.L
Target:	850p

Performance	1m	3m	12m
Absolute (%)	7	(12)	(7)
Rel Index (%)	1	(13)	(12)
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
Will Knell	ALD CEO
Pat La Marco	CFO

## Major Shareholders, %

Patrick DeSouza	25.1
Plain Sight Systems	12.5
Canaccord	10.0
Berenberg	6.5
Amati	4.2

## Analysts

## Paul Richards

Paul.Richards@Dowgate.co.uk  
0203 903 7732

## Mark Howson

Mark.Howson@Dowgate.co.uk  
0203 903 7732

## Trading Update &amp; Preventative Maintenance

Water Intelligence has released a solid Q1 Trading Update followed by a strong April and we maintain our FY estimates. Revenues rose +4% to \$21.3m in Q1 while an acceleration to DCe +20% in April resulted in April YTD growth of +8% to \$29.1m. Similarly, the strong April fortified EBITDA growth of +8% to \$3.6m in Q1 to +13%/\$4.8m for April YTD. The group was active in the period to reinforce its unique, leading competitive positioning through the strategic partnership with StreamLabs Water which enables the group to provide a technologically-enabled one stop shop service for proactive preventative maintenance. It now provides an end to end offering that increases water savings and reduces damages for residential, commercial and municipal customers. The group continues to allocate capital to execute its strategy through organic growth, reacquisition of franchises/M&A and shareholder returns. In addition, it continues to explore options for a US listing and from this month the group's shares can be traded in the US through Interactive Brokers. We maintain our FY EBITDA estimate for \$17.5m which feeds through to PBT/EPSc/EPSp of \$11.2m/44c/34p for FY25. We believe that despite economic volatility the group is making robust underlying progress and retain our positive stance.

- Q1 & April YTD Trading Update.** Revenues rose +4% to \$21.3m with growth in US Corporate Locations (+5% to \$14.3m) and International Corporate Locations (+47% to \$3.1m) partially offset by declines in Franchise Royalty Income (-13% to \$1.6m due to reacquisitions) and Franchise Related Activities (-20% to \$2.2m). April was a stronger month (DCe +20%) and accordingly April YTD revenue growth accelerated to growth of +8% to \$29.1m. Adjusted EBITDA rose +10% to \$4.1m in Q1 and the strong April fortified April YTD EBITDA to +13%/\$4.8m. Adjusted PBT was broadly flat at \$2.5m in Q1 and rose +1% to \$2.9m in April YTD. Total Net debt/Adjusted EBITDA was 1.5x.
- Strategy Update.** The partnership with Chubb-backed StreamLabs is the final piece that creates a seamless, end to end suite of solutions to provide proactive preventative maintenance, thereby increasing water savings and reducing damages from water leaks. It now offers i) water monitoring through StreamLabs ii) smart home analytics iii) minimally invasive leak detection and repair iv) uses SEEEN's video technology for subscription-based aftercare services & follow-on eCommerce sales.
- Capital Allocation.** The group continues to focus on driving organic growth, opportunities for accelerated growth through acquisitions of franchises, plumbing or product companies and returning capital to shareholders.

## Financial Summary

Year to December (\$m)	2022	2023	2024E	2025E
Revenues	71.3	76.0	83.3	97.0
Normalised PBT	7.8	8.7	9.1	11.2
Normalised EPS, c	29.5	36.0	36.6	44.3
Normalised EPS, p	24.6	29.1	28.7	34.1
Net cash/(debt)	6.2	1.3	(11.1)	(11.5)
Adjusted P/E, x	14.2	12.0	12.2	10.3

Source: Company data, Dowgate Capital estimates; prices as at 21<sup>st</sup> May

## Profit & Loss

Year to December	2022	2023	2024E	2025E
Revenues				
Franchise royalty income	6.7	6.7	6.5	6.5
Franchise related activities	10.6	11.2	10.7	10.9
US corporate operated locations	47.3	50.5	55.9	67.0
Int'l corporate operated locations	6.7	7.6	10.3	12.6
<b>Group Revenues</b>	<b>71.3</b>	<b>76.0</b>	<b>83.3</b>	<b>97.0</b>
Growth, %	31	7	10	16
Adjusted EBITDA	12.4	13.5	15.0	17.5
Margin, %	17.4	17.8	18.0	18.0
Depreciation	3.2	3.4	4.6	4.8
Adjusted Operating Profit	9.2	10.0	10.4	12.7
Operating margin, %	12.9	13.1	12.5	13.1
Net interest	(1.4)	(1.3)	(1.3)	(1.5)
Share Based Payments	(0.4)	(0.6)	(0.4)	(0.4)
<b>Normalised PBT</b>	<b>7.8</b>	<b>8.7</b>	<b>9.1</b>	<b>11.2</b>
Headline PBT	7.3	8.1	8.7	10.8
Tax charge - Normalised	(2.6)	(2.4)	(2.7)	(3.5)
Tax rate, %	33.8	28.0	30.0	31.0
Normalised Earnings	5.1	6.3	6.4	7.7
Average shares in issue, m	17.4	17.4	17.4	17.4
<b>Normalised EPS, c</b>	<b>29.5</b>	<b>36.0</b>	<b>36.6</b>	<b>44.3</b>
Normalised EPS (diluted), c	27.6	35.0	35.8	43.4
<b>Normalised EPS, p</b>	<b>24.6</b>	<b>29.1</b>	<b>28.7</b>	<b>34.1</b>
Normalised EPS (diluted), p	23.0	28.3	28.0	33.3
Dividend per share, c	0.0	0.0	0.0	0.0

Source: Company data, Dowgate Capital estimates; prices as at 21<sup>st</sup> May

## Cash Flow & Balance Sheet

Year to December	2022	2023	2024E	2025E
<b>Cash Flow, \$m</b>				
Operating Profit	9.2	10.0	10.4	12.7
Depreciation	3.2	3.4	4.6	4.8
Working Capital	(1.0)	(0.1)	(3.2)	(2.0)
Other	(1.3)	(0.9)	(2.2)	0.0
<b>Cash from Operations</b>	<b>10.1</b>	<b>12.3</b>	<b>9.6</b>	<b>15.5</b>
Interest	(1.2)	(0.7)	(1.3)	(1.5)
Taxation	(1.7)	(0.9)	(0.5)	(3.5)
<b>Net Cash from Operating Activities</b>	<b>7.3</b>	<b>10.7</b>	<b>7.7</b>	<b>10.5</b>
Acquisitions	(6.3)	(10.3)	(2.0)	(1.8)
Capex & Leases	(1.2)	(2.8)	(4.2)	(3.0)
Reacquisition of Franchises	(1.6)	(4.2)	(6.0)	0.0
<b>Net Cash used in Investing Activities</b>	<b>(9.1)</b>	<b>(17.3)</b>	<b>(12.2)</b>	<b>(4.8)</b>
Issue of Shares	(0.5)	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Notes/FX & Other	(7.0)	1.7	(8.0)	(6.1)
<b>Net Cash from Financing Activities</b>	<b>(7.5)</b>	<b>1.7</b>	<b>(8.0)</b>	<b>(6.1)</b>
<b>Net Flow</b>	<b>(9.3)</b>	<b>(4.9)</b>	<b>(12.5)</b>	<b>(0.4)</b>
<b>Closing Net Cash/ (Debt)</b>	<b>6.2</b>	<b>1.3</b>	<b>(11.1)</b>	<b>(11.5)</b>
Deferred consideration	(12.6)	(8.3)	(11.1)	(9.2)
<b>Net Cash/(Debt) including DC</b>	<b>(6.4)</b>	<b>(7.0)</b>	<b>(22.2)</b>	<b>(20.7)</b>

Source: Company data, Dowgate Capital estimates; prices as at 21<sup>st</sup> May

## Regulatory Notice and Disclosures

This document is non-independent research and a marketing communication under the FCA Conduct of Business Rules. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the investment research.

The research analysts who prepared this research report were Paul Richards and Mark Howson. Paul and Mark are employed by Dowgate Capital as Equity Analysts.

This material is issuer-sponsored and has been prepared pursuant to an agreement between Dowgate Capital and the issuer in relation to the production of research and is made available at the same time to any person wishing to see it, as such this research constitutes a minor non-monetary benefit under MiFID II rules.

The views expressed in this note are those of Dowgate Capital's analyst. They are based on information believed to be reliable but no warranty or representation, express or implied, is made about the accuracy or completeness of this information, which may be subject to change without notice. Any opinion given reflects the analyst's judgement as at the date of this document's publication. Any or all statements about the future may turn out to be incorrect.

This research note is designed for information purposes only and does not constitute a personal recommendation, offer or invitation to buy or sell any investment referred to within it. Investors should form their own conclusions and/or seek their own advice to determine whether any particular transaction is suitable for them in the light of their investment objectives, the benefits and risks associated with the transaction and all other relevant circumstances.

Dowgate Capital's 'Dowgate' is authorised and regulated by the Financial Conduct Authority ('FCA') for designated investment business, (Reg No. 146274) and is a member of the London Stock Exchange. Dowgate's research is for information only purposes and should not be regarded as an offer or solicitation to buy or sell securities or other instruments mentioned in it. This research is for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to Professional customers. This research is not for Retail customers. The publication is a brief summary and does not purport to contain all available information on the subjects covered. Further information might be available upon request.

No part of the content of this research may be copied, forwarded or duplicated in any form or by any means without the prior consent of Dowgate and Dowgate accepts no liability whatsoever for the actions of third parties in this respect.

Recommendations in Dowgate Capital research reports are kept under constant review. As such, there is no formal timetable for the review of such recommendations.

## Conflicts of Interest

Dowgate has detailed written policies and procedures intended to recognise and manage potential conflicts of interest that arise in connection with production and issuing of investment recommendations. Dowgate's Sales and Research department involved in issuing and disseminating investment recommendations operate independently of Dowgate's Corporate Broking department. Chinese Walls and Information barriers procedures are in place to ensure that confidential and/ or inside information is handled according to applicable laws and regulations. Information barriers also arise around Research Analysts to ensure that the knowledge and timing of the publication of reports containing investment recommendations are not communicated selective to buy-side clients or to the trading parts of Dowgate. Each company understands and agrees that the analysis, opinions, forecast, estimates and projections will be honest and unbiased in compliance with Dowgate's Conflicts of Interests and Research Policies and will in no way be influenced by any remuneration received by Dowgate from the company.

Dowgate is party to an agreement with the issuer and has received compensation from the issuer for the provision of investment banking or financial advisory services within the previous 12 months.

Dowgate is party to an agreement with the issuer relating to the provision of investment recommendations for this issuer and Dowgate may receive remuneration for such service.

Dowgate acts as a corporate broker to this issuer.

The company has seen a draft of the note and minor factual amendments have subsequently been made.

For a list of all recommendations on any financial instrument or issuer disseminated by the research department in the past 12 months, please contact Dowgate at [Compliance@dowgate.co.uk](mailto:Compliance@dowgate.co.uk)

## This document is not for distribution into the United States, Japan, Canada or Australia

Neither this document nor any copy of it may be taken or transmitted into the United States of America, or distributed, directly or indirectly, in the United States of America or to any US person as defined in Regulation S under the United States Securities Act of 1933. Any failure to comply with this restriction may constitute a violation of United States securities laws.

Neither this document nor any copy of it may be taken or transmitted into or distributed in Japan or to any resident thereof for the purpose of solicitation or subscription or offer for sale of any securities. Any failure to comply with this restriction may constitute a violation of Japanese securities laws.

Neither this document nor any copy of it may be taken or transmitted into Canada or distributed in Canada or to any individual outside Canada who is a resident of Canada, except in compliance with applicable Canadian securities laws.

Neither this document nor any copy of it may be taken or transmitted into or distributed in Australian or to any resident thereof except in compliance with Australian securities laws. Any failure to comply with this restriction may constitute a violation of Australian securities laws.

## Recommendation definitions

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 31/12/2024

	Corporate	Corporate, %	Total	Total, %
Buy	477	100	477	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](mailto:compliance@dowgate.co.uk)

Contacts			
Malar Velaigam	Director of Sales	malar.velaigam@dowgate.co.uk	+44 (0) 203 005 9612
Colin Climie	Director of Sales	colin.climie@dowgate.co.uk	+44 (0) 203 903 7725
Mel Brown	Sales & Trading Director	mel.brown@dowgate.co.uk	+44 (0) 203 758 4904
Ben Carroll	Sales & Trading Director	ben.carroll@dowgate.co.uk	+44 (0) 203 758 4735
Tim Webb	Head of Institutional Trading	tim.webb@dowgate.co.uk	+44 (0) 203 903 7720