

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2023

For announcement to the market

				<u>\$A'000</u>
Revenues	up	68.7%	to	118,808
Profit after tax attributable to members	up	40.0%	to	6,982
Dividends		Amount per security		Franked amount per security
Interim dividend		7¢		7¢
Previous corresponding period		5¢		5¢
Date for determining entitlements to the dividend		3rd May 2024		

This half yearly report is to be read in conjunction with the 30th June 2023 annual financial report and any announcements made to the market during the period.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Current period - \$A'000	Previous corresponding period - \$A'000
Revenues	116,808	70,428
Expenses		
Borrowing costs	(1,707)	(208)
Other expenses	(105,009)	(63,906)
Profit before tax	10,092	6,314
Income tax (expense)	(3,138)	(1,337)
Profit after tax	6,954	4,977
Net (loss) attributable to non controlling interests	(28)	(12)
Net profit for the period attributable to members	6,982	4,989
Other Comprehensive income		
Net exchange differences recognised in equity	(1,202)	1,149
Property Revaluation increment	(160)	141
Other comprehensive income for the period	(1,362)	1,290
Total comprehensive income attributable to members of the parent entity	5,620	6,279

Earnings per security (EPS)

Basic EPS	19.8c	14.1c
Diluted EPS	19.8c	14.1c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit	6,954	4,977
Net (Loss) attributable to non-controlling interests	(28)	(12)
Earnings used in calculation of basic EPS	6,982	4,989
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	35,206	35,461

Notes to the Consolidated Statement of Profit or Loss and Other Comprehensive Income

Profit attributable to members

	Current period - \$A'000	Previous corresponding period - \$A'000
Profit after tax	6,954	4,977
Less non-controlling interests	(28)	(12)
Profit after tax, attributable to members	6,982	4,989

Revenue and expenses - See Annexure A

Capitalised outlays		
Interest costs capitalised in asset values	--	--
Outlays capitalised in intangibles (unless arising from an acquisition of a business)	--	--

Movement in Retained Profits

	Current period - \$A'000	Previous corresponding period - \$A'000
Retained profits at the beginning of the financial period	62,314	54,992
Net profit (loss) attributable to members	6,982	4,989
Dividends and other equity distributions paid or payable	(1,758)	(1,763)
Retained profits at end of financial period	67,538	58,218

Intangibles-Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000	Related tax \$A'000	Related outside equity interests \$A'000	Amount (after tax) attributable to members \$A'000
Impairment of goodwill		--	--	60
Amortisation of other intangibles	--	--	--	--
Total Impairment/ amortisation of intangibles		--	--	60

Consolidated Statement of Financial Position

	At end of current period \$A'000	As shown in last annual report \$A'000	As in last half yearly report \$A'000
Current assets			
Cash	21,874	12,337	9,368
Receivables	41,523	17,106	21,429
Inventories	100,666	50,145	56,976
Other	2,628	2,643	1,450
Total current assets	166,691	82,231	89,223
Non-current assets			
Property, plant and equipment (net)	69,855	65,874	60,718
Right of use assets	21,328	17,001	13,095
Intangibles (net)	2,338	1,170	1,084
Deferred Tax assets	5,192	1,675	2,160
Total non-current assets	98,713	85,720	77,057
Total assets	265,404	167,951	166,280
Current liabilities			
Payables	37,738	12,353	18,484
Contract liabilities	-	2,552	
Interest bearing liabilities	9,488	2,995	6,848
Lease liabilities	6,996	3,770	4,080
Current tax liabilities	1,918	595	1,435
Provisions exc. tax liabilities	10,035	3,394	5,215
Total current liabilities	66,175	25,659	36,062
Non-current liabilities			
Interest bearing liabilities	49,780	1,294	1,889
Lease liabilities	14,274	13,272	8,848
Deferred tax liabilities	7,049	6,254	4,772
Provisions exc. tax liabilities	3,100	238	229
Total non-current liabilities	74,203	21,058	15,738
Total liabilities	140,378	46,717	51,800
Net assets	125,026	121,234	114,480
Equity			
Issued capital	33,595	33,643	33,906
Reserves	23,553	24,909	21,958
Retained profits	67,538	62,314	58,218
Parent entity interest	124,686	120,866	114,082
Non-controlling interest	340	368	398
Total equity	125,026	121,234	114,480

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	119,695	70,117
Payments to suppliers and employees	(100,825)	(68,806)
Other Income	396	658
Interest received	69	27
Interest and other costs of finance paid	(1,707)	(208)
Income taxes refund/paid	(2,088)	(2,818)
Net operating cash flows	15,540	(1,030)
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(1,032)	(2,142)
Payment for intangibles	(880)	-
Proceeds from sale of property, plant and equipment	105	45
Payment for business	(54,037)	(520)
Proceeds from sale business	154	-
Dividends received	1	1
Net investing cash flows	(55,689)	(2,616)
Cash flows related to financing activities		
Proceeds from issues of shares	-	-
Share buyback	(47)	(941)
Proceeds from borrowings	64,608	3,787
Repayment of borrowings	(10,037)	(45)
Payment of Rou Liabilities	(2,022)	(160)
Dividends paid	(1,758)	(1,861)
Net financing cash flows	50,744	780
Net increase (decrease) in cash held	10,595	(2,866)
Cash at beginning of period (see <i>Reconciliation of cash</i>)	12,337	11,946
Exchange rate adjustments	(1,058)	288
Cash at end of period (see <i>Reconciliation of cash</i>)	21,874	9,368

Non-cash financing and investing activities: During the period, the economic entity acquired
a) Plant and equipment amounting to \$405,496 (2022 \$nil) by means of finance leases.
b) ROU Property Assets amounting to \$7,981,604 (2022 \$1,007,130) by means of operating leases
These financing activities are not reflected in the Cash flow statement.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the cash flow statement) to the related items in the accounts is as follows.	Current period \$A'000	Previous corresponding period - \$A'000
Cash on hand and at bank	21,874	9,368
Bank overdraft	-	-
Other (commercial bills)	-	-
Total cash at end of period	21,874	9,368

Other notes to the financial statements

Ratios	Current period	Previous corresponding Period
Profit before tax / revenue Profit before tax as a percentage of revenue	8.5%	9.0%
Profit after tax / equity interests Profit after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	5.60%	4.37%

NTA Per Share	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$3.49	\$3.22

Dividends

Date shares trade ex-dividend	2nd May 2024
Record date to determine entitlements to the dividend	3rd May 2024
Date the dividend is payable	15 th May 2024

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend: Current year	7¢	7¢	¢
Previous year	5¢	5¢	¢

The ⁺dividend or distribution plans shown below are in operation.

The Waterco Dividend Reinvestment Plan has been suspended until further notice.

Issued and quoted securities at end of current period

Category of securities	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
Ordinary securities	35,173,008	35,173,008		
Changes during current period				
(a) Increases through issues Waterco DRP				
(b) Decreases through returns of capital, buybacks	11,759	11,759	\$3.998	\$3.998

Segment reporting - See Annexure B

Review Of Operations - See Annexure C

Compliance statement

- 1 This report has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.
- 2 This report and the accounts upon which the report is based use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed
- 4 This report is based on accounts which have been subject to review.
- 5 The entity has a formally constituted audit committee.



Soon Sinn Goh
Chief Executive Officer

23rd February 2024

Notes

1. **Income tax** Reconciliation of income tax *prima facie* payable on the profit before tax to income tax expense
2. **Rounding of figures** This report anticipates that the information required is given to the nearest \$1,000 (where stated)
3. **Comparative figures** When required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31 December 2023

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2023	31/12/2022
	\$000	\$000
Sales revenue	116,613	68,463
Other revenue	2,195	1,965
Changes in inventories of finished goods and work in progress	(24,570)	(5,060)
Raw Materials and consumables used	(35,577)	(29,040)
Employee benefits expense	(24,459)	(15,061)
Depreciation and amortisation expense	(4,915)	(3,043)
Finance costs	(1,707)	(208)
Advertising expense	(2,223)	(1,350)
Discounts allowed	(204)	(439)
Outward freight expense	(3,733)	(1,205)
Rent expense	(592)	(546)
Research and development	(1,033)	(1,105)
Insurance General	(932)	(661)
Contracted staff expense	(130)	(162)
Warranty expense	(1,046)	(214)
Commission expense	(170)	(285)
Other expenses	(7,425)	(5,735)
Profit before income tax	10,092	6,314
Income tax benefit/(expense)	(3,138)	(1,337)
Profit for the period	6,954	4,977
Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation (decrement)/increment (net of tax and reversals)	(160)	141
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	(1,202)	1,149
Other comprehensive income for the period	(1,362)	1,290
Total comprehensive income for the period	5,592	6,267
Profit attributable to:		
Members of the parent entity	6,982	4,989
Non-controlling interest	(28)	(12)
	6,954	4,977

WATERCO LIMITED AND CONTROLLED ENTITIES**Half Yearly Report for the Period Ended 31st December 2023****ANNEXURE B****OPERATING SEGMENTS****Industry Segments**

The economic entity operates predominantly in one industry, being the manufacture and wholesale of swimming pool chemicals, accessories and equipment, manufacture and sale of solar pool heating systems and as a franchisor of swimming pool outlets retailing swimming pool accessories and equipment.

Geographical Segments**2023**

	AUSTRALIA & NEW ZEALAND 31/12/2023 \$000	ASIA 31/12/2023 \$000	NORTH AMERICA &EUROPE 31/12/2023 \$000	ELIMINATION 31/12/2023 \$000	CONSOLIDATED GROUP 31/12/2023 \$000
Revenue					
Sales to customers outside the economic entity	97,210	6,707	12,696		116,613
Intersegment sales	4,233	19,588	250	(24,071)	-
Unallocated revenue					
Total revenue	<u>101,443</u>	<u>26,295</u>	<u>12,946</u>	<u>(24,071)</u>	<u>116,613</u>
Segment result	9,652	1,842	794		12,288
Unallocated expenses net of unallocated revenue					<u>(2,196)</u>
Profit before income tax					10,092
Income tax benefit/(expense)					<u>(3,138)</u>
Profit after income tax					<u>6,954</u>
Segment assets	<u>281,228</u>	<u>75,781</u>	<u>17,976</u>	<u>(109,581)</u>	<u>265,404</u>
Segment liabilities	<u>147,251</u>	<u>37,537</u>	<u>12,352</u>	<u>(56,762)</u>	<u>140,378</u>

2022

	AUSTRALIA & NEW ZEALAND 31/12/2022 \$000	ASIA 31/12/2022 \$000	NORTH AMERICA &EUROPE 31/12/2022 \$000	ELIMINATION 31/12/2022 \$000	CONSOLIDATED GROUP 31/12/2022 \$000
Revenue					
Sales to customers outside the economic entity	48,845	8,418	11,200		68,463
Intersegment sales	485	23,603	345	(24,433)	-
Unallocated revenue					
Total revenue	<u>49,330</u>	<u>32,021</u>	<u>11,545</u>	<u>(24,433)</u>	<u>68,463</u>
Segment result	3,918	4,173	188		8,279
Unallocated expenses net of unallocated revenue					<u>(1,965)</u>
Profit before income tax					6,314
Income tax benefit/(expense)					<u>(1,337)</u>
Profit after income tax					<u>4,977</u>
Segment assets	<u>134,772</u>	<u>76,317</u>	<u>6,605</u>	<u>(51,414)</u>	<u>166,280</u>
Segment liabilities	<u>53,228</u>	<u>39,987</u>	<u>10,828</u>	<u>(52,243)</u>	<u>51,800</u>

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2023

ANNEXURE C

REVIEW OF OPERATIONS

REVENUE AND PROFITABILITY

For the six months ended 31 December 2023 (Half-year), the Group reported a Net Profit After Tax of \$6.954 million (Previous Corresponding Period, or PCP \$4.977 million) and Earnings Before Interest & Tax (EBIT) of \$11.729 million (PCP \$6.495 million).

Total Revenue was \$118.808 million (PCP \$70.428 million).

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	Dec 2023	Dec 2022	% Change
	(\$000)	(\$000)	
Australia and New Zealand	9,068	2,101	+332%
Asia	1,913	4,229	-55%
North America and Europe	748	165	+353%
Consolidated Reported EBIT	11,729	6,495	+81%

AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ) the 332% increase in EBIT mainly due to the contribution of the four months Davey Business (\$4.902m) to the Group. Davey's contribution was enhanced from streamlining in the operations from the first days of ownership in addition to achieving a few of the many expected synergies since the date of acquisition. The \$A started the year at 69c fell to 63c in mid October only to recover to 68c by the end of December. The fluctuating exchange rates and higher oil prices continued to put pressure on margins for the half year. Since the end of the half year, the \$A has lost 3c against the \$US Dollar.

Sales in this division (taking out Davey's Contribution) increased by 2.3% despite the cost of living pressures brought about by higher interest rates and higher inflation compared to the PCP.

ASIA

In Asia, The sector recorded a 55% decline in EBIT compared to the PCP brought about by 20% decrease in external sales. Construction in the region (especially China) continued to struggle with Evergrande (one of China's Mega Developers) going into liquidation with debts of \$US350 billion. Evergrande's struggle prior to going into liquidation has had a knock on effect in the Asian Region.

NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA, Europe and France a 353% increase in EBIT during the current half year – Waterco USA experienced a 13% increase in sales during the current period reflecting the state of the US Economy. Waterco Europe recorded a 3% drop on last year in line with negative real growth in the UK Economy for 2023. Both entities recorded a healthy improvement in gross margins compared to the PCP. Overall (with Davey's contribution), sales in the region went up by 13%.

The main business season for this Division is in the second half of the financial year. The Group remains cautiously optimistic of a positive contribution in this second half.

PRODUCT DEVELOPMENT AND WATER TREATMENT

In this Half-year, Waterco invested approximately \$1.033m (PCP \$1.105 million) on research and development, which was fully expensed. The Group continues to respond to market demands for innovative, durable and energy-efficient products, with vigorous efforts in this area.

The Group continues to develop water filtration products in Australia and overseas. This is an area which Waterco has specialised in over many years.

WORKING CAPITAL

	Dec 2023 (\$000)	Dec 2022 (\$000)
Inventory	100,666	56,976
Debtors	41,523	21,429
Creditors	(40,407)	(18,484)
TOTAL	101,782	59,921

The group's working capital as at December 2023 saw an increase of \$41.861 million, which resulted from an increase in inventory, debtors and creditors following the acquisition of the Davey Business.

DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 7 cents per share payable on 14 June 2024.

Waterco achieved a reduction of \$10m in debt during the half year and is aiming for a further substantial reduction in the second half which will put it well ahead of its banker's loan repayment plan.

The Australian Dollar has also fluctuated significantly against the US Dollar during the half year and is expected to improve each quarter up to the end of the financial year.

Davey's contribution which started in September 2023 has exceeded initial expectations and the group is quietly confident this will continue in the second half.

The Board expects the second half-year to be more settled as the Australian Dollar stabilises and worldwide inflation continues to abate (thus taking pressure of input costs and interest rates).

With expectations of a strong recovery in Europe and USA, and stability in international shipping, the Board remains confident that the Second Half Year will meet expectations and meet its EBIT Forecast of \$22m for the Full Year.

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2023

ANNEXURE D Income Tax Expense

	Consolidated Group	
	31/12/2023	31/12/2022
	\$000	\$000
The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	10,092	6,314
Prima facie tax payable on profit before income tax at 30% (2022: 30%)	3,028	1,894
Add		
Tax effect of:		
• Depreciation of buildings	75	58
• Foreign controlled entities tax losses not tax effected	99	60
• Unrealised foreign exchange losses		
• ROU assets		
• Non deductible expenses	17	-
• Underprovision for tax in prior years	344	-
• Other	33	19
Less		
Tax effect of:		
• Research and development	78	66
• ROU assets	-	54
• Effects of lower rates in overseas countries	229	355
• Unrealised foreign exchange gains	124	61
• Exempt income	-	-
• Overprovision for tax in prior years	-	158
• Reinvestment allowance	-	-
• Foreign controlled entities tax losses not tax effected	-	-
• Other	27	-
Income tax expense attributable to entity	3,138	1,337
The applicable weighted average effective tax rates are as follows:	31%	21%