

WATERCO LIMITED

APPENDIX 4E
Preliminary Final Report for the
Financial Year Ended 30 June 2018

FOR ANNOUNCEMENT TO THE MARKET

WATERCO LTD

Summary of results FY ended 30 June 2018

Sales Revenue	\$86.26 million, up 5%
Net Profit After Tax	\$3.95 million, up 7%
EBIT	\$6.70 million, up 8%
<hr/>	
Total dividend payout	5c per share (full year)

Chief Executive Officer's Review of Operations

REVENUE AND PROFITABILITY

The Group is pleased to report continued growth in Net Profit After Tax (NPAT) and Earnings Before Interest and Tax (EBIT). NPAT grew by 7% to \$3.95 million, while EBIT grew by 8% to \$6.70 million. NPAT was a touch (4%) below market guidance of \$4.10 million, announced in October last year.

The Australian and New Zealand Division, which accounts for a major portion of the Group's profitability and sales, registered an increase in the EBIT of 7%, off the back of a small growth in sales.

The North America and Europe Division continues to undergo restructuring. EBIT losses were cut by 75%, thanks to a strong performance in Europe.

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	FY18	FY17	% Change
	(\$000)	(\$000)	
Australia and New Zealand	4,851	4,532	7%
North America and Europe	(239)	(1,000)	75%
Asia	2,094	2,681	(22%)
Consolidated Reported EBIT	6,730	6,213	8%

AUSTRALIA AND NEW ZEALAND (ANZ)

The Australia and New Zealand Division derives its revenue predominantly from the domestic swimming pool industry. In this market, Waterco offers a wide range of products, including chemicals for swimming pool water treatment. Waterco also owns the Swimart franchise, which features more than seventy pool stores in Australia and New Zealand. The success of these stores is built on more than three decades of experience, during which Waterco has developed an extremely good understanding of the factors that drive consumer demand in the after-market. Franchisees benefit from a programme that has been developed and improved on in-house since 1984, when a company-owned pool shop was opened in Sydney. This has since grown into the Swimart Pool and Spa franchising retail system.

Steady market share in the domestic pool sector has underpinned the Division's performance. Anticipating the market appetite for environmentally-friendly swimming pool products, Waterco introduced the water-saving Multicyclone centrifugal filter, energy-saving variable speed pump and Glass Pearls filter media, for improved filtration performance and reduced pool water usage. Customer acceptance of these products have been inspiring.

NORTH AMERICA AND EUROPE

Waterco North America and Europe comprises the Group's operations in the USA, Canada, UK and France.

Waterco USA (WUSA) The US market is the largest in the world. Waterco has invested significantly in this market, through start-up operations, as well as a substantial acquisition of Baker Hydro in March 2005. Our operations in Augusta, Georgia, now distribute a wide range of filters and assemble commercial pumps.

This entity has experienced significant sales growth during the year under review and is expected to further improve revenue in the ensuing year.

Waterco Canada (WCI) This Entity was the Group's original centre for the manufacture of heat pumps. Its expertise, developed over more than two decades, with assistance from our Research and Development division in Sydney, has improved performance of our products in both quality and cost. This continues to benefit the Group and enables other manufacturing entities in the Group to produce heat pumps of quality. The manufacturing operations have since been transferred to other manufacturing entities and WCI is now a trading entity with heat pumps as their key product.

WCI has been undergoing a restructure of its operations during the year and, as a result, did not contribute to Group profitability. The entity expects to continue the restructure, going into the new year, and is expected to post improved financial results.

Waterco Europe (WEL) Waterco started up operations in 1999 and subsequently acquired the business of Lacron Ltd in 2003. This Entity, therefore, enjoys a continuous and successful history of almost 40 years in the manufacture of fibreglass filters. The renowned "Lacron" name is synonymous with quality filters and, coupled with Waterco's established progressive manufacturing techniques, this has enabled WEL to bring to the market filters of quality at acceptable prices. Today, both the Lacron and the Waterco brands are well-recognised as quality products in Europe. This recognition continues, even after the manufacturing operations had been transferred to Malaysia and China, because the same high standards have been maintained.

This Entity had consolidated its operations during the economically difficult years in the region and has benefitted from this in the last two years, when sales growth has been significant. This Entity continues to reinforce its interest in commercial filters of high pressure ratings developed for water treatment, in particular, as pre-filtration for seawater desalination. The Group's ability to manufacture filters of such pressure ratings from composites provides an opportunity to enhance our presence into a market that has traditionally used steel to cope with such pressures.

ASIA

Waterco Far East in Malaysia (WFE) was borne out of Waterco's familiarity with the Southeast Asian market. WFE was initially a sales operation designed to service Waterco Australia's Southeast Asian customer base. In 1991 WFE added manufacturing operations to our undertakings in Kuala Lumpur, Malaysia. As well as bringing the Group closer to our markets in Southeast Asia, this also gave cost-efficiency in our manufacturing operations. Since then, WFE has become the principal manufacturing facility for pumps and filters for the Waterco Group. WFE continues to deliver new products to give the Group an edge in our marketing activities.

WFE has achieved ISO9001:2008 certification, the internationally recognised standard for the quality management of businesses, and demonstrates the existence of an effective and well-designed quality management system, which stands up to the rigours of an independent external audit. A key criterion of this standard is that the management system can provide confidence in creating products that meet expectations and requirements.

Local sales in Malaysia posted a small growth, in spite of weak economic conditions and political uncertainty. Increased volume, particularly in labour-intensive large commercial filters, has resulted in an increase in wages above expectation, with more overtime worked. The Entity's capacity has been increased in the new financial year to address this and this is expected to lead to an improvement in financial performance. .

Waterco China This entity commenced operations in 2000, delivering advantages of low operational costs and a foothold into the huge China market. The manufacturing of filters primarily for the European and the Australian markets has been relocated to Malaysia, leaving this entity to focus on development of commercial heat pumps and to improve marketing of pool equipment to the commercial pool market in China. In this respect, there was significant success and the Entity recorded significant growth in domestic sales and an improved bottom line.

Waterco International in Singapore (WI) focuses on sales in Asian countries, other than Malaysia and China, where we have our own trading entities. WI also provides technical assistance to our Indonesian entity and has been able to contribute to the growth of the latter. Performance during the year was steady.

PRODUCT DEVELOPMENT AND WATER TREATMENT

The Group continues to invest in Research and Development in order to be at the forefront of the industry.

Product innovation and research and development in the water-treatment subsector are considered to be critical to Waterco staying at the forefront of the industry. Waterco considers water-treatment products and systems to be a key revenue driver for the Group. As such, ensuring that our products and systems are appropriately protected is of value and importance.

The array of technology advances and patents will improve Waterco's position in the servicing of swimming pool markets globally and are expected to improve the appeal of the Swimart franchise.

SHARE BUYBACK

On 21 April 2017, the company announced a second share buyback of \$2,000,000 worth of shares (approximately 1,234,567 shares) commencing on 24 April 2017 and ending on 23 April 2018 (or earlier, if the \$2,000,000 is purchased before then). During the current year, the company purchased and cancelled 396,347(2017:88,430) shares costing \$712,978 (2017:\$147,284). This Share buyback expired on 23 April 2018.

On 23 April 2018, the company announced a third share buyback of \$2,500,000 worth of shares (approximately 1,250,000 shares) commencing on 24 April 2018 and ending on 23 April 2019 (or earlier if the \$2,500,000 is purchased before then). During the current year, the company purchased and cancelled 15,952 shares costing \$29,904.

DIVIDEND AND OUTLOOK

The results, with improvement of the NPAT figure, is in line with expectation. This is especially pleasing, as losses in entities in the North America and Europe Division are not tax-effected, accentuating their impact.

The Board will provide a profit guidance at a later stage for the financial year ending 30 June 2019, as more information becomes available during the year.

Waterco declares a final dividend payment of 3 cents per share, payable to shareholders on 14 December 2018. With an interim dividend of 2 cents per share, declared after the announcement of the Half-Year results, this maintains the total dividend for the year at 5 cents per share.

WATERCO LIMITED

Preliminary Final Report for the Financial Year Ended 30 June 2018

SUMMARY OF RESULTS

	<u>\$A'000</u>
Revenues	Up 3.1% to 87,832
Profit (loss) after tax attributable to members	Up 5.8% to 3,846
Dividends	Amount per security Franked amount per security
Final dividend	3¢ 3¢
Previous corresponding period	3¢ 3¢
Date for determining entitlements to the dividend	9 th November 2018

Statement of Profit and Loss and Other Comprehensive Income

	Current period \$A'000	Previous corresponding period \$A'000
Revenues	87,832	85,205
Expenses		
Goodwill (on acquisition) Impairment Losses	(4)	(5)
Finance costs	(1,000)	(980)
Other Expenses	(81,107)	(78,891)
Profit (loss) before tax	5,721	5,329
Income tax (see Annexure A)	(1,771)	(1,622)
Profit (loss) after tax	3,950	3,707
Net profit (loss) attributable to non-controlling interests	104	72
Net profit (loss) for the period attributable to members	3,846	3,635
Non-owner transaction changes in equity		
Net exchange differences recognised in equity		
Other revenue, expense and initial adjustments recognised directly in equity	8,443	3,478
Total transactions and adjustments recognised directly in equity	8,443	3,478
Total changes in equity not resulting from transactions with owners as owners	12,289	7,113

Earnings per security (EPS)

	Current period	Previous corresponding Period
Basic EPS	10.3c	9.7c
Diluted EPS	10.3c	9.7c

Calculation of Earnings per security (EPS)

	Current period	Previous corresponding Period
Net Profit (\$000)	3,950	3,707
Net Profit/(Loss) attributable to non-controlling interests (\$000)	104	72
Earnings used in calculation of basic EPS (\$000)	3,846	3,635
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	37,227,372	37,564,558

Notes to the statement of profit and loss and other comprehensive income**Profit (loss) attributable to members**

	Current period \$A'000	Previous corresponding period \$A'000
Profit (loss) after tax	3,950	3,707
Less (plus) non controlling interests	104	72
Profit (loss) after tax, attributable to members	3,846	3,635

Revenue and Expenses - SEE ANNEXURE A

	Current period \$A'000	Previous corresponding period \$A'000
Capitalised outlays		
Interest costs capitalised in asset values	-	-
Outlays capitalised in intangibles (excluding those arising from acquisition of a business)	-	-

Operating Segments – SEE ANNEXURE A

Movement in Retained Profits

	Current period \$A'000	Previous corresponding period \$A'000
Retained profits at the beginning of the financial period	11,959	10,194
Net profit attributable to members	3,846	3,635
Transfer from Asset Revaluation Reserve	-	-
Adjustment relating to AASB 121		
Dividends paid	(1,861)	(1,870)
Retained profits at end of financial period	13,944	11,959

Intangibles – Impairment/Amortisation

	<i>Consolidated - current period</i>			
	Before tax \$A'000 (a)	Related tax \$A'000 (b)	Related non- controlling interests \$A'000 (c)	Amount (after tax) attributable to members \$A'000 (d)
Impairment of goodwill	4	-	-	4
Amortisation of other intangibles	16	-	-	16
Total Impairment/ amortisation of intangibles	20	-	-	20

Comparison of half year profits

	Current year - \$A'000	Previous year - \$A'000
Consolidated profit (loss) after tax attributable to members reported for the 1st half year	3,264	2,432
Consolidated profit (loss) after tax attributable to members for the 2nd half year	582	1,203

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 and cash equivalents	4,291	4,634	5,846
Trade and other receivables	12,636	12,861	17,354
Inventories	37,590	29,775	33,841
Other	832	667	1,105
Total current assets	55,349	47,937	58,146
Non-current assets			
Other property, plant and equipment (net)	60,696	52,344	53,194
Intangibles (net)	189	135	138
Deferred tax assets	352	361	369
Total non-current assets	61,237	52,840	53,701
Total assets	116,586	100,777	111,847
Current liabilities			
Trade and other payables	10,040	11,461	15,729
Interest bearing liabilities	12,786	2,388	11,891
Current tax liabilities	277	690	876
Provisions exc. tax liabilities	2,132	2,120	1,988
Total current liabilities	25,235	16,659	30,484
Non-current liabilities			
Interest bearing liabilities	11,039	15,805	9,961
Deferred tax liabilities	5,932	3,734	3,796
Provisions exc. tax liabilities	212	200	190
Total non-current liabilities	17,182	19,739	13,947
Total liabilities	42,417	36,398	44,431
Net assets	74,169	64,379	67,416

Equity			
Issued Capital	38,590	39,333	38,719
Reserves	20,936	12,492	13,919
Retained Earnings	13,944	11,959	14,104
Parent entity interest	73,470	63,784	66,742
Non controlling interests in controlled entities	699	595	674
Total equity	74,169	64,379	67,416

Consolidated Statement of Cashflows	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	92,478	86,822
Payments to suppliers and employees	(94,276)	(77,838)
Interest and other items of similar nature received	22	96
Interest and other costs of finance paid	(1,000)	(980)
Income taxes paid	(1,808)	(1,069)
Other	1,544	2,600
Net operating cash flows	(3,040)	9,631
Cash flows related to investing activities		
Dividend received	1	-
Payment for purchases of property, plant and equipment	(3,410)	(3,316)
Proceeds from sale of property, plant and equipment	138	143
Proceeds from sale of business Investments		
Payment for intangibles		(81)
Net investing cash flows	(3,271)	(3,254)
Cash flows related to financing activities		
Proceeds from issues of shares	-	732
Share Buyback	(743)	(981)
Proceeds from borrowings	9,595	-
Repayment of borrowings	(5,182)	(4,037)
Dividends paid	(1,861)	(1,870)
Net financing cash flows	1,809	(6,156)
Net increase (decrease) in cash held	(4,502)	221
Cash at beginning of period (see Reconciliation of cash)	4,634	4,518
Exchange rate adjustments.	3,287	(105)
Cash at end of period (see Reconciliation of cash)	3,419	4,634

Non-cash financing and investing activities

During the year, the economic entity acquired plant and equipment with an aggregate fair value of \$347,782 (2017-\$392,639) by means of finance leases. These financing activities are not reflected in the statement of cash flows.

Reconciliation of cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) 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	4,291	4,634
Bank overdraft	(872)	-
Other (provide details)		
Total cash at end of period	3,419	4,634

Other notes to the condensed financial statements

Ratios	Current period	Previous corresponding Period
Profit before tax / revenue Consolidated profit (loss) before tax as a percentage of revenue	6.51%	6.25%
Profit after tax /equity interests Consolidated net profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	5.2%	5.7%

NTA PER SHARE	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.99	\$1.71

Final Dividend Declared

Date shares trade ex-dividend	8 th November 2018
Record date to determine entitlements to the dividend	9 th November 2018
Date the dividend is payable	14 th December 2018

Dividend per share

	Amount per security	Franked amount per security at % tax	Amount per security of foreign source dividend
Final dividend: Current year	3¢	3¢	¢
Previous year	3¢	3¢	¢

Total dividend per share (interim *plus* final)

	Current year	Previous year
+Ordinary securities	5¢	5¢

Dividend Plans in operation

There is no current dividend reinvestment plan in operation

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	37,083,405	37,083,405		
Changes during current period				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buybacks	411,299	411,299	\$1.8062	\$1.8062
Options			<i>Exercise price</i>	<i>Expiry Date</i>
Directors and Senior Executives option plan	-			
Issued during current period				
Exercised during current period				
Expired during current period				

Annual meeting

The annual meeting will be held as follows:

Place	36 South St Rydalmere NSW
Date	26 th October 2018
Time	3PM
Approximate date the annual report will be available	21st September 2018

Compliance statement

1. This report has been prepared in accordance with the Corporations Act 2001 including complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001
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 are in the process of being audited.
5. The entity has a formally constituted audit committee.



Soon Sinn Goh
Chief Executive Officer

23rd August 2018

Notes:

1. **Reconciliation of income tax *prima facie* payable on the profit before tax to income tax expense where *prima facie* tax payable differs by more than 15% from income tax expense.**
2. **Rounding of figures:** Some of the information in this report have been rounded 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 ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2018

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	2018	2017
	\$000	\$000
Revenues	87,832	85,205
Changes in inventories of finished goods and work in progress	(5,784)	1,096
Raw materials and consumables used	(37,368)	(44,397)
Employee benefits expense	(18,607)	(17,166)
Depreciation, impairment and amortisation expense	(1,577)	(1,452)
Finance costs	(1,000)	(980)
Advertising expense	(1,706)	(1,897)
Discounts allowed	(145)	(149)
Outward freight expense	(1,576)	(1,424)
Rent expense	(2,662)	(2,667)
Research & development	(1,582)	(1,224)
Insurance general	(798)	(797)
Contracted staff expense	(234)	(183)
Warranty expense	(706)	(641)
Commission expense	(260)	(184)
Increased cost of working- Rydalmere Fire	-	(421)
Other expenses	(8,106)	(7,812)
Profit before income tax expense	5,721	5,329
Income tax expense	1,771	1,622
Profit for the year	3,950	3,707

**PRELIMINARY FINAL REPORT 30 JUNE 2018
ANNEXURE A**

**Operating Segments
Segment Information**

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The group is managed primarily on the basis of location since the group's operations have similar risk profiles and performance criteria. Operating segments are therefore determined on the same basis.

The group 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.

Basis of accounting for the purposes of reporting by operating segments

Accounting Policies Adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. The price is reviewed annually (unless special circumstances arise) and is based on what would be realised in the event the sale was made to an external party at arm's length under the same terms and conditions. All such transactions are eliminated on consolidation for the Group's financial statements.

Corporate charges are allocated to reporting segments based on the services provided to those reporting segments

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair valued based on market interest rates.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of the economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where is a direct nexus between the incurrence of the liability and the operations of the segment.

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- other revenues

Comparative information

This is the first reporting period in which AASB8: Operating Segments has been adopted. Comparative information has been stated to confirm to the requirements of the Standard.

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

**PRELIMINARY FINAL REPORT 30 JUNE 2018
ANNEXURE A
Operating Segments**

Geographical Segments

	2018			
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA & EUROPE	CONSOLIDATED GROUP
	\$000	\$000	\$000	\$000
REVENUE				
Sales to customers outside the consolidated group	58,165	14,073	14,027	86,265
Intersegment sales	1,384	27,125	935	29,444
Total segment revenue	<u>59,549</u>	<u>41,198</u>	<u>14,962</u>	<u>115,709</u>
Reconciliation of segment revenue to group revenue				
Other revenue				1,567
Intersegment elimination				<u>(29,444)</u>
Total group revenue				<u>87,832</u>
Segment net profit/(loss) from continuing operations before	5,553	1,907	(172)	7,288
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items - other				(1,567)
Net profit before tax from continuing operations				<u>5,721</u>
Segment assets	89,227	62,616	(12,263)	139,580
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				<u>(22,994)</u>
Total group assets				<u>116,586</u>
Capital expenditure	1,147	1,132	81	2,360
Segment liabilities	35,121	31,390	7,040	73,551
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				<u>(31,134)</u>
Total group liabilities				<u>42,417</u>

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2018

ANNEXURE A

Operating Segments

Geographical Segments

	2017			
	AUSTRALIA & NEW ZEALAND	ASIA	NORTH AMERICA & EUROPE	CONSOLIDATED GROUP
	\$000	\$000	\$000	\$000
REVENUE				
Sales to customers outside the consolidated group	56,626	12,364	13,518	82,508
Intersegment sales	1,280	23,159	969	25,408
Total segment revenue	57,906	35,523	14,487	107,916
Reconciliation of segment revenue to group revenue				
Other revenue				2,697
Intersegment elimination				(25,408)
Total group revenue				85,205
Segment net profit/(loss) from continuing operations before	6,437	2,535	(946)	8,026
Reconciliation of segment result to group net profit/loss before tax				
Unallocated items - other				(2,697)
Net profit before tax from continuing operations				5,329
Segment assets	77,835	53,715	(13,188)	118,362
Segment asset increases for the period				
Reconciliation of segment assets to group assets				
Intersegment eliminations				(17,585)
Total group assets				100,777
Capital expenditure	1,782	1,804	124	3,710
Segment liabilities	29,320	25,855	4,978	60,153
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(23,755)
Total group liabilities				36,398

WATERCO LIMITED ABN 62 002 070 733 AND CONTROLLED ENTITIES

PRELIMINARY FINAL REPORT 30 JUNE 2018

ANNEXURE A

Income Tax Expense

	Consolidated Group	
	2018	2017
	\$000	\$000
The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	5,721	5,329
Prima facie tax payable on profit before income tax at 30% (2017 30%)	1,716	1,599
Add		
Tax effect of:		
• Depreciation of buildings	52	27
• Entertainment	2	2
• Amortisation – Goodwill	1	2
• Amortisation – Land use rights	5	5
• Foreign controlled entities not tax effected	487	646
• Unrealised foreign exchange losses/(gains)	8	-
• Expenses not deductible	96	-
• Other	-	42
Less		
Tax effect of:		
• Research and development	140	102
• Effects of lower rates in overseas countries	286	268
• Unrealised foreign exchange losses/(gains)	-	44
• Overprovision/(under) for tax in prior years	88	44
• Exempt income	73	-
• Reinvestment allowance	-	241
• Other	9	2
Income tax expense attributable to entity	1,771	1,622
The applicable weighted average effective tax rates are as follows:	31%	30%