

**WATERCO LIMITED**

**Half Yearly Report for the Period Ended 31<sup>st</sup> December 2019**

**For announcement to the market**

				<u>\$A'000</u>
Revenues	up	11.1%	to	55,127
Profit (loss) after tax attributable to members	up	37.6%	to	3,193
<b>Dividends</b>		Amount per security		Franked amount per security
Interim dividend		2¢		2¢
Previous corresponding period		2¢		2¢
Date for determining entitlements to the dividend		5th May 2020		

**This half yearly report is to be read in conjunction with the 30<sup>th</sup> June 2019 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	55,127	49,624
Expenses		
Borrowing costs	(524)	(582)
Other expenses	(50,511)	(45,559)
<b>Profit (loss) before tax</b>	<b>4,092</b>	<b>3,483</b>
Income tax	(939)	(1,110)
<b>Profit (loss) after tax</b>	<b>3,153</b>	<b>2,373</b>
Net profit (loss) attributable to non controlling interests	(40)	53
<b>Net profit (loss) for the period attributable to members</b>	<b>3,193</b>	<b>2,320</b>
<b>Other Comprehensive income</b>		
Net exchange differences recognised in equity	356	1,283
Property Revaluation increment/(decrement)	289	539
Other comprehensive income for the period	645	1,822
<b>Total comprehensive income/(loss) attributable to members of the parent entity</b>	<b>3,838</b>	<b>4,142</b>

### Earnings per security (EPS)

Basic EPS	8.7c	6.3c
Diluted EPS	8.7c	6.3c

### Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit/(Loss)	3,153	2,373
Net Profit/(Loss) attributable to non-controlling interests	(40)	53
Earnings used in calculation of basic EPS	3,193	2,320
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	36,664	37,050

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

### Profit (loss) attributable to members

	Current period - \$A'000	Previous corresponding period - \$A'000
Profit (loss) after tax	3,153	2,373
Less (plus) non-controlling interests	(40)	53
<b>Profit (loss) after tax, attributable to members</b>	<b>3,193</b>	<b>2,320</b>

## Revenue and expenses - See Annexure A

<b>Capitalised outlays</b>		
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	14,191	13,944
Adjustment for change in accounting policy AASB16(Ly:AASB15)	(36)	(154)
Retained profits at the beginning of the financial period- restated	14,155	13,790
Net profit (loss) attributable to members	3,193	2,320
Dividends and other equity distributions paid or payable	(1,094)	(1,108)
<b>Retained profits (accumulated losses) at end of financial period</b>	<b>16,254</b>	<b>15,002</b>

## 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	14	--	--	14
Amortisation of other intangibles	9	--	--	9
<b>Total Impairment/ amortisation of intangibles</b>	<b>23</b>	<b>--</b>	<b>--</b>	<b>23</b>

## 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
<b>Current assets</b>			
Cash	8,920	5,310	4,193
Receivables	20,340	12,120	17,043
Inventories	36,882	36,189	39,633
Other	1,002	829	846
<b>Total current assets</b>	<b>67,144</b>	<b>54,448</b>	<b>61,715</b>
<b>Non-current assets</b>			
Property, plant and equipment (net)	61,350	61,459	62,022
Right of use assets	11,897	-	-
Intangibles (net)	390	432	177
Deferred Tax assets	749	487	541
<b>Total non-current assets</b>	<b>74,386</b>	<b>62,378</b>	<b>62,740</b>
<b>Total assets</b>	<b>141,530</b>	<b>116,826</b>	<b>124,455</b>
<b>Current liabilities</b>			
Payables	19,493	11,159	18,172
Interest bearing liabilities	13,159	11,268	10,346
Right of use liabilities	4,715	-	-
Current tax liabilities	567	(407)	417
Provisions exc. tax liabilities	1,945	1,811	1,914
<b>Total current liabilities</b>	<b>39,879</b>	<b>23,831</b>	<b>30,849</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	10,295	11,094	10,732
Right of use liabilities	7,292	-	-
Deferred tax liabilities	5,890	5,869	5,968
Provisions exc. tax liabilities	209	202	213
<b>Total non-current liabilities</b>	<b>23,686</b>	<b>17,165</b>	<b>16,913</b>
<b>Total liabilities</b>	<b>63,565</b>	<b>40,996</b>	<b>47,762</b>
<b>Net assets</b>	<b>77,965</b>	<b>75,830</b>	<b>76,693</b>
<b>Equity</b>			
Issued capital	37,144	37,676	38,182
Reserves	23,868	23,224	22,757
Retained profits	16,254	14,191	15,002
<b>Parent entity interest</b>	<b>77,266</b>	<b>75,091</b>	<b>75,941</b>
Non-controlling interest	699	739	752
<b>Total equity</b>	<b>77,965</b>	<b>75,830</b>	<b>76,693</b>

## Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
<b>Cash flows related to operating activities</b>		
Receipts from customers	48,016	47,701
Payments to suppliers and employees	(40,853)	(41,612)
Other Income	624	553
Interest received	29	16
Interest and other costs of finance paid	(524)	(582)
Income taxes refund/paid	(205)	(1,059)
<b>Net operating cash flows</b>	<b>7,087</b>	<b>5,017</b>
<b>Cash flows related to investing activities</b>		
Payment for purchases of property, plant and equipment	(767)	(1,897)
Proceeds from sale of property, plant and equipment	82	4
Proceeds from sale of business		
Payment for intangibles		
Dividends received	1	1
<b>Net investing cash flows</b>	<b>(684)</b>	<b>(1,892)</b>
<b>Cash flows related to financing activities</b>		
Proceeds from issues of shares		-
Share buyback	(533)	(408)
Proceeds from borrowings	1,397	-
Repayment of borrowings	(2,214)	(3,517)
Dividends paid	(1,094)	(1,108)
<b>Net financing cash flows</b>	<b>(2,444)</b>	<b>(5,033)</b>
<b>Net increase (decrease) in cash held</b>	<b>3,959</b>	<b>(1,908)</b>
Cash at beginning of period (see Reconciliation of cash)	4,166	3,419
Exchange rate adjustments	(582)	(1,103)
<b>Cash at end of period</b> (see Reconciliation of cash)	<b>7,543</b>	<b>2,614</b>

Non-cash financing and investing activities: During the period, the economic entity acquired  
a) plant and equipment amounting to \$91,332 (2018 \$61,993) by means of finance leases.  
b) ROU Property Assets amounting to \$26,121,130 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	8,920	4,193
Bank overdraft	(1,377)	(1,579)
Other (commercial bills)		
<b>Total cash at end of period</b>	<b>7,543</b>	<b>2,614</b>

## Other notes to the financial statements

<b>Ratios</b>	Current period	Previous corresponding Period
<b>Profit before tax / revenue</b> Profit (loss) before tax as a percentage of revenue	7.42%	7.00%
<b>Profit after tax / equity interests</b> Profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	4.13%	3.06%

<b>NTA Per Share</b>	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$2.13	\$2.07

## Dividends

Date shares trade ex-dividend	4th May 2020
Record date to determine entitlements to the dividend	5th May 2020
Date the dividend is payable	15 <sup>th</sup> June 2020

## Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
<b>Interim dividend:</b> Current year	2¢	2¢	¢
Previous year	2¢	2¢	¢

The <sup>+</sup>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	36,375,634	36,375,634		
Changes during current period				
(a) Increases through issues Waterco DRP				
(b) Decreases through returns of capital, buybacks	257,017	257,017	\$2.0733	\$2.0733

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

21st February 2020

## 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 2019**

**ANNEXURE A**

**REVENUE AND EXPENSES**

	<b>Consolidated Group</b>	
	<b>31/12/2019</b>	<b>31/12/2018</b>
	<b>\$000</b>	<b>\$000</b>
Sales revenue	52,828	49,054
Other revenue	2,299	570
Changes in inventories of finished goods and work in progress	3,497	(1,724)
Raw Materials and consumables used	(30,060)	(23,249)
Employee benefits expense	(11,149)	(9,934)
Depreciation and amortisation expense	(3,336)	(858)
Finance costs	(524)	(582)
Advertising expense	(1,169)	(1,146)
Discounts allowed	(148)	(180)
Outward freight expense	(1,108)	(1,024)
Rent expense	(693)	(1,358)
Research and development	(681)	(837)
Insurance General	(525)	(434)
Contracted staff expense	(151)	(103)
Warranty expense	(405)	(472)
Commission expense	(205)	(127)
Other expenses	(4,378)	(4,113)
<b>Profit before income tax</b>	<b>4,092</b>	<b>3,483</b>
Income tax expense	(939)	(1,110)
<b>Profit for the period</b>	<b>3,153</b>	<b>2,373</b>
<b>Other comprehensive income</b>		
<b>Items that will not be classified subsequently to profit or loss</b>		
Property revaluation increment/(decrement) (net of tax and reversals)	289	539
<b>Items that maybe reclassified to profit or loss</b>		
Exchange differences on translation of foreign controlled entities	356	1,283
Other comprehensive income for the period	645	1,822
<b>Total comprehensive income for the period</b>	<b>3,798</b>	<b>4,195</b>
Profit attributable to:		
Members of the parent entity	3,193	2,320
Non-controlling interest	(40)	53
	<b>3,153</b>	<b>2,373</b>



**WATERCO LIMITED AND CONTROLLED ENTITIES**

**Half Yearly Report for the Period Ended 31<sup>st</sup> December 2019**

**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**

**2019**

	AUSTRALIA & NEW ZEALAND 31/12/2019 \$000	ASIA 31/12/2019 \$000	NORTH AMERICA &EUROPE 31/12/2019 \$000	ELIMINATION 31/12/2019 \$000	CONSOLIDATED GROUP 31/12/2019 \$000
Revenue					
Sales to customers outside the economic entity	37,176	6,865	8,787		52,828
Intersegment sales	642	17,193	436	(18,271)	
Unallocated revenue					
Total revenue	<u>37,818</u>	<u>24,058</u>	<u>9,223</u>	<u>(18,271)</u>	<u>52,828</u>
Segment result	4,671	1,745	(26)		6,390
Unallocated expenses net of unallocated revenue					<u>(2,298)</u>
Profit before income tax					4,092
Income tax expense					<u>(939)</u>
Profit after income tax					<u>3,153</u>
Segment assets	<u>109,814</u>	<u>69,428</u>	<u>18,038</u>	<u>(55,750)</u>	<u>141,530</u>
Segment liabilities	<u>55,024</u>	<u>35,751</u>	<u>38,659</u>	<u>(65,869)</u>	<u>63,565</u>

**2018**

	AUSTRALIA & NEW ZEALAND 31/12/2018 \$000	ASIA 31/12/2018 \$000	NORTH AMERICA &EUROPE 31/12/2018 \$000	ELIMINATION 31/12/2018 \$000	CONSOLIDATED GROUP 31/12/2018 \$000
Revenue					
Sales to customers outside the economic entity	34,306	7,664	7,084		49,054
Intersegment sales	432	15,208	248	(15,888)	
Unallocated revenue					694
Total revenue	<u>34,738</u>	<u>22,872</u>	<u>7,332</u>		<u>49,748</u>
Segment result	4,731	1,366	(437)	(1,607)	4,053
Unallocated expenses net of unallocated revenue					<u>(570)</u>
Profit before income tax					3,483
Income tax expense					<u>(1,110)</u>
Profit after income tax					<u>2,373</u>
Segment assets	<u>100,843</u>	<u>66,774</u>	<u>15,717</u>	<u>(58,879)</u>	<u>124,455</u>
Segment liabilities	<u>44,875</u>	<u>33,843</u>	<u>36,393</u>	<u>(67,350)</u>	<u>47,761</u>

## WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31<sup>st</sup> December 2019

### ANNEXURE C

#### REVIEW OF OPERATIONS

##### REVENUE AND PROFITABILITY

For the six months ended 31 December 2019 (Half-year), the Group reported a Net Profit After Tax of \$3.154 million (Previous Corresponding Period, or PCP \$2.37 million) and Earnings Before Interest & Tax (EBIT) of \$4.586 million (PCP \$4.05 million).

Total Revenue was \$55.13 million (PCP \$49.62 million).

##### DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	Dec 2019	Dec 2018	
	(\$000)	(\$000)	% Change
Australia and New Zealand	2,873	3,052	(6%)
Asia	1,817	1,489	22%
North America and Europe	(104)	(491)	79%
<b>Consolidated Reported EBIT</b>	<b>4,586</b>	<b>4,050</b>	<b>13%</b>

##### AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ), Sales were steady throughout the Half-year. The weakening of the Australian Dollar against the US Dollar has increased costs and reduced EBIT.

##### ASIA

In Asia, sales registered a significant reduction from PCP, arising mainly from an easing in building rates in China. This has partly been as a result of the difficult trade negotiations that China is having with the United States of America. The reduction in sales was offset by a reduction in overheads through management initiatives put into place.

The level of manufacturing operations in Asia showed modest growth and continue to provide excellent support for the Group.

##### NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA and Europe – sales encouragingly registered significant growth, compared with PCP. The main business season for this Division is in the second half of the financial year. The ground-work we have done in the USA in the past eighteen months are beginning to bear fruit, though we do not underestimate the effort needed to build on this.

##### PRODUCT DEVELOPMENT AND WATER TREATMENT

In this Half-year, Waterco invested approximately \$0.68 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 the years

AASB 16 'Leases' had a significant impact on the current period. The current profit before income tax expense was reduced by \$740,853. This resulted from depreciation on ROU Assets of \$2,373,370 offset by an increase in rental income of \$1,645,262. As at 31 December 2019, net assets were reduced by \$110,624 resulting from recognition of ROU Assets of \$11,896,985 and ROU Liabilities of \$12,007,609.

Notwithstanding the impact of AASB 16, the financial position of the consolidated entity remains strong with excellent liquidity and a large asset base, which is being fully utilised

## WORKING CAPITAL

	Dec 2019 (\$000)	Dec 2018 (\$000)
Inventory	36,882	39,633
Debtors	20,340	17,043
Creditors	(19,493)	(18,172)
<b>TOTAL</b>	<b>37,729</b>	<b>38,504</b>

The group's working capital as at December 2019 saw a decrease of \$0.775 million, with decrease in inventory and increase in debtors and creditors.

## DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 2 cents per share payable on 15 June 2020.

This Half-year has been a challenging one, with the business sentiments in China still uncertain, in view of their ongoing trade negotiations with the USA and the coronavirus that struck at the end of the half year. The Australian Dollar has also fluctuated significantly against the US Dollar.

The Board expects the second half-year to be more settled.