

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2017

For announcement to the market

			<u>\$A'000</u>
Revenues	up	7.94%	to 47,759
Profit (loss) after tax attributable to members	up	34.22%	to 3,264
Dividends		Amount per security	Franked amount per security
Interim dividend		2¢	2¢
Previous corresponding period		2¢	2¢
Date for determining entitlements to the dividend	4 th May 2018		

This half yearly report is to be read in conjunction with the 30th June 2017 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	47,759	44,246
Expenses		
Borrowing costs	(493)	(512)
Other expenses	(42,622)	(40,124)
Profit (loss) before tax	4,644	3,610
Income tax	(1,301)	(1,097)
Profit (loss) after tax	3,343	2,513
Net profit (loss) attributable to non controlling interests	79	81
Net profit (loss) for the period attributable to members	3,264	2,432
Other Comprehensive income		
Net exchange differences recognised in equity	1,006	(1,809)
Property Revaluation increment/(decrement)	421	5,108
Other comprehensive income for the period	1,427	3,299
Total comprehensive income/(loss) attributable to members of the parent entity	4,691	5,731

Earnings per security (EPS)

Basic EPS	8.7c	6.5c
Diluted EPS	8.7c	6.5c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit/(Loss)	3,343	2,513
Net Profit/(Loss) attributable to non-controlling interests	79	81
Earnings used in calculation of basic EPS	3,264	2,432
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	37,489	37,420

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	3,343	2,513
Less (plus) non-controlling interests	79	81
Profit (loss) after tax, attributable to members	3,264	2,432

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	11,959	10,194
Net profit (loss) attributable to members	3,264	2,432
Net transfers from (to) reserves Dividends and other equity distributions paid or payable	(1,119)	- (1,119)
Retained profits (accumulated losses) at end of financial period	14,104	11,507

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	2	--	--	2
Amortisation of other intangibles	8	--	--	8
Total Impairment/ amortisation of intangibles	10	--	--	10

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	5,846	4,634	7,614
Receivables	17,354	12,861	15,516
Inventories	33,841	29,775	31,309
Other	1,105	667	717
Total current assets	58,146	47,937	55,156
Non-current assets			
Property, plant and equipment (net)	53,194	52,344	51,171
Intangibles (net)	138	135	231
Deferred Tax assets	369	361	1,064
Other	-	-	-
Total non-current assets	53,701	52,840	52,466
Total assets	111,847	100,777	107,622
Current liabilities			
Payables	15,729	11,461	14,802
Interest bearing liabilities	11,891	2,388	2,882
Current tax liabilities	876	690	683
Provisions exc. tax liabilities	1,988	2,120	1,806
Other	-	-	-
Total current liabilities	30,484	16,659	20,173
Non-current liabilities			
Payables			
Interest bearing liabilities	9,961	15,805	18,912
Deferred tax liabilities	3,796	3,734	4,097
Provisions exc. tax liabilities	190	200	197
Other	-	-	-
Total non-current liabilities	13,947	19,739	23,206
Total liabilities	44,431	36,398	43,379
Net assets	67,416	64,379	64,243
Equity			
Issued capital	38,719	39,333	39,820
Reserves	13,919	12,492	12,312
Retained profits	14,104	11,959	11,507
Parent entity interest	66,742	63,784	63,639
Non-controlling interest	674	595	604
Total equity	67,416	64,379	64,243

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	46,864	41,904
Payments to suppliers and employees	(45,750)	(36,045)
Other Income	15	40
Interest received	379	882
Interest and other costs of finance paid	(493)	(512)
Income taxes refund/paid	(1,061)	(892)
Net operating cash flows	(46)	5,377
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(1,530)	(1,710)
Proceeds from sale of property, plant and equipment	108	50
Proceeds from sale of business		
Payment for intangibles		
Dividends received	1	1
Net investing cash flows	(1,421)	(1,659)
Cash flows related to financing activities		
Proceeds from issues of shares	-	732
Share buyback	(614)	(493)
Proceeds from borrowings	4,183	1,465
Repayment of borrowings	(785)	(691)
Dividends paid	(1,119)	(1,119)
Net financing cash flows	1,665	(106)
Net increase (decrease) in cash held	198	3,612
Cash at beginning of period (see Reconciliation of cash)	4,634	4,518
Exchange rate adjustments	1,014	(516)
Cash at end of period (see Reconciliation of cash)	5,846	7,614

Non-cash financing and investing activities: During the period, the economic entity acquired plant and equipment amounting to \$261,423 (2016 \$133,012) by means of finance 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	5,846	7,614
Bank overdraft		
Other (commercial bills)		
Total cash at end of period	5,846	7,614

Other notes to the financial statements

Ratios	Current period	Previous corresponding Period
Profit before tax / revenue Profit (loss) before tax as a percentage of revenue	9.7%	8.2%
Profit after tax / equity interests Profit (loss) after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	4.89%	3.82%

NTA Per Share	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$1.81	\$1.69

Dividends

Date shares trade ex-dividend	3rd May 2018
Record date to determine entitlements to the dividend	4 th May 2018
Date the dividend is payable	15 th June 2018

Amount per security

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

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	37,147,959	37,147,959		
Changes during current period				
(a) Increases through issues Waterco DRP	-	-		
(b) Decreases through returns of capital, buybacks	346,745	346,745	\$1.7704	\$1.7704

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 2018

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 2017

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2017	31/12/2016
	\$000	\$000
Sales revenue	47,364	43,324
Other revenue	395	922
Changes in inventories of finished goods and work in progress	(3,421)	(1,187)
Raw Materials and consumables used	(20,456)	(21,023)
Employee benefits expense	(9,096)	(8,338)
Depreciation and amortisation expense	(781)	(642)
Finance costs	(493)	(512)
Advertising expense	(997)	(1,011)
Discounts allowed	(119)	(83)
Outward freight expense	(687)	(921)
Rent expense	(1,372)	(1,291)
Research and development	(725)	(593)
Insurance General	(377)	(389)
Contracted staff expense	(107)	(98)
Warranty expense	(409)	(170)
Commission expense	(88)	(50)
Other expenses	(3,987)	(4,328)
Profit before income tax	4,644	3,610
Income tax expense	(1,301)	(1,097)
Profit for the period	3,343	2,513
Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment/(decrement) (net of tax and reversals)	421	5,108
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	1,006	(1,809)
Other comprehensive income for the period	1,427	3,299
Total comprehensive income for the period	4,770	5,812
Profit attributable to:		
Members of the parent entity	3,264	2,432
Non-controlling interest	79	81
	3,343	2,513

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2017

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

2017

	AUSTRALIA & NEW ZEALAND 31/12/2017 \$000	ASIA 31/12/2017 \$000	NORTH AMERICA &EUROPE 31/12/2017 \$000	ELIMINATION 31/12/2017 \$000	CONSOLIDATED GROUP 31/12/2017 \$000
Revenue					
Sales to customers outside the economic entity	34,130	7,818	5,416		47,364
Intersegment sales	760	14,203	485	(15,448)	
Unallocated revenue					395
Total revenue	<u>34,890</u>	<u>22,021</u>	<u>5,901</u>	<u>(15,448)</u>	<u>47,759</u>
Segment result	4,133	1,718	(493)	(319)	5,039
Unallocated expenses net of unallocated revenue					<u>(395)</u>
Profit before income tax					4,644
Income tax expense					<u>(1,301)</u>
Profit after income tax					<u>3,343</u>
Segment assets	<u>88,164</u>	<u>59,281</u>	<u>12,773</u>	<u>(48,371)</u>	<u>111,847</u>
Segment liabilities	<u>38,578</u>	<u>28,980</u>	<u>31,563</u>	<u>(54,690)</u>	<u>44,431</u>

2016

	AUSTRALIA & NEW ZEALAND 31/12/2016 \$000	ASIA 31/12/2016 \$000	NORTH AMERICA &EUROPE 31/12/2016 \$000	ELIMINATION 31/12/2016 \$000	CONSOLIDATED GROUP 31/12/2016 \$000
Revenue					
Sales to customers outside the economic entity	32,172	5,764	5,388		43,324
Intersegment sales	645	13,134	382	(14,161)	
Unallocated revenue					922
Total revenue	<u>32,817</u>	<u>18,898</u>	<u>5,770</u>	<u>(14,161)</u>	<u>44,246</u>
Segment result	4,332	1,715	(793)	(722)	4,532
Unallocated expenses net of unallocated revenue					<u>(922)</u>
Profit before income tax					3,610
Income tax expense					<u>(1,097)</u>
Profit after income tax					<u>2,513</u>
Segment assets	<u>92,621</u>	<u>49,259</u>	<u>13,583</u>	<u>(47,841)</u>	<u>107,622</u>
Segment liabilities	<u>39,537</u>	<u>23,034</u>	<u>32,146</u>	<u>(51,338)</u>	<u>43,379</u>

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2017

ANNEXURE C

REVIEW OF OPERATIONS

For the six months ended 31 December 2017 (This Half-year) Waterco Limited reported a Net Profit After Tax of \$3.34 million, against \$2.51 million for the previous corresponding period (PCP). This is the sixth consecutive half-year, for which we have registered improved profitability over PCP.

Earnings Before Interest & Tax (EBIT) for This Half-year were \$5.12 million (PCP \$4.08 million).

Total Revenue was \$47.76 million (PCP \$44.25 million).

DIVISIONAL EBIT PERFORMANCE

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2017:

	Dec 2017 (\$000)	Dec 2016 (\$000)	% Change
Australia and New Zealand	3,787	3,130	+21.0%
Asia	1,813	1,766	+2.7%
North America and Europe	(478)	(814)	+41.3%
Consolidated Reported EBIT	5,122	4,082	+25.5%

AUSTRALIA AND NEW ZEALAND

In Australia and New Zealand (ANZ), Sales were steady throughout the quarter, and registered satisfactory growth. Margins also improved over PCP, despite a volatile AUD in the second quarter.

ASIA

In Asia, sales were encouraging, registering significant growth. This was somewhat mitigated on the EBIT line by the weakness in the US dollar, causing US dollar assets to be valued downwards. Asia is the Group's centre for exports to countries, where we do not have a physical presence. Hence, there is a significant level of assets denominated in US dollar.

The manufacturing operations in WFE continue to grow. Necessary changes are constantly made in response to this in order to ensure that this manufacturing entity provides excellent support for the Group into the future.

NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA and Europe – sales were steady, compared with PCP. The EBIT loss was significantly reduced by 41%, to \$0.48 million, as a result of improved management of costs. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remain challenging but we expect that the ground-work done in the past year will enable us to yield improved results in the second half-year.

PRODUCT DEVELOPMENT & WATER TREATMENT

In This Half-year, Waterco invested approximately \$0.72 million on research and development, which was fully expensed. The Group continues to respond to market demands for innovative, durable and energy-efficient products and will continue its 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. We also hold several patents in a chlorine-free

system of sanitisation which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms.

WORKING CAPITAL

	Dec 2017 (\$000)	Dec 2016 (\$000)
Inventory	33,841	31,309
Debtors	17,354	15,516
Creditors	(15,729)	(14,802)
TOTAL	35,466	32,023

The group's working capital as at December 2017 saw an increase of \$3.44 million, with increase in all the components. This is consistent with increased activity, as reflected in the growth in total revenue.

DIVIDEND

Based on This Half-year result, the Board is pleased to declare a fully-franked interim dividend of 2 cents per share payable on 15 June 2018.

OUTLOOK

The Board considers This Half-year's results as encouraging.

The second half-year represents a smaller contribution to the results for the year because of seasonal factors. It will be more dependent on North America and Europe, which is expected to perform better than PCP. We are optimistic that this would translate into a better result for the Group for the full year.