

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2022

For announcement to the market

				<u>\$A'000</u>
Revenues	up	10.4%	to	70,428
Profit after tax attributable to members	up	21.5%	to	4,989
Dividends		Amount per security		Franked amount per security
Interim dividend		5¢		5¢
Previous corresponding period		3¢		3¢
Date for determining entitlements to the dividend		5th May 2023		

This half yearly report is to be read in conjunction with the 30th June 2022 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	70,428	63,765
Expenses		
Borrowing costs	(208)	(113)
Other expenses	(63,906)	(58,118)
Profit before tax	6,314	5,534
Income tax (expense)	(1,337)	(1,475)
Profit after tax	4,977	4,059
Net (loss) attributable to non controlling interests	(12)	(47)
Net profit for the period attributable to members	4,989	4,106
Other Comprehensive income		
Net exchange differences recognised in equity	1,149	1,570
Property Revaluation increment	141	261
Other comprehensive income for the period	1,290	1,831
Total comprehensive income attributable to members of the parent entity	6,279	5,937

Earnings per security (EPS)

Basic EPS	14.1c	11.5c
Diluted EPS	14.1c	11.5c

Calculation of Earnings per security (EPS)

	Current Period \$A'000	Previous corresponding Period \$A'000
Net Profit	4,977	4,059
Net (Loss) attributable to non-controlling interests	(12)	(47)
Earnings used in calculation of basic EPS	4,989	4,106
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	35,461	35,721

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	4,977	4,059
Less non-controlling interests	(12)	(47)
Profit after tax, attributable to members	4,989	4,106

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	54,992	45,842
Net profit (loss) attributable to members	4,989	4,106
Dividends and other equity distributions paid or payable	(1,763)	(1,426)
Retained profits at end of financial period	58,218	48,522

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		--	--	39
Amortisation of other intangibles	--	--	--	--
Total Impairment/ amortisation of intangibles		--	--	39

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	9,368	11,946	12,554
Receivables	21,429	17,201	19,461
Inventories	56,976	48,688	43,563
Other	1,450	1,077	681
Total current assets	89,223	78,912	76,259
Non-current assets			
Property, plant and equipment (net)	60,718	59,986	59,498
Right of use assets	13,095	15,794	16,479
Intangibles (net)	1,084	1,119	1,148
Deferred Tax assets	2,160	1,842	1,737
Total non-current assets	77,057	78,741	78,862
Total assets	166,280	157,653	155,121
Current liabilities			
Payables	18,484	14,211	19,745
Interest bearing liabilities	6,848	4,329	2,242
Lease liabilities	4,080	3,942	4,541
Current tax liabilities	1,435	2,547	1,658
Provisions exc. tax liabilities	5,215	3,964	4,865
Total current liabilities	36,062	28,993	33,051
Non-current liabilities			
Interest bearing liabilities	1,889	665	837
Lease liabilities	8,848	11,949	11,957
Deferred tax liabilities	4,772	4,823	4,428
Provisions exc. tax liabilities	229	213	226
Total non-current liabilities	15,738	17,650	17,448
Total liabilities	51,800	46,643	50,499
Net assets	114,480	111,010	104,622
Equity			
Issued capital	33,906	34,847	35,299
Reserves	21,958	20,664	20,274
Retained profits	58,218	54,992	48,522
Parent entity interest	114,082	110,503	104,095
Non-controlling interest	398	507	527
Total equity	114,480	111,010	104,622

Consolidated cash flow statement

	Current period \$A'000	Previous corresponding period \$A'000
Cash flows related to operating activities		
Receipts from customers	70,117	60,899
Payments to suppliers and employees	(68,806)	(58,014)
Other Income	27	12
Interest received	658	517
Interest and other costs of finance paid	(208)	(113)
Income taxes refund/paid	(2,818)	(1,091)
Net operating cash flows	(1,030)	2,210
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(2,142)	(1,959)
Proceeds from sale of property, plant and equipment	45	65
Payment for business	(520)	(520)
Dividends received	1	1
Net investing cash flows	(2,616)	(2,413)
Cash flows related to financing activities		
Proceeds from issues of shares		
Share buyback	(941)	(291)
Proceeds from borrowings	3,787	2,005
Repayment of borrowings	(45)	(97)
Payment of ROU Liabilities	(160)	(1,071)
Dividends paid	(1,861)	(1,426)
Net financing cash flows	780	(880)
Net increase (decrease) in cash held	(2,866)	(1,083)
Cash at beginning of period (see <i>Reconciliation of cash</i>)	11,946	11,694
Exchange rate adjustments	288	1,943
Cash at end of period (see <i>Reconciliation of cash</i>)	9,368	12,554

Non-cash financing and investing activities: During the period, the economic entity acquired
a) plant and equipment amounting to \$nil (2021 \$nil) by means of finance leases.
b) ROU Property Assets amounting to \$1,007,130 (2021 \$6,164,848) 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	9,368	12,554
Bank overdraft	-	-
Other (commercial bills)	-	-
Total cash at end of period	9,368	12,554

Other notes to the financial statements

Ratios

	Current period	Previous corresponding Period
Profit before tax / revenue Profit before tax as a percentage of revenue	9.0%	8.7%
Profit after tax / equity interests Profit after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	4.37%	3.94%

NTA Per Share

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	\$3.22	\$2.90

Dividends

Date shares trade ex-dividend	4th May 2023
Record date to determine entitlements to the dividend	5th May 2023
Date the dividend is payable	15 th June 2023

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend: Current year	5¢	5¢	¢
Previous year	3¢	3¢	¢

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	35,250,729	35,250,729		
Changes during current period				
(a) Increases through issues Waterco DRP				
(b) Decreases through returns of capital, buybacks	242,417	242,417	\$3.8807	\$3.8807

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

16th February 2023

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 2022

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2022	31/12/2021
	\$000	\$000
Sales revenue	68,463	61,735
Other revenue	1,965	2,030
Changes in inventories of finished goods and work in progress	(5,060)	(9,503)
Raw Materials and consumables used	(29,040)	(21,409)
Employee benefits expense	(15,061)	(13,554)
Depreciation and amortisation expense	(3,043)	(3,287)
Finance costs	(208)	(113)
Advertising expense	(1,350)	(1,176)
Discounts allowed	(439)	(222)
Outward freight expense	(1,205)	(1,508)
Rent expense	(546)	(518)
Research and development	(1,105)	(756)
Insurance General	(661)	(670)
Contracted staff expense	(162)	(203)
Warranty expense	(214)	(219)
Commission expense	(285)	(155)
Other expenses	(5,735)	(4,938)
Profit before income tax	6,314	5,534
Income tax benefit/(expense)	(1,337)	(1,475)
Profit for the period	4,977	4,059
 Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment (net of tax and reversals)	141	261
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	1,149	1,570
Other comprehensive income for the period	1,290	1,831
 Total comprehensive income for the period	 6,267	 5,890
 Profit attributable to:		
Members of the parent entity	4,989	4,106
Non-controlling interest	(12)	(47)
	4,977	4,059

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2022

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

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	49,330	32,021	11,545	(24,433)	68,463
Segment result	3,918	4,173	188		8,279
Unallocated expenses net of unallocated revenue					(1,965)
Profit before income tax					6,314
Income tax benefit/(expense)					(1,337)
Profit after income tax					4,977
Segment assets	134,772	76,317	6,605	(51,414)	166,280
Segment liabilities	53,228	39,987	10,828	(52,243)	51,800

2021

	AUSTRALIA & NEW ZEALAND 31/12/2021 \$000	ASIA 31/12/2021 \$000	NORTH AMERICA &EUROPE 31/12/2021 \$000	ELIMINATION 31/12/2021 \$000	CONSOLIDATED GROUP 31/12/2021 \$000
Revenue					
Sales to customers outside the economic entity	47,222	5,100	9,413		61,735
Intersegment sales	729	19,580	336	(20,645)	-
Unallocated revenue					
Total revenue	47,951	24,680	9,749	(20,645)	61,735
Segment result	6,167	1,733	(336)		7,564
Unallocated expenses net of unallocated revenue					(2,030)
Profit before income tax					5,534
Income tax benefit/(expense)					(1,475)
Profit after income tax					4,059
Segment assets	128,513	58,522	17,928	(49,842)	155,121
Segment liabilities	48,332	28,069	24,750	(50,652)	50,499

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2022

ANNEXURE C

REVIEW OF OPERATIONS

REVENUE AND PROFITABILITY

For the six months ended 31 December 2022 (Half-year), the Group reported a Net Profit After Tax of \$4.977 million (Previous Corresponding Period, or PCP \$4.059 million) and Earnings Before Interest & Tax (EBIT) of \$6.495 million (PCP \$5.635 million).

Total Revenue was \$70.428 million (PCP \$63.765 million).

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	Dec 2022	Dec 2021	% Change
	(\$000)	(\$000)	
Australia and New Zealand	2,101	4,320	-51%
Asia	4,229	1,625	+160%
North America and Europe	165	(310)	+153%
Consolidated Reported EBIT	6,495	5,635	+15%

AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ) the 51% drop in EBIT was on the back of higher cost of sales due to weakness in exchange rate and abnormally high import freight costs compared to the PCP. These factors reduced trading margins significantly. Towards the end of the second half, the exchange rate has strengthened and import freight costs have started to come down. These higher freight costs that have impacted margins adversely in the first half will also have some impact on the second half. Sales in this division increased by 3.4% despite the fact that both local and overseas travel had returned to normal and expenditure on home refurbishments had dropped off compared to the previous few years.

ASIA

In Asia, The sector recorded a 160% increase in EBIT compared to the PCP brought about by a 66% increase in Malaysia's external sales. Trading in Malaysia returned to normal in the current half year compared to the previous corresponding half which was impacted by the Covid-19 Pandemic Restrictions. Sales in China still impacted by the Covid-19 Pandemic Restrictions, managed a single digit increase compared to the PCP.

NORTH AMERICA AND EUROPE

In Northern America and Europe – namely Canada, the USA and Europe recorded a turnaround in EBIT during the current half year – External sales in USA experienced an increase of 43% during the current period while Waterco Europe recording a 2% drop only despite the fact that the number of pool constructions in FY23 had fallen as predicted.

Some of the European sales meant to be fulfilled by Christmas had to be postponed to the second half year due to over-stocking by our distributors.

In Europe, Waterco Europe saw an increase in Gross Margins of 12% as the company managed to pass on some of the increases in component costs and import shipping costs of stock purchase in the last quarter of FY22.

This was despite it recording a slight decrease in sales compared to the PCP.

In USA, Gross Margins fell but the fall was offset by the 43% increase in sales resulting in 15% increase in overall Gross Profit compared to the PCP. In addition, a new policy on charging freight resulted in net freight costs falling by 76% compared to the PCP.

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 \$1,105m (pcp \$0.76 million) on research and development, which was fully expensed. This increase reflects the return to the normal research and development program which was disrupted by the Covid 19 Panademic Lockdowns especially in Malaysian in the PCP. 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.

WORKING CAPITAL

	Dec 2022 (\$000)	Dec 2021 (\$000)
Inventory	56,976	43,563
Debtors	21,429	19,461
Creditors	(18,484)	(19,745)
TOTAL	59,921	43,279

The group's working capital as at December 2022 saw an increase of \$16.642 million, which resulted from an increase in inventory and debtors and decrease in creditors.

DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 5 cents per share payable on 15 June 2023.

This Half-year has been a challenging one, with the building industry downturn in China, China's ongoing trade issues with Australia and the continuing effects of the Covid-19 Pandemic in China.

The Australian Dollar has also fluctuated significantly against the US Dollar.

The Board expects the second half-year to be more settled as the Australian Dollar stabilizes, China's ongoing trade issues with Australia are resolved and the Covid 19 Pandemic in China comes under control

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2022

ANNEXURE D Income Tax Expense

	Consolidated Group	
	31/12/2022	31/12/2021
	\$000	\$000
The prima facie tax on profit before income tax is reconciled to the income tax as follows:		
Profit before income tax	6,314	5,534
Prima facie tax payable on profit before income tax at 30% (2021: 30%)	1,894	1,660
Add		
Tax effect of:		
• Depreciation of buildings	58	61
• Foreign controlled entities tax losses not tax effected	60	121
• Unrealised foreign exchange losses	-	-
• ROU assets	-	70
• Non deductible expenses	-	-
• Other	19	5
Less		
Tax effect of:		
• Research and development	66	-
• ROU assets	54	-
• Effects of lower rates in overseas countries	355	119
• Unrealised foreign exchange gains	61	27
• Exempt income	-	-
• Overprovision for tax in prior years	158	55
• Reinvestment allowance	-	241
• Foreign controlled entities tax losses not tax effected	-	-
• Other	-	-
Income tax expense attributable to entity	1,337	1,475
The applicable weighted average effective tax rates are as follows:	21%	27%