



# Half-Year Report

for the six months ended 31st December 2013

## Review Of Operations

For the six months ended 31 December 2013 (this Half-year) Waterco Limited reported a Net Profit After Tax of \$2.10 million. This compares with a reported Net Profit After Tax of \$1.70 million for the previous corresponding period (PCP).

Earnings Before Interest & Tax for this Half-year were \$3.87 million (PCP \$3.38 million).

Total Revenue was \$41.42 million (PCP \$37.87 million).

Detailed below is a breakdown of the sales revenue contribution for this Half-year compared with the PCP:

	Dec 2013 (\$000)	Dec 2012 (\$000)	% Change
Australia and New Zealand	30,428	29,369	+ 3.6%
Asia	5,390	3,389	+ 59.0%
North America and Europe	5,227	4,893	+ 6.8%
<b>Sales revenue</b>	<b>41,045</b>	<b>37,651</b>	<b>+ 9.0%</b>
Other revenue	380	221	+71.9%
<b>Total</b>	<b>41,425</b>	<b>37,872</b>	<b>+ 9.4%</b>

Sales in Australia and New Zealand registered strong growth in the first quarter, though they flattened out in the second quarter, compared to PCP, enabling this Half-year to record a decent increase of 3.6%.

Sales in Asia increased mainly with performance in China returning to expectations, as a result of a recovery in the property sector.

In the United States, sales were flat in this Half-year. However, orders to be fulfilled in the second half-year have since built up to a reasonable level. Notably, new business from GE Waters for filters suitable for water treatment will contribute to this recovery. We expect that our presence in the water

treatment industry will be a significant contributor to this entity's return to profitability in the long run. Canada and Europe showed signs of recovery and we hope to see this continue in the second half-year before we conclude that the recovery can be sustained.

## Divisional EBIT Performance

Detailed below is a breakdown of EBIT contributions by Division for the half-year ended 31 December 2013:

	Dec 2013 (\$000)	Dec 2012 (\$000)	% Change
Australia and New Zealand	2,822	4,128	- 31.6%
Asia	2,589	685	+ 278.0%
North America and Europe	(1,540)	(1,429)	-7.8%
<b>Consolidated Reported EBIT</b>	<b>3,871</b>	<b>3,384</b>	<b>+ 14.4%</b>

## Australia And New Zealand

As expected, profitability decreased, in line with a continued competitive business environment, as well as higher cost of goods, resulting from a weaker Australian Dollar (AUD). A slow-down in government spending saw a reduction in the number of projects requiring our commercial filters.

With a long-term view in mind, this Division has also introduced a new ERP system during this Half-year, with the resultant implementation costs expensed.

## Asia

Waterco Far East (WFE) consolidated its position as the Group's principal manufacturing facility for pumps and filters for both the commercial and the residential sectors, supplying all major overseas divisions, including Australia. WFE has commenced production of heat pumps, with

technology transferred from Waterco Canada and Waterco USA to meet demand in Europe and Australia for the next season. In addition to being in a more central geographical location, WFE also offers the Group benefits from economies of scale and favourable labour cost. Local sales of this entity improved significantly, compared with PCP.

## **North America And Europe**

This Division reported an EBIT loss for the six months of \$1.54 million, or an increase of 7.8% on the PCP. The main business season for this Division is in the second half of the financial year. Trading conditions in the US remained tough, though we do see prospects of an improvement in the water-treatment sector.

Commercial filters are currently being made in Augusta, Georgia, with the largest filter made being eighty-eight inches in diameter. The availability of a range of large filters made in Waterco's factory in the United States has been received positively and should improve Waterco's position as a supplier to the local market. There are plans to widen the filter range in Augusta in the near future.

There had hardly been any change in the trading conditions in Europe during this Half-year. As the business environment in the Euro-Zone was still weak, margins continued to come under pressure. The Group, through its UK entity, has set up a warehousing facility and a sales team in France, sustaining an increase in the operation expenses of this region. The Group expects that this strategic move will see an initial weak performance for a few years before a gradual improvement in the future as the business becomes more established. Waterco France will be trading on a lower level of overheads with support from our UK entity and will likely improve its financial position compared to PCP.

Of the entities in this region, the seasonality of the business in Canada is the most pronounced, with profit margins skewed markedly in favour of the second half of the financial year. Assembly of heat pumps had been transferred to Augusta, Georgia, consolidating the manufacturing activities in North America into a single site. Losses in Canada are expected to be curbed this financial year, with a much lower level of overheads.

### Product Development & Water Treatment

In this Half-year, Waterco invested approximately \$0.48 million on research & development, which was fully expensed. The Group continues to believe that a strong company culture of delivering to its customers innovative, durable and energy-efficient products is an important strategic measure. Several new products introduced in recent times have had satisfactory success.

Several new patents had been lodged in Australia with some patents pending overseas registration. In addition to patents in the development of water filtration products, an area which Waterco had specialized in, over the years, there were, notably, several patents in a chlorine-free system of sanitization which uses ozone and hydrogen peroxide as an alternative to the traditional methods of using chlorine in various forms. This chlorine-free system extends the Group’s efforts in producing environmentally-friendly products and is expected to achieve significant sales, initially in Australia, and subsequently globally.

### Working Capital

	Dec 2013 (\$000)	Dec 2012 (\$000)
Inventory	36,161	28,365
Debtors	15,671	15,192
Creditors	(17,577)	(14,138)
<b>TOTAL</b>	<b>34,255</b>	<b>29,419</b>

The group's working capital position as at December 2013 had increased by \$4.84 million, mainly attributable to increased inventory and other debtors, compared with the PCP.

## **Dividend**

Based on this Half-year result, Waterco Limited's directors are pleased to declare a fully-franked interim dividend of 3 cents per share (last year 3 cents), payable on 16 June 2014 to shareholders on our register as at 9 May 2014.

## **Outlook**

The board of Waterco considers this half-year's results as encouraging, despite some easing off in the second quarter.

The next half-year will be more dependent on the performance of North America and Europe. Sales in the USA, particularly in commercial filters, continue to look promising. In Canada, sales are expected to recover and provide an improved financial result.

## **Performance Summary**

- Net profit after tax (NPAT) of \$2.10m, compared with \$1.70m in the previous corresponding period
- Earnings before interest and tax (EBIT) was \$3.87m compared with the previous corresponding period of \$3.38m.
- An interim dividend of 3 cents per share (PCP - 3 cents).

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

(extracted from the Financial Report for the Half Year)

For the Half-Year ended 31 December 2013

	2013 \$M	2012 \$M
Profit/(loss) before income tax	3.165	2.674
Income tax expense	(1.063)	(0.974)
Net profit/(loss) after income tax	2.102	1.700
Non-controlling interest	(0.040)	(0.041)
Net profit/(loss) attributable to members of the parent entity	2.062	1.659
Basic earnings per share (cents)	6.0	4.9
Diluted earnings per share (cents)	6.0	4.9

## Condensed Consolidated Statement of Financial Position

(extracted from the Financial Report for the Half Year)

At 31 December 2013

	2013 \$M	2012 \$M
Current assets	55.313	47.071
Non-current assets	41.406	37.889
Total Assets	96.719	84.960
Current liabilities	22.853	20.054
Non-current liabilities	25.489	21.718
Total liabilities	48.342	41.772
Net assets	48.377	43.188
Issued capital	36.785	36.078
Reserves	(0.511)	(5.295)
Retained profits	11.740	12.087
Parent entity interest	48.014	42.870
Non-controlling interest	0.363	0.318
Total equity	48.377	43.188



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