WATERCO LIMITED
A.B.N. 62 002 070 733
36 SOUTH ST RYDALMERE NSW 2116 AUSTRALIA
Tel: (612) 9898 8600
Fax: (612) 9898 1877
www.waterco.com

WATERCO LIMITED

Half Yearly Report for the Period Ended 31st December 2021

For announcement to the market

				$A'000
Revenues	down	0.8%	to	63,765
Profit (loss) after tax attributable to members	down	60.8%	to	4,106

Dividends	Amount per security	Franked amount per security
Interim dividend	3¢	3¢
Previous corresponding period	3¢	3¢
Date for determining entitlements to the dividend	5th May 2022	

This half yearly report is to be read in conjunction with the 30th June 2021 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	63,765	64,259
Expenses		
Borrowing costs	(113)	(227)
Other expenses	(58,118)	(56,957)
Profit (loss) before tax	**5,534**	**7,075**
Income tax benefit/(expense)	(1,475)	3,381
Profit (loss) after tax	**4,059**	**10,456**
Net profit (loss) attributable to non controlling interests	(47)	(28)
Net profit (loss) for the period attributable to members	**4,106**	**10,484**
Other Comprehensive income		
Net exchange differences recognised in equity	1,570	(2,541)
Property Revaluation increment/(decrement)	261	(565)
Other comprehensive income for the period	1,831	(3,106)
Total comprehensive income/(loss) attributable to members of the parent entity	5,937	7,378

Earnings per security (EPS)

Basic EPS	11.5c	29.2c
Diluted EPS	11.5c	29.2c

Calculation of Earnings per security (EPS)

	Current Period *$A'000*	Previous corresponding *Period $A'000*
Net Profit/(Loss)	4,059	10,456
Net Profit/(Loss) attributable to non-controlling interests	(47)	(28)
Earnings used in calculation of basic EPS	4,106	10,484
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	35,721	35,943

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	4,059	10,456
Less (plus) non-controlling interests	(47)	(28)
Profit (loss) after tax, attributable to members	**4,106**	**10,484**

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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	45,842	35,234
Net profit (loss) attributable to members	4,106	10,484
Dividends and other equity distributions paid or payable	(1,426)	(1,074)
Retained profits (accumulated losses) at end of financial period	**48,522**	**44,644**

Intangibles-Impairment/Amortisation

	Consolidated - current period			
	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	52	--	--	52
Amortisation of other intangibles	--	--	--	--
Total Impairment/ amortisation of intangibles	52	--	--	52

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	12,554	11,694	12,631
Receivables	19,461	13,719	19,117
Inventories	43,563	34,716	36,500
Other	681	1,022	1,383
Total current assets	76,259	61,151	69,631
Non-current assets			
Property, plant and equipment (net)	59,498	58,822	49,929
Right of use assets	16,479	12,883	12,131
Intangibles (net)	1,148	1,200	1,202
Deferred Tax assets	1,737	1,364	578
Total non-current assets	78,862	74,269	63,840
Total assets	155,121	135,420	133,471
Current liabilities			
Payables	19,745	11,487	20,407
Interest bearing liabilities	2,242	257	263
Right of use liabilities	4,541	4,797	4,348
Current tax liabilities	1,658	982	911
Provisions exc. tax liabilities	4,865	3,868	3,156
Total current liabilities	33,051	21,391	29,085
Non-current liabilities			
Interest bearing liabilities	837	914	1,106
Right of use liabilities	11,957	8,108	8,041
Deferred tax liabilities	4,428	4,347	1,637
Provisions exc. tax liabilities	226	212	225
Total non-current liabilities	17,448	13,581	11,009
Total liabilities	50,499	34,972	40,094
Net assets	104,622	100,448	93,377
Equity			
Issued capital	35,299	35,590	35,821
Reserves	20,274	18,442	12,306
Retained profits	48,522	45,842	44,644
Parent entity interest	104,095	99,874	92,771
Non-controlling interest	527	574	606
Total equity	104,622	100,448	93,377

Consolidated cash flow statement

	Current period $A'000	Previous corresponding period $A'000
Cash flows related to operating activities		
Receipts from customers	60,899	56,566
Payments to suppliers and employees	(58,014)	(53,980)
Other Income	12	2,843
Interest received	517	16
Interest and other costs of finance paid	(113)	(227)
Income taxes refund/paid	(1,091)	(874)
Net operating cash flows	2,210	4,344
Cash flows related to investing activities		
Payment for purchases of property, plant and equipment	(1,959)	(376)
Proceeds from sale of property, plant and equipment	65	72
Proceeds from sale of business	(520)	27,402
Payment for business	-	(1,426)
Payment for intangibles	-	-
Dividends received	1	1
Net investing cash flows	(2,413)	25,673
Cash flows related to financing activities		
Proceeds from issues of shares		
Share buyback	(291)	(160)
Proceeds from borrowings	2,005	-
Repayment of borrowings	(97)	(19,598)
Payment of Rou Liabilities	(1,071)	(2,394)
Dividends paid	(1,426)	(1,074)
Net financing cash flows	(880)	(23,226)
Net increase (decrease) in cash held	(1,083)	6,791
Cash at beginning of period *(see Reconciliation of cash)*	11,694	8,312
Exchange rate adjustments	1,943	(2,472)
Cash at end of period *(see Reconciliation of cash)*	12,554	12,631

Non-cash financing and investing activities: During the period, the economic entity acquired a)plant and equipment amounting to $nil (2020 $64,351) by means of finance leases.
b)ROU Property Assets amounting to $6,164,848 (2020 $65,492) 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	12,554	12,631
Bank overdraft	-	-
Other (commercial bills)		
Total cash at end of period	**12,554**	**12,631**

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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	8.7%	11.0%
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	3.94%	11.3%

NTA Per Share

	Current period	Previous corresponding Period
Net tangible asset backing per ordinary security	$2.90	$2.58

Dividends

Date shares trade ex-dividend	4th May 2022
Record date to determine entitlements to the dividend	5th May 2022
Date the dividend is payable	15th June 2022

Amount per security

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
	Interim dividend: Current year	3¢	3¢	¢
	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	35,622,022	35,622,022		
Changes during current period (a)Increases through issues Waterco DRP (b) Decreases through returns of capital, buybacks	93,226	93,226	$3.1199	$3.1199

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 2001and 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 2022

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 2021

ANNEXURE A

REVENUE AND EXPENSES

	Consolidated Group	
	31/12/2021 $000	31/12/2020 $000
Sales revenue	61,735	61,400
Other revenue	2,030	2,859
Changes in inventories of finished goods and work in progress	(9,503)	(3,075)
Raw Materials and consumables used	(21,409)	(28,229)
Employee benefits expense	(13,554)	(12,629)
Depreciation and amortisation expense	(3,287)	(3,594)
Finance costs	(113)	(227)
Advertising expense	(1,176)	(1,007)
Discounts allowed	(222)	(212)
Outward freight expense	(1, 508)	(1,183)
Rent expense	(518)	(592)
Research and development	(756)	(817)
Insurance General	(670)	(578)
Contracted staff expense	(203)	(126)
Warranty expense	(219)	(300)
Commission expense	(155)	(248)
Other expenses	(4,938)	(4,367)
Profit before income tax	**5,534**	**7,075**
Income tax benefit/(expense)	(1,475)	3,381
Profit for the period	4,059	10,456
Other comprehensive income		
Items that will not be classified subsequently to profit or loss		
Property revaluation increment/(decrement) (net of tax and reversals)	261	(565)
Items that maybe reclassified to profit or loss		
Exchange differences on translation of foreign controlled entities	1,570	(2,541)
Other comprehensive income for the period	1,831	(3,106)
Total comprehensive income for the period	5,890	7,350
Profit attributable to:		
Members of the parent entity	4,106	10,484
Non-controlling interest	(47)	(28)
	4,059	10,456

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WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2021

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

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

2020

	AUSTRALIA & NEW ZEALAND 31/12/2020 $000	ASIA 31/12/2020 $000	NORTH AMERICA &EUROPE 31/12/2020 $000	ELIMINATION 31/12/2020 $000	CONSOLIDATED GROUP 31/12/2020 $000
Revenue					
Sales to customers outside the economic entity	43,960	6,546	10,894		61,400
Intersegment sales	596	16,981	248	(17,825)	
Unallocated revenue					
Total revenue	44,556	23,527	11,142	(17,825)	61,400
Segment result	4,836	2,683	2,415		9,934
Unallocated expenses net of unallocated revenue					(2,859)
Profit before income tax					7,075
Income tax benefit/(expense)					3,381
Profit after income tax					10,456
Segment assets	105,962	50,170	16,943	(39,604)	133,471
Segment liabilities	34,728	22,648	24,693	(41,975)	40,094

WATERCO LIMITED AND CONTROLLED ENTITIES

Half Yearly Report for the Period Ended 31st December 2021

ANNEXURE C

REVIEW OF OPERATIONS

REVENUE AND PROFITABILITY

For the six months ended 31 December 2021 (Half-year), the Group reported a Net Profit After Tax of $4.059 million (Previous Corresponding Period, or PCP $10.456 million) and Earnings Before Interest & Tax (EBIT) of $5.635 million (PCP $7.286 million).
Total Revenue was $63.765 million (PCP $64.26 million).

DIVISIONAL EBIT PERFORMANCE

The breakdown of EBIT contribution by division is as follows:

	Dec 2021	Dec 2020	% Change
	($000)	($000)	
Australia and New Zealand	4,320	2,822	+53%
Asia	1,625	2,488	-35%
North America and Europe	(310)	1,976	-116%
Consolidated Reported EBIT	5,635	7,286	-23%

AUSTRALIA AND NEW ZEALAND (ANZ)

In Australia and New Zealand (ANZ) the 53% improvement in EBIT was on the back of an increase in sales on the PCP. This is despite trading margins thinning due to unexpected increase in landed cost due to huge uplift in sea freight and some significant increase in component costs which we are unable to pass on to the market.
Sales increased by 7.4% compared to the PCP reflecting
i)the contribution from the Autopool Acquisition to the business for a full half year, and
ii)general restriction on travel for most of the half year as consumers unable to travel due to Covid 19 continued to spend their travel money on home improvements including new pools and updating existing pools and
iii) the carrying of higher stock levels to cater for expected new customers unable to purchase pool equipment from other suppliers due to industry shortages and shipping delays.

ASIA

In Asia, a 35% reduction in EBIT compared to the PCP was brought about by a 22% reduction in external sales, arising mainly from project delays and a drop in sales of equipment for commercial pools, during the Covid-19 Pandemic.
The bulk of the reduction was in Malaysia which saw a 26% drop in local sales compared to the PCP.
Similarly,China saw a drop of 46% in local sales compared to the PCP, due to project delays and a drop in sales during the Covid-19 Pandemic
In Waterco Far East, the level of manufacturing operations in Asia showed a 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 recorded a significant drop in EBIT for the current period – sales fell during the current period with Waterco Europe recording a 21% drop whereas Waterco USA experienced a 2% drop .
The easing of restrictions in both countries (earlier than Australia) meant the boom in sales (brought about by expenditure on home improvements) in the PCP did not repeat itself in the current period. The loss in Sales was also due to non-availability of stock caused by shortage of container space from Asia to North America and Europe. Some of the sales meant to be fulfilled by Christmas had to be postponed to the Second Half Year especially in Europe.

In Europe, Waterco Europe saw a drop in Gross Margins of 8% as the company tried to absorb the increased cost of product brought about by a general increase in component costs and huge increase in shipping costs.
Added to this was a forex turnaround from a gain in the PCP to a loss in the current period
In USA, Gross Margins also fell but only by 4% due to increased cost of product. In addition, a Government Covid Business Subsidy in the PCP was not repeated in the current year. The company also saw a 141% increase in outward freight expenses and forex turnaround from a profit to a loss thus putting the entity in a loss situation.

The main business season for this Division is in the second half of the financial year.The Group remains cautiously optimistic that this Division will make up some of the ground it lost in the first half.

PRODUCT DEVELOPMENT AND WATER TREATMENT

In this Half-year, Waterco invested approximately $0.76 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.

WORKING CAPITAL

	Dec 2021 ($000)	Dec 2020 ($000)
Inventory	43,563	36,500
Debtors	19,461	19,117
Creditors	(19,745)	(20,407)
TOTAL	**43,279**	**35,210**

The group's working capital as at December 2021 saw an increase of $8.069 million, which resulted from an increase in inventory and debtors and decrease in creditors.

EARNINGS PER SHARE

The Earnings used in calculating the basic earnings per share of 29.2c in the previous corresponding period had included a positive tax adjustment of $4.985m related to the profit on sale of Waterco C in the prior financial year. If we exclude the positive tax adjustment of $4.985m from Earnings, the Adjusted Earnings for PCP would be $5.499m and adjusted basic earnings per share would be 15.3c

Earnings per Share	Dec 2021 ($000)	Dec 2020 ($000)
Earnings used in calculation of basic EPS	4,106	10,484
Weighted average number of ordinary shares	35,721	35,943
Basic earnings per share	11.5c	29.2c
Earnings used in calculation of basic EPS	4,106	10,484
Income tax adjustment related to sale of Waterco C in prior year	-	4,985
Adjusted Earnings used in calculation of basic EPS (before tax adjustment)	4,106	5,499
Adjusted basic EPS	11.5c	15.3c

DIVIDEND AND OUTLOOK

Based on this Half-year result, the Board declares a fully-franked interim dividend of 3 cents per share payable on 15 June 2022.

This Half-year has been a challenging one, with the building industry downturn in China , China's ongoing trade issues with Australia and the USA, political instability in Malaysia and the continuing effects of the Covid-19 Pandemic especially on North America, Europe and Asia. The Australian Dollar has also fluctuated significantly against the US Dollar.

The Board expects the second half-year to be more settled as overseas borders begin to open and the Covid-19 vaccines number move above 90%