

SPOUTS of Water

2016 Annual Report

SPOUTS of Water

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*Taken while attending the
Resource Awards in
Switzerland*

A NOTE FROM OUR FOUNDERS

2016 was a transformational year for SPOUTS. When it began, SPOUTS was still a small startup without support staff, strong partner networks, or a physical office. Today, SPOUTS has over 40 staff members, several

long-term funding and retail partners, a Kampala headquarters, and nation-wide sales presence.

This growth has brought on tremendous opportunities. In 2016, we passed over 5,000 in filter sales in a twelve month period while adding 162 new sales partners and surpassing 200 retail locations across all 4 regions in Uganda. We did this while simultaneously investing in strategy and growth efforts such as launching our marketing, impact assessment, and fundraising arms and building a new factory to meet the growing demand for our filters.

A core part of the Purifaaya's success is its simplicity, and in 2015 we focused on doing one product well. Although we remain committed to keeping a minimal product portfolio, market research in 2016 showed the need for a larger filter model that could be used in schools and other public settings. The Purifaaya XL, suitable for up to 50 people at a time, has been a popular addition and shows the value of further innovation.

Our success would not have been possible without the dedication of our team, which brings together great talent from outside and within Uganda. 2016 not only grew our team size but also changed how we think about SPOUTS' responsibility to its employees. We invested in our staff through introducing health insurance, formal mentorship and education

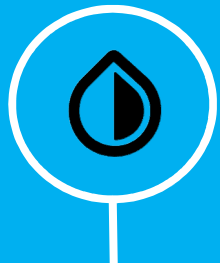
programs, and ongoing staff welfare initiatives.

Finally, none of the efforts within SPOUTS would be successful without the support of our partners. To all who have supported us through encouragement, mentorship, skills-sharing, and funding – thank you. It is because of you that SPOUTS has been able to transform so rapidly and reach so many in only its second year of filter sales. We can't wait to see what we'll achieve together in 2017.

*Kathy Ku and John Kye
Co-Founders, SPOUTS of Water*



2016 RESULTS



5,713
filters sold



3,903
commercial sales



1,810
aid installations



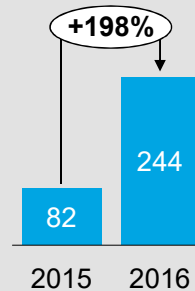
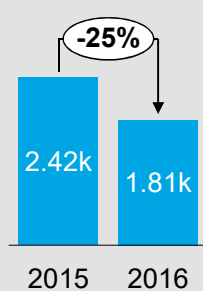
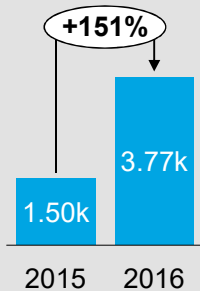
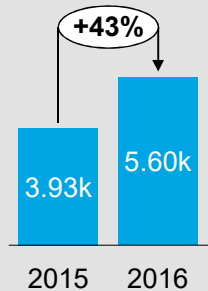
244
partners



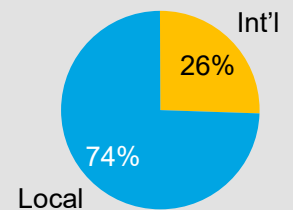
12,000 tons
CO₂ reduction



31
local staff



*Equivalent to the
exhaust from
driving 26M miles*



*We've **increased the proportion of our sales direct to Ugandan households and local retailers** vs. aid institutions*

*We operate in **over 200 communities** across Uganda*

*Our local staff include **4 in management roles***

Note: Purifaaya XL filters counted as 2.5 filters in 2016 total filter counts



FILTER SALES IN 2016

SPOUTS significantly increased the total filters installed to 5.7K in 2016 from 3.9K in 2015. Filter sales included 180 Purifaaya XL sales. The new Purifaaya XL line was piloted in 2016; these larger filters can serve 50 individuals at a time and come with a stand to allow them to be set up in public spaces. The remaining filter sales were for household filters that serve an average of 4 – 5 Ugandans per home. In total, SPOUTS estimates that ~35k Ugandans began using a Purifaaya filter in 2016.





STRENGTHENING EXISTING PARTNERSHIPS

2016 saw a major increase in the total commercial sales made to households across Uganda, from 1.5k filter sales in 2015 to 3.8k filter sales in 2016. This increase was driven by several factors. First, SPOUTS deepened relationships with trusted existing partners, such as Living Goods, which increased its total orders to 467 filters in 2016 vs. 100 filters in 2015. On average, commercial partners from 2015 not only maintained their purchase orders from 2015 but also increased by an average of 14 extra filters purchased in 2016, with over 20% of commercial partners from 2015 increasing their order size in 2016 by over 50 filters.

Strong repeat order trends help to ensure that SPOUTS will continue to have a sustainable, recurring pipeline of orders from core partners.

BUILDING NEW SALES PARTNERSHIPS

In addition to strengthening sales from existing partners, several new partnerships were formed in 2016. The largest new partnership was with BRAC, a multi-national organization with a broad reach across Uganda. By partnering with BRAC, SPOUTS is now able to supply filters to 135 communities through BRAC storefronts. In 2016, 321 filters were sold through BRAC.

In addition to BRAC, another strategic partnership formed in 2016 was with FINCA, a microfinance institution that could provide access in Kampala. 163 filters were sold through FINCA in 2016. Within Kampala, other new partnerships with local grocery stores such as Capital Shoppers Ltd. make it easy for potential customers to find and test out the Purifaaya through display units.



*Waterborne illnesses are **the leading cause of death** for Ugandan children under the age of 5. While AIDS and malaria have seen steady decreases in mortality rates, **deaths from waterborne illness in Uganda have remained steady***

INCREASING AWARENESS

Filters for Schools



Paul Matovu runs SPOUTS' Filters for Schools program, which not only installs filters in schools but also provides resources for teaching awareness of water issues to the next generation of Ugandans

AID FILTER INSTALLATIONS

Although SPOUTS believes that sustainability comes from enabling Ugandan households to purchase filters, rather than relying on aid, several communities cannot easily access the funds to purchase filters. SPOUTS is especially invested in reaching refugees and schools to provide water to children and families when they are unable to easily seek alternative water sources.

In 2016, SPOUTS installed over 300 filters in schools, with each filter reaching 20-50 students. In addition, SPOUTS worked to create a partnership with several school networks to ensure expanded reach in future years by continuing to install filters in-network.

The other major arm of SPOUTS' aid work is refugee camp installations. SPOUTS estimates that over 2,000 refugees in Uganda began using SPOUTS' filters in 2016.



SUPPORTING PARTNERS AND BUILDING LASTING RELATIONSHIPS

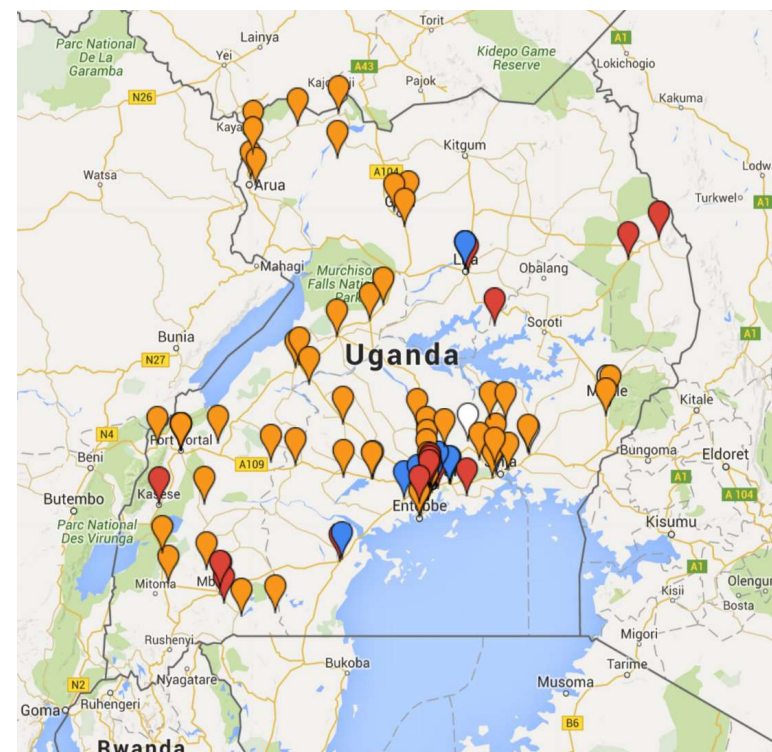
In 2016, SPOUTS created a marketing team and underwent a formal marketing consulting project to understand how to best position the Purifaaya in the market and how to best equip partners to succeed in selling it. SPOUTS then went on to transfer these learnings to partners through materials, trainings, and ongoing communications.

Additionally, SPOUTS sought out strategic partnerships with organizations that already had a history of mentorship and training. For example, the SACCO UCSCU organization, an umbrella organization that supports SACCOS nationwide, agreed to a partnership with SPOUTS that would allow SPOUTS representatives to join UCSCU meetings and provide training to members interested in joining the SPOUTS network.

NATIONWIDE RETAIL PRESENCE

SPOUTS expanded to new areas of the country through new partnerships developed in 2016. Key to this expansion was the relationship built with BRAC, which enabled access to all 135 branches nationwide and made it possible for many more Ugandans to purchase filters within 40 miles of their home.

In addition, SPOUTS focused on building up a strong network of SACCO partners in both the East and West regions of the country on the premise that SACCOS can more easily persuade and reach households that are good targets for the Purifaaya. Although the SACCO strategy is still in early stages, SPOUTS has seen high rates of return orders.



ENVIRONMENTAL IMPACT

A major driver for the business model of SPOUTS is the desire to offer a clean water solution within Uganda that does not rely on importing in materials or using fuel burning practices such as boiling water with charcoal or electricity.

SPOUTS began the process of formally tracking carbon reduction in 2016 by researching and reaching out to potential partners to qualify for carbon credits. This process will continue into 2017 but provided SPOUTS with a strong understanding over the past year of the environmental impact estimates for using ceramic water filters.

In addition to carbon credits, SPOUTS continued other ongoing efforts to reduce waste, such as recycling broken filters into bricks to build structures at the new factory site, and improved firing processes in the kilns to reduce firewood needed to complete an order.

UNDERSTANDING SPOUTS' OVERALL IMPACT

SPOUTS conducted its first impact assessment in 2016 to understand the economic, health, environmental, and social benefits of using a ceramic water filter to access clean water. Although the benefits of ceramic water filters are well documented in the abstract, no other organization had undertaken a study within Uganda.

The full findings of this study are available in our Impact Assessment report for 2016. Although this was only a preliminary study with ~200 households, initial findings show strong positive effects for the families using Purifaaya filters.





EMPLOYING LOCAL TALENT

SPOUTS significantly grew its number of staff in 2016. This growth was on the headquarters side of the organization, where new talent was brought in to grow our sales presence, oversee our marketing, and support operations. Of these new staff, 7 were local hires, including 3 in management roles.

Additionally, SPOUTS hired several part time sales associates and partnered with retail partners to provide training and support to their staff. SPOUTS also brought in expertise on the local market through a consulting engagement with Fireworks Advertising and through a pilot impact assessment with Ignosi Research, both locally managed firms.



INVESTING IN STAFF WELFARE

In 2016, SPOUTS invested in additional benefits for staff. Chief among these was health insurance, which is now offered to all employees. SPOUTS also introduced a new education payment program which provides partial payment for education expenses related to acquiring skills relevant to an employee's role at SPOUTS.

In addition to these new benefits, several new processes were put in place to formalize training and feedback. This has enabled SPOUTS to monitor performance and improve productivity at both the factory and headquarters.

PATH FORWARD

1

EXPAND PRODUCTION

SPOUTS will open a new factory in Q1 2017 that will have the capacity to expand to producing 8x the number of filters possible at the curry factory. As part of this move, SPOUTS is also upgrading equipment and streamlining the filter production process.

2

INVEST IN IMPACT

The smaller scale impact assessment of 2016 will be built upon to launch a larger scale series of impact studies overseen by formal researchers from the US and Uganda.

3

EXPAND AID INSTALLATIONS

Although the focus remains on commercial sales, SPOUTS will be launching a formal NGO to help grow aid installations alongside commercial sales. This will be tied to increased efforts to fundraise.

4

BUILD A BROADER COMMERCIAL NETWORK

SPOUTS is investing heavily in identifying and building up new partners from potential retail channels. SACCOS will receive increased attention in 2017 to test whether this channel can be an innovative path to reaching more rural communities in Uganda.



CURRENT PROGRESS ON NEW FACTORY SITE

The new factory site has been under construction throughout 2016 and will officially open in Q1 2017. This new factory site is also located in central Uganda but is eight times the size of the current factory, which was previously a chicken farm and was never built to specification for water filter manufacturing. The new factory site includes an open floorplan designed to optimize the process flow for production.

Additionally, the new factory site includes greenhouses for more efficient drying of filters, a large storage space for multiple years of clay, on-site housing for some factory workers, and management offices overseeing the factory floor to allow for better real-time monitoring.

When the new factory opens, the majority of existing factory workers will move to the new production site given its proximity to the previous location.

SPOUTS FINANCIAL REPORT

INCOME

In 2016, SPOUTS had revenues for ~630M Ugandan shillings, or \$100,000. This was a 70% increase over our 2015 revenues. SPOUTS' growth included a 15% increase in revenues from our filter sales and a significant (\$66,000) increase in grant revenue in 2016 due to larger partnerships.

Our increased sales income is not in line with the 43% increase in filter sales, but this is primarily due to a conscious shift in sales mix. In 2015, the majority of SPOUTS' sales were through aid channels. These channels tend to pay higher prices for filters than local retailers who take a portion of the profit from the final sale price of the Purifaaya filter for themselves as an intermediary. Although aid sales are more lucrative in the short term, they are a less sustainable model and SPOUTS' focus for 2016 was on building up a strong local sales network that purchases filters on a recurring basis.

Our grants income increased due to several new partnerships, the largest of which was an agreement for funding from USAID DIV. Grant money from USAID will continue to be disbursed over 2017.

COSTS

Costs of goods sold reduced slightly as production costs per filter decreased, although part of this decrease was offset by increases in repairs and maintenance as production equipment aged. Significant investment in improving production processes was not prioritized in 2016 as the current factory will be closed and transitioned to a new factory site in Q1 2017.

Several additional operating expenses were incurred in 2016 as SPOUTS invested in growth to scale up operations. This included increased production staff and welfare (including the introduction of health care for employees). Other areas of major investment included marketing, securing a formal office space for headquarters, and paying various professional fees to formalize business processes.

NET INCOME

Overall, SPOUS remained profitable in 2016, though with only a small gap between costs and income. This was in line with the 2016 strategy to fund gaps in sales revenue income and invest additional funding directly into growth. Looking forward, SPOUTS aims to become profitable within 2 years by increasing the volume of filters sold to offset our operational expenses as an organization.

SPOUTS of Water-TechSoup

PROFIT AND LOSS
January - December 2016

	TOTAL
▶ INCOME	Ush627,749,027.41
▶ COST OF GOODS SOLD	Ush335,693,481.60
GROSS PROFIT	Ush292,055,545.81
▶ EXPENSES	Ush290,106,510.19
NET OPERATING INCOME	Ush1,949,035.62
▶ OTHER INCOME	Ush2,559,638.98
▶ OTHER EXPENSES	Ush1,129,830.45
NET OTHER INCOME	Ush1,429,808.53
NET INCOME	Ush3,378,844.15



OUR PARTNERS

INSTITUTIONAL DONORS / PARTNERS

Ernst & Young
SEED
Resource Awards
USAID Development Innovation Ventures
Work Together Foundation
Yunus Social Business

SERVICE PROVIDERS

Fireworks Advertising
Ignosi Research
Salesforce
Techsoup
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INDIVIDUAL DONORS

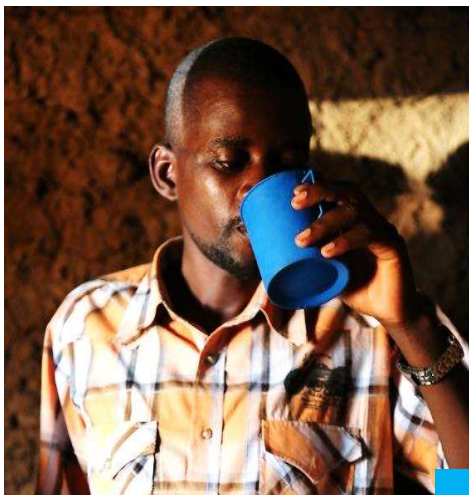
Abigail Cole
Adam Swick
Ajantha Nadesan
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Alexander Harris
Amy Rigby
Amy Spencer
Anne Hoffman
Anushka Sylvester
Asitha Jayaweera
Berit Gewert
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Tamar Friedman
Thulasi de Zoysa
Tijo Jose
Tissa De-Silva
Victoria Wright
Zebra Zulu



Professor Muhammad Yunus, Founder of Yunus Social Business and Nobel Peace Prize winner, visits the SPOUTS factory



THANK
YOU

