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FLUI.MC - Preliminary Q3 2022 Fluidra SA Earnings Call

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PRESENTATION

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Good morning and welcome to our Q3 Update Call following our announcement yesterday evening ahead of our scheduled Q3 results release on the 28th of October. I am Clara Valera, and I recently joined Fluidra as Investor Relations and Business Development Director. I am here with our Executive Chairman, Eloy Planes; our CEO, Bruce Brooks; and Xavier Tintore, our CFTO.

Bruce and Eloy will walk you through a few slides on our Q3 update, and then they will all be available to take your questions. You can follow this presentation in its original English version or in Spanish. (Operator Instructions) Please feel free to dial in during the presentation so that the operator can include you in the Q&A roster. The presentation is accessible via our website, fluidra.com, and has also been uploaded to the Stock Exchange Commission. A replay of today's presentation will be made available on our website later today.

With that, I hand over to our Executive Chairman, Eloy Planes.

Eloy Planes Corts - Fluidra, S.A. - Executive Chairman,

Good morning to you all, and thank you for your interest in Fluidra and for taking the time to join us this morning. You will, of course, have noticed that we have taken the unusual step to preannounce our quarterly resource. Why have we done this? Like many businesses around the world, we are experiencing an important change in some elements of our trading conditions. And it is always our approach and indeed, in our DNA to be transparent with our investors and all our shareholders.

Therefore, our objective today is to share with you what we're seeing and the best of our ability in the current environment and updated picture of our expectations. Above all, despite the current change in the climate, my leadership team, my Board and myself, we are very confident that all our work to strengthen and position the group for long-term success are in excellent shape. That team (inaudible) and all our ongoing efforts will be to optimize our performance for customers, for employees and for shareholders. We look forward to discussing with you this morning and then in more detail at our scheduled Q3 results next week.

With that, I hand first to Bruce.

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Bruce Walker Brooks - Fluidra, S.A. - CEO

Good morning, and thanks, Eloy, and thank you all for participating today in this conference call. We started the year strongly with Q1 volume growth year-on-year, continuing the trends of 2021 and an overall good first half. Our distribution partners, pool professionals and end customers continue to generate strong demand.

However, trading conditions have weakened during the third quarter, affected in the short term by a higher-than-expected channel inventory correction in a more uncertain economic environment. The market conditions we are now seeing leads us to revise our guidance for the year. We will share with you today our preliminary third quarter results, our revised 2022 guidance and the actions we are taking.

We are seeing a strong destocking effect, in particular, in North America. Supply chain disruptions coupled with accelerated demand in 2020, 2020-'21 and continued into the first half of 2022, generated high stock levels along the supply chain in order to protect their business.

Inflation further accelerated the inventory buildup, in particular, in North America. Distribution bought additional stock to beat price increases. We are now seeing a normalization of inventory levels along the supply chain. We continue to increase our prices, passing on raw material cost increases despite some mix impacts in the third quarter and during Q3. Price read-through in North America has accelerated.

Some raw material prices and transportation are showing signs of decline, which is positive for our margins. Nevertheless, the macroeconomic environment remains uncertain, in particular in Northern Europe, leading to softer demand and inventory correction, driven by low consumer confidence on the back of higher energy costs, other inflationary pressures and higher interest rates with a backdrop of geopolitical instability.

Southern Europe remains more resilient in particular, thanks to the tourist season and commercial pool demand. On the positive side, in North America, we still see good sell-through of around mid-single-digit growth year-on-year. Now we are in the middle of the Early Buy campaign, which is going well and returns us to a more normalized purchase cycle.

In APAC, where we did not grow as strongly last year, we are seeing a more stable demand and limited destocking. Australia, our main country in the, region continues to evolve positively. The summer campaign in the Southern Hemisphere will begin shortly. The slowdown in volumes is also influencing our inventory levels and cash flow generation. That positions our ratio of net debt to last 12-month EBITDA at the end of the quarter at around 2.4x. As a consequence of these factors, we are expecting Q3 sales of around EUR 520 million, down 7% year-on-year, FX adjusted. Q3 EBITDA is expected to be around EUR 95 million.

Moving on to Slide #4. We wanted to explain our 2022 guidance in context. Fluidra is a stronger business today than in 2019 despite the correction. We expect the destocking to peak in Q4 and therefore, estimate sales in the financial year 2022 to be around EUR 2.4 billion.

On the left-hand side of the slide, you can see a sales bridge from 2019 to our revised 2022 guidance. I'll remind you, 2019 was the first full year following the merger with Zodiac and the last full year prior to the pandemic. That year sales amounted to EUR 1.4 billion. You can see the meaningful contribution from acquisitions and price over the last 3 years.

You can also see the cumulative volume effect and the inventory correction. The contribution from volume from 2019 to 2021 was around EUR 600 million. We estimate that around EUR 200 million of that volume growth was inventory buildup in the channel, which started correcting during Q3. And as I said earlier, we expect it will peak in Q4 and continue in Q1 next year.

Additionally, around EUR 100 million was pull-forward demand, mainly Texas freeze, heat and above-ground pools. We expect that to normalize over a longer period of time, mainly 4 years, including 2022. If you zoom in on 2022, there's roughly an additional EUR 100 million of inventory built in the first half of the year that is also correcting inside of the year.

We see positive dynamics with price. We've implemented increases over 25% during the period, and as inflation eases and raw materials and transport costs decline, we should see a favorable impact on margins, returning to a more historic level.

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Our strong cash generation allowed us to complete accretive acquisitions over the period. And for the financial year 2022, we are now expecting an EBITDA at least EUR 500 million, driven mainly by the volume effects I've been pointing out and some dilution in the mix. This is still significantly above 2019 levels, driven by volume, positive price read-through, a higher average ticket and the contribution from acquisitions.

Moving to Slide #5. Looking to the midterm, we remain very confident on the fundamentals of the industry. On Residential Pools, as you know, about 2/3 of our demand is aftermarket. And a large installed base gives an even greater exposure. Over the last 3 years, we estimate more than 1 million pools have been added to the total park.

Based on our experience, aftermarket demand is resilient. About 1/3 is New Build, which is more cyclical, and we anticipate it will be impacted in the short term by the current economic downturn. It's a bit too early to guide for 2023, but in the spirit of transparency, we wanted to provide some color on the moving parts to help you think about next year.

On the left-hand side, you can see a historical look of new residential in-ground pools built in the top 5 countries. This can give you an idea of where demand may end up volume-wise, depending on your view of the future. In 2023, we see demand in New Build decline when compared to 2022 levels with weaker performance in Europe than North America.

Central Europe will continue to be the most impacted by the environment with risk of contagion into Southern Europe. In the States, permit volumes and dealer surveys indicate a decline of 10% to 15% with a larger impact on the entry-level pool, while builders are carrying into 2023 a backlog in premium pools. The Sunbelt, Fluidra strength, will continue to outperform the more seasonal markets. We see the Aftermarket more robust after the inventory and pull-forward correction, offset by price.

Commercial Pool, which represents about 10% of sales, remains sound, supported by pent-up demand and the tourism recovery. As you know, the pool industry retains price increases other than in commodity products. We are seeing a mid- to low single-digit price impact on 2023. We see our industry transitioning towards the normalized ordering pattern we had historically with mid-single-digit top line growth, driven by an installed base growth of 2%, coupled with a higher average ticket due to price and technological improvements in the renewal of pools.

If we move to Slide #6, we want to walk you through the actions we are taking and why we are confident, we remain well positioned for the future and in shape to deliver on our medium-term objectives for all our stakeholders. We talked to you about our simplification program and our Q2 results presentation. Initially, this was a EUR 60 million plan. We have launched and revised upward this plan to deliver EUR 100 million of cost benefits with a target of delivering 1/3 in each of the next 3 years.

The program is focused on redesigning our product offering to achieve savings, streamlining our operations to be more efficient and simplifying our organization. The team demonstrated the ability to pivot in the changing environment during the pandemic to support our customers. The same team demonstrated the capacity to deliver cost and synergy targets after the merger. I'm confident this team will again manage this transition.

At this point, I'll pass the floor to Eloy for some final remarks.

Eloy Planes Corts - Fluidra, S.A. - Executive Chairman

Thank you, Bruce. As Bruce has said, the industry is destocking, which we continue to have an effect in the short term and the macro remains uncertain. As these challenges are (inaudible), we will focus on the things we can control that make us a better company like our simplification program. We've had a temporary impact on our balance sheet. However, our inventory doesn't age and we'll expect it to correct in the coming quarters.

Our balance sheet is solid. We [refinanced] it at the beginning of this year, and we have long-dated maturities. Once we digest the inventory in these next quarters, our cash generation is strong. Our capital allocation framework is consistent and will retain optionality to continue to build our leading platform.

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Fluidra is well positioned to continue to lead the pool and wellness market with our customer-centric approach, with our high quality and service, with our broad product portfolio and enlarged geographic footprint. We have been investing in the business to develop the pool of the future in terms of connectivity as well as a complete sustainable products offering, which are 2 areas where we are clear leaders.

We look forward to sharing with you more a detailed breakdown of Q3 performance at our (inaudible) results release next week. Thank you all for your participation. Now we open the Q&A term, Bruce, Xavier and I are ready to take your questions.

QUESTIONS AND ANSWERS

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Many thanks, Eloy, and Bruce for your presentation. We now begin the Q&A session. (Operator Instructions) Alex, please go ahead with the first question.

Operator

(Operator Instructions) Our first question comes from George Featherstone from Bank of America.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

I'll go one at a time. First thing is on the channel inventory normalization. I guess, the key here is trying to understand what gives you confidence that the peak of this normalization will be in the fourth quarter. And then the comments that you made on the duration of the normalization, how can we get comfortable with that -- bearing in mind the visibility seems to have changed quite dramatically from the first half to this third quarter.

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

George, I mean clearly, we missed on this one. So we've got to own that. When we look back on it, it seems fairly obvious. At the end of Q2, I mean, we saw the inventory correction within the year, but we didn't really see the inventory correction from 2021. And I think the reason was because we had that material backlog. But the reality is 2021 was overserved because sell-in was ahead of demand.

And it was hard to see, I think, just because the customers were banging on the door saying, "we need more product, we need more products. " And so that kind of exaggerated the demand signals that were out there. And if you think about it, it kind of again makes sense in hindsight because as we are slow to serve, they're going to try to figure every way to protect their business by building inventory so that they can complete their jobs.

In addition, it certainly benefited them because they could beat the price. They knew the inflation was coming at them. And so it was -- I think it was smart for them. Supply chain recovered much quicker than we expected in the third quarter, so the soft landing kind of disappeared. We went to -- from famine to feast on the inventory.

If you think about it in our peak, we were over 90 days to serve. And now we're back to our traditional less than 10 days to serve. So I mean, I think naturally, what does the supply chain do. They reduce their forward coverage ratios, and they go back towards a more normal type of base.

In addition, George, we saw inventory out there that we've never really seen before. We kind of had it anecdotally before, which was that once you get past distribution, particularly in North America, that you would see Pool Pros and people like that buy inventory they never had it before. And since then, we've kind of gone out and done some surveys and got a sense of how material that is. And so we feel like the numbers that we have today are frankly more accurate than they were before.

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But it does mean that the inventory is materially higher than we saw at the end of Q2. And certainly, the economic indicators have gotten a bit more challenging. But let me be clear, although the sell-through pace has slowed a little bit, the biggest issue here is the actual overserving.

So to give you a sense on the size and scale and our estimates on the read-through, which are our estimates. But again, we believe that we are more laser-focused on this than at the last quarter and feel like we've got a better handle on it. We see the -- yes, the overstocking effect at around EUR 300 million to EUR 350 million at the end of Q2. EUR 200 million of that was built in 2021 and another EUR 100 million to EUR 150 million, which is what we talked about last quarter, came in the first half of 2022.

Some correction has already happened in Q3. With the visibility we have, we expect the destocking to have the biggest impact in Q4 and into Q1 to a smaller effect with the caveats of course, of a high-level estimate and demand trends continuing as they are today. So to be really more specific, George, we think about EUR 100 million was corrected in Q3. We think about EUR 150 million will be corrected in Q4, and that would put the remainder at about EUR 75 million that we think will be mostly complete in Q1.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Okay. That was useful extra color. You talked as well about price contributing about 25% or more to revenue growth over the last 3 years. Question there is, do you need to unwind some of that if the demand is starting to soften. And then also, what gives you confidence that the rest of the industry remains rational on pricing in the face of the level of destocking that is coming through right now?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Another good question, George. Again, and I'm going to go off of historical base. This is not a price-sensitive industry at all. And so historically, price increases have never been given back in the core business. Even if you look back at GFC, the competitive base stayed rational and margins were protected in that period of time.

So that is our belief as we look forward. It gets a little bit squishier, George, as you get into the commodities, things like chemistry, chemicals and pipe. And so we would expect some dilution in those commodity type products, which are a little bit more price sensitive.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Than you Bruce. Alex, we are ready for the next question.

Bruce Walker Brooks - Fluidra, S.A. - CEO

George, you got one more?

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Yes. Just one more quick one if that's possible. So leverage is clearly above the target levels now. I appreciate a lot of that [will be tied up in] working capital from a cash flow perspective. But is there anything else you need to do to address that? And also, does that slow the M&A agenda going forward?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

George, I'll take that one. Yes, we see leverage, obviously going up above our 2x -- around 2x target. But we think that this is just a temporary effect driven by the increase in inventory, which is additionally impacted by the inventory in the channel correction. So we see that coming towards

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normality in the following few quarters. Obviously, we are conscious around the macroeconomic situation. And we will be cautious and act accordingly as we get into 2023.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Thank you, George, for your questions, Alex. I think we are now ready for the next one.

Operator

Our next question comes from Francisco Ruiz from BNP Paribas.

Francisco Ruiz - BNP Paribas Exane, Research Division - Research Analyst

And thank you for this call. I mean I have also 3 questions. The first one is if you could give us an indication at what level do you have right now the working capital on the company and could you be a little bit more precise on the (inaudible) drop in Q3, if it's possible by geography?

The second question and a follow-up on the previous question is on pricing. So you commented that you do not expect price to go down. But what about the mix effect? I mean all these high-ticket product has been sold during the pandemic probably will have a much lower demand. So we just see a negative effect on prices in the coming quarters.

And the third question is on operating leverage in Q4 because according to your estimate, I mean, EBITDA in Q4 will drop close to 50% (inaudible). So what is the reason for such a bigger drop in operating leverage?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Yes. Let me take the first one. In terms of working capital, we'll release the results next week. I think that as you have seen during the year, we have been managing very effectively receivables and where we have the issue is in inventories, where we are running at this point, close to around 29% of LTM sales, which is probably around 1/3 or even 10 points higher than where we should be. And roughly, this represents around EUR 200 million, EUR 225 million of excess. But again, we believe that we will be able to correct in the coming 3 quarters or so back on.

Bruce Walker Brooks - Fluidra, S.A. - CEO

From a pricing perspective, Paco, clearly, there's a mix effect happening right now in Q3 and to some extent in Q4. There is a little bit on product just as we're selling some more chemicals in Europe. But from a longer-term perspective, I don't think the product mix is material. The bigger mix impact right now is actually country or geography with lower volume in the states where that's the bigger size of the material correction. That's the bigger piece of the mix impact right now. Central Europe going down is actually a little bit of positive mix. Southern European [better] is good for us, but the States being smaller is definitely a factor.

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Linking that to your third question, those are clearly the drivers of the impact in terms of EBITDA, which is very material as you point out. Clearly, we have this significant volume impact in Q4 and then a little bit of margin mix as pointed out by Bruce, in terms of product and geography.

And then finally, I would remind just that the EUR 500 million number that we have provided is a floor that we are providing just a floor, Paco. We -- in addition, I would remind you to -- now that we are launching, obviously, the simplification effort that as Bruce has pointed out in the call, we

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have expanded to include in rightsizing the organization to the current volumes of revenues, but obviously, the impact of that within Q4 is very immaterial.

Francisco Ruiz - BNP Paribas Exane, Research Division - Research Analyst

Yes. But could you give the breakdown of volume drop in Q3 by geography? Or I mean, more or less what it has been?

Bruce Walker Brooks - Fluidra, S.A. - CEO

The, I guess, if you look at our overall situation by the 3 main regions, Europe was, let's call it, close to the number that we're reporting for the quarter. APAC was better and the States was worse. So we'll get into the details of that next week. But to just give you some direction, again, kind of coming back to the correction being the biggest factor.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Thank you, Paco. Alex, please go ahead with your next question.

Operator

Our next question comes from [Ian] Salz of JPMorgan.

Erik Salz - JPMorgan Chase & Co, Research Division - Analyst

It's Erik Salz, JPMorgan. I think most of the questions that I have, have actually been answered because they relate to the guidance upgrade in 1H versus the changes that you make now and also questions related to the price increases, which I think you all reflected on. Maybe there's 2 other things. In the past, you've talked about the nondiscretionary items that you sell? And maybe can you reflect on how you look at that in the current environment?

And also, like when you speak about rightsizing the organization or simplifying the organization, those are sorts of comments that we've heard in the past too -- I mean, is there really so much to do in terms of simplifying the organization that will really help your margins going forwa rd?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Okay. So first, from a demand and discretionary, I think we've talked about it a number of times and the magic of this industry is the annuity-like Aftermarket. And from our sales perspective, about 2/3 of our sales come from this Aftermarket. There is a piece of the Aftermarket that would be considered a bit more discretionary, and that's the remodel. And so usually, that would make up about 15% to 20% of the Aftermarket. The remodel section has -- at least in North America, has proved to be a bit pent up at this point in time just because of the new pool demand. So we actually feel like Remodel will be fairly stable, but it is one of the areas that could be impacted.

From a new pool perspective, which makes up about 1/3 of our sales, that is the area that we see as discretionary. The economy will definitely impact it, rates will impact it. We see it, depending on the geography that you're in, a bit down in units this year, and you can see that from the text of the top 5 geographies, and we're expecting that to be a bit more down as we look into 2023.

And then I would just counter that by saying there's that material price increase that softens that unit decline. So that's how I think about the discretionary part of the demand.

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From a simplification standpoint, we launched the program in July. And when I shared that with you, I shared that this is actually a program that we were looking at 2 years ago before COVID. So the reality is, since the merge, we always felt like there was a second wave of opportunity. We've added 10 acquisitions on top of that. And then with COVID, we've added another EUR 1 billion of top line. And so we felt like there was a huge opportunity, we just couldn't get at it during the accelerated demand cycle. So that's where we started.

Now as we look at the realities of the business, we've added on another element to that as Xavier was just speaking of simplifying our organization structure to really match the size of the business. So we feel confident that, that opportunity is there. And as we stated, we see it as EUR 100 million, and we see it as about 1/3, 1/3, 1/3 as we look forward.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Thank you. Alex, please go ahead with the next question.

Operator

And as a reminder, (Operator Instructions) Our next question comes from Alvaro Lenze from Alantra.

Alvaro Lenze Julia - Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst

I believe you mentioned that you expect most of the inventory consumed -- excess inventories to be consumed during H2 and the first half of next year. But if I understood correctly, this was at current demand rate. So my question would be what's the insight you could provide us on the underlying demand trends, whether the pool professionals continue to see strong backlogs or whether you're seeing final demand being affected by the macro slowdown and rates and the potential cycle downturn in housing market, especially in the U.S? So that would be my first question.

And secondly, you mentioned that you would not expect prices to come down, maybe some mix effect. But what about discounting? Could you expect, even if you maintain the lease prices as the industry has done in the past? Maybe we could see higher discounting activity in order to reduce inventory levels?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Okay. So from a demand perspective, well, it's been a really volatile year. I'll talk about North America first, and I'll come to Europe, if you like. So from a North America perspective, we started off the year really strong, continuing that double-digit type of growth. We ran into the comparison of the Texas freeze, which brought the demand to flat.

I think there was probably some signals in there that we may have missed beyond the Texas freeze. But then as we got through the Texas freeze, we saw it kind of get back up to mid-single digit. July and August were double digit. So it was feeling like everything was running as anticipated. September stalled and then October is running much more like July and August.

So in the end, what we're calling the U.S. that is mid-single-digit sell-through, and that's really how we've looked at our models as we approach forward. I mean, -- that's Fluidra's view. I'm sure you guys know that the world's largest distributor will be speaking in the next couple of days. And I think they're always a good barometer to see what the demand is in the U.S. So I think they will echo, if not even higher because they won't see that destocking impact that we do.

As you go to Europe, we talked about the sell-through rates in July with Central Europe being down kind of high single to low double digit. That decline has accelerated a little bit and it's probably now in the low double digit to mid. France was kind of running about up 3% to 5% and was kind of more flattish to 3%.

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And Southern Europe was running close to double-digit up. And now I would say that's mid-single digit. So a little bit of deceleration in demand in Europe but really not the material issue. The material issue is the destocking that's taking place in North America.

From a price perspective, our expectation is that price trends kind of return to a more normalized level. The industry has taken price again in October to set up the 2023 season at kind of a mid-single-digit to low single-digit type of price increase. That enables the discount that is actually the early buy in the States. And so that early buy has returned to kind of a more traditional type of approach. But outside of that, I don't believe there will be significant discounting because it really just doesn't move the needle.

Alvaro Lenze Julia - Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst

Okay. And just a quick follow-up, if I may. Regarding the streamlining and efficiency plans. Is there any expected cost to execute this? Or is this mostly a reorganization that does entail much investment to achieve the cost savings?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

No. I'll take that one. As we said in the second quarter results conference call, there is a one-off cost associated to it, and we still don't have the final number, but you can -- from a planning point of view, assume that it's going to be slightly below onetime savings.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Thank you, Alvaro. Alex, please go ahead with the next question.

Operator

Our next question comes from Manuel Lorente from Mirabaud.

Manuel Lorente - Mirabaud Securities Limited, Research Division - Analyst

My first question, I know that it might be too early and there are many different moving parts. But my first question is regarding your expectations for next year. To try to make a long story short, do you believe that your EUR 100 million more or less EBITDA expectation for this year is a good starting point to build up our estimates for next year or is more a Blue Sky scenario for next year, given the amount in stocking, demand issues, lack of visibility, blah, blah, blah.

Bruce Walker Brooks - Fluidra, S.A. - CEO

I'm not sure if I can make a long story short, Manuel, but I'll try to take a shot at 2023. And I think I got most of it, so maybe Xavier kicks in a little bit here at the end. I appreciate your qualifier upfront because, for sure, visibility is limited at this point. And clearly, we don't have a crystal ball. We do expect to start the year with lower volumes in Q1. We've got a really tough comp in Q1, and we know we've got some continuation of the inventory correction.

From a new construction standpoint, I'll just kind of reiterate some of the comments and then talk about the Aftermarket. We're seeing some decline in new construction unit volume in 2022. We expect that to continue in 2023. Again, I think Europe is going to be tougher than the States. And -- but from our planning standpoint, that's the way we're looking at it. We think the States will be down in the 10% to 15% kind of range in units. And obviously, Europe then, again, a little bit tougher.

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Now I do think it matters that entry pools will be more impacted than premium pools. Premium pools is a strength of ours in the States. So I think that is ultimately good for Fluidra as well as the strength in the Sunbelt. As you go to the Aftermarket, we see the Aftermarket as always being more robust. So after the inventory and pull-forward correction, unit volume will be down, but consider that offset by price, commercial pool solid. So that gives you the kind of the breadcrumbs if you will, for the top line.

As you think about the margin, average ticket is higher. Our prices are continuing to go forward and go through. And so we think margins should return to a more kind of historic type of rates. And then last but not least, on the OpEx side is the simplification program, and we've already started to move on that direction. So again, we're confident in that EUR 100 million program over 3 years with targeting about 1/3, 1/3, 1/3.

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Yes. The only thing I would add there, Bruce, just as a reminder, is that when you look at our operating expenses, around 60% of them are fixed cost and 40% are variable. So I think with that and the breadcrumbs that Bruce has mentioned, I think you can build your model.

Manuel Lorente - Mirabaud Securities Limited, Research Division - Analyst

And can you repeat the phasing of the EUR 100 million simplification program.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Yes, it's...

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Each of the coming 3 years.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Okay. Thank you very much for your question, Manuel. And Alex, do we need a bit more time to combine more questions? Or have we addressed all of the questions?

Operator

We have no further questions, so I'll hand back to yourself for any further remarks.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Thank you. So this marks the end of today's presentation. We thank our speakers and participants. And as always, please feel free to reach out to us at the Investor Relations team for further queries. Alex, you may now disconnect the call.

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