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FLUI.MC - Q1 2024 Fluidra SA Earnings Call

EVENT DATE/TIME: MAY 08, 2024 / 8:00AM GMT

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**Eloy Planes Corts** *Fluidra SA - Executive Chairman of the Board*

**Bruce Brooks** *Fluidra SA - Chief Executive Officer, Executive Director*

**Xavier Tintore Segura** *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

## CONFERENCE CALL PARTICIPANTS

**Chitrita Sinha** *JPMorgan Chase & Co - Analyst*

**Francisco Ruiz** *BNP Paribas - Analyst*

**Bruno Bessa** *Banco BPI - Analyst*

## PRESENTATION

**Clara Valera** - *Fluidra SA - Investor Relations & Business Development Director*

Good morning, and welcome to our First Quarter 2024 Results Call. I'm Clara Valera, Strategy, Investor Relations and M&A Senior Director. Joining me today on this call is our Executive Chairman, Eloy Planes; our CEO, Bruce Brooks; and Xavier Tintore, our CFO. They will walk you through a few slides on our results and then they will be available to take your questions.

You can follow this presentation in its original English version or in Spanish. Please select your preferred option in the drop-down menu at the bottom right-hand side of your screen. (Operator Instructions) The presentation is accessible via our website, [fluidra.com](https://fluidra.com), and has also been uploaded to the Stock Exchange Commission this morning. 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.

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**Eloy Planes Corts** - *Fluidra SA - Executive Chairman of the Board*

Thank you, Clara. Good morning to you all, and thank you for taking the time to join us this morning and for your interest in Fluidra. Today, we are presenting our first quarter 2024 results. Bruce and Xavier will provide more details shortly. But first, I would like to summarize the key points I want to convey with you this morning.

Our first quarter performance was in line with our expectations in a more normal trading environment in our sector. We saw demand for maintenance and repair holding up well. Let me remind you that this accounts for the majority of our sales. Regionally, U.S. was a little ahead of our expectations, and Europe was slightly behind with the positive trading that we have seen in April on both sides of the ocean give us confidence for the year. On top of that, please note that this year, Easter fell in March, which means less trading days, but even more important, an early Easter often shifts the season's preparation to the second quarter.

Regarding our financial evolutions, we are really encouraged to see our gross margin expansions driven basically by the Simplification Program, which is strengthening our business for the long term.

Working capital and net debt levels reflects the usual seasonality as we prepare for the pool season. But nevertheless, they are improving versus the first quarter of 2023.

As you know, in just two hours, we are holding our Annual General Meeting today. And on the agenda, we propose a dividend of EUR 0.55 per share, representing a 50% net profit payout, consistent with our dividend policy and our capital allocation framework.

As I've shared with you before, we are confident in our full year delivery and our 2024 guidance remains unchanged. We continue to work to strengthen our leadership in a structurally attractive industry. And with that, I will pass the floor to Bruce to present our Q1 results in more detail.

**Bruce Brooks** - Fluidra SA - Chief Executive Officer, Executive Director

Buenos dias, Eloy, and thank you all for participating today on this conference call. Moving to Slide #5. Let me start with comments on our overall performance and highlights for the first quarter and then turn it over to Xavier to provide more detail on the financial results.

The numbers you see on Slide 5 are the 2023 and 2024 financial highlights for the first quarter. Sales declined by 5% to EUR 527 million, driven by lower volumes, which were affected by having less trading days in the quarter, as Eloy pointed out earlier. Partly offset by higher prices, this performance was in line with our expectations.

EBITDA of EUR 118 million was broadly stable year-on-year, reflecting improved gross margins, thanks to geographic and product mix, together with the contribution of the Simplification Program, almost offsetting the effect of lower sales.

Going down the P&L, cash EPS was similar to prior year. We managed working capital well. Operating net working capital to sales in the last 12 months was around 29% compared to 32% last year, down more than 300 basis points. Please remember that in Q1, we usually invest in inventory to prepare for the pool season. Xavier will provide more detail later.

Lastly, the ratio of net debt to last 12-month EBITDA at the end of the quarter was around 3x, seasonally higher, although lower than the prior-year period. As usual, we will generate more cash in the coming quarters.

Moving to Slide #6. Let me share our progress on the Simplification Program. This program is delivering long-term value and structurally strengthening our business. It is built on two areas: improving gross margin, together with reducing organizational overlaps and streamlining our operations. It is also underpinned by our drive to foster an agile and dynamic culture. In total, the Simplification Program delivers cost savings of around EUR 100 million between 2023 and 2025, with total related one-off costs of approximately 1x the annual ramped-up savings.

We achieved the target cost reductions in 2023. The program is also on track to generate more than EUR 30 million of savings in 2024, driven by global strategic procurement efforts and product design to value initiatives. As of the end of Q1, we have already reached savings of EUR 6 million, laying a good foundation to achieve our full year target. We will continue to provide you with regular updates as we progress.

Moving to Slide #7. Here is a good example of our focus on innovation. As you know, we are a global leader in automatic pool cleaning equipment, a category where we expect growth, in particular around robotic cleaners, and our success goes hand in hand with our understanding of customers as well as end users' needs. Following the exciting launch of our innovative cordless in-ground pool robot, we have expanded the automatic pool cleaning category to address the #1 pain point in end user experience, the cord.

We are proud of the Freerider's success, which has been very well-received in the market and welcomed with a number of industry awards for its innovative design and outstanding cleaning performance both in North America and key European markets, including the 2024 Product of the Year Award in Iberia. The cordless and hassle-free experience delivered by our battery-powered robot can now also be enjoyed in aboveground pools and spas, making pool cleaning effective, easy and convenient for the pool owner. We continue to focus on innovation in digital, sustainable and easy-to-use solutions to create the perfect pool and wellness experience responsibly.

Moving to Slide #8. On the right side of the slide, you can see the positive contribution of price to sales performance in the quarter and the volume decline with FX and perimeter offsetting each other. Overall, sales were in line with our expectations in a more normal trading environment, keeping in mind the less trading days in the quarter. Although new construction and remodel were somewhat softer year-on-year, repair and maintenance held up well given their less discretionary nature.

Commercial pool continues to grow strongly. By region, sales were better than anticipated in the U.S., benefiting from not having the correction of inventory in the channel and our mid- to high-end positioning. In Europe, trading was slower in the first quarter with a wait-and-see approach by our customers before the start of the pool season.

With positive trading in April and the performance in Q1, our expectations for the year are unchanged as we head into the more seasonally important quarters. With that, I'll turn it over to Xavier to explain the financial results in more detail.

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**Xavier Tintore Segura** - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Thank you, Bruce. Let's turn to Page 9 to start with the P&L. Sales of EUR 527 million represents a 5% decline, of which FX is a negative impact of 90 basis points and acquisitions add 50 basis points of growth. Gross margin reached 54.8%, 270 basis points higher than in 2023 being the fourth consecutive quarter with gross margin higher than the prior year period.

We have seen favorable geographic and product mix, the contribution of the Simplification Program and positive price read-through despite lower prices in chemicals, together with limited negative impact from inflation.

Operating expenses reached EUR 171 million, up 2%, with increased investments in digitalization and R&D and the impact of inflation on labor and general costs that cannot be compensated by the contribution from our Simplification Program.

EBITDA reached EUR 118 million, broadly stable year-on-year. EBITDA margin reached 22.4%, which is 60 basis points higher than 2023 despite the lower volumes. EBITA of EUR 95 million was down 4% with a margin of 18%, slightly above last year's.

Below the EBITA line, amortization is down 5% to EUR 16 million, restructuring, stock-based compensation and other expenses of EUR 15 million are up from EUR 9 million last year, driven mainly by the impact of the simplification one-off costs. Stock-based compensation of EUR 2 million is 6% lower than the prior year period.

Net financial results amount to EUR 13 million, EUR 4 million lower than last year, driven by lower debt and lower FX impact. Tax rate at 27% versus 26% rate in the first quarter of 2023. Net profit reached EUR 37 million compared to EUR 41 million in 2023.

As you know, we track cash net profit, a good indicator for Fluidra as we have a significant amortization charge entirely purchase accounting related that impacts our net profit and EPS calculation. Cash net profit amounted to EUR 59 million, broadly flat year-on-year.

Page 10 shows the free cash flow statement as well as the net debt evolution. I will start by reminding everyone that we are a seasonal business, and Q1 is typically a quarter of investment for the company. Free cash flow used in the period of EUR 157 million, slightly better than last year's EUR 160 million. Operating cash flow was a use of EUR 133 million versus EUR 127 million last year with all components performing similarly to Q1 2023.

If we zoom into net working capital, which you have in the appendix, you will see a solid performance with over 300 basis points improvement, reaching net working capital to sales of 29% driven by lower inventories and higher payables, while receivables reflect timing of sales in the quarter and higher weight of the early buy program.

On the investment front, we have used EUR 12 million, 50% less than the prior year with less cash spent on acquisitions. On the financing front, cash usage shows the outflow of EUR 12 million generated by lease payments. Finally, net debt reached EUR 1.3 billion, down EUR 133 million. Our leverage ratio is 3x. Just to remind you, we have a solid balance sheet. Our main funding facility is a EUR 1.1 billion TLB in euros and U.S. dollars that matures in 2029. 80% of the TLB has swapped interest rates until June 2026.

And with that, I will give the floor to Eloy for closing comments.

**Eloy Planes Corts** - Fluidra SA - Executive Chairman of the Board

Thank you, Xavier. Thank you, Bruce. Moving to the Slide #11, I would like to summarize a few key takeaways. Our performance in the first quarter is really very encouraging and was in line with our expectation. We remain focused on continuing to create value for our stakeholders. And we think that we are strongly positioned to do so.

We are the leader in an attractive industry, this global pool and wellness market with long-term structural growth. And our position is further improving, driven by our customer-centric approach, our innovative product offering, our broad geographic footprint and our leadership in connected and sustainable pools, which will define the future winners in our sector.

We are structurally improving our group. We are executing our simplification program, which will continue to deliver value by expanding margins and improving efficiency sustainably. And as we have shared with you today, we are well on track to achieve our target for the year and to deliver margin enhancement in the future.

We are also focused on cash generation. Our leverage is seasonally higher, but as you have seen, lower year-on-year as expected. Earlier this year, we shared with you the full year 2024 guidance. The pool season is commencing and with the Q1 performance and the positive trading in April, our outlook for the year and 2024 guidance are unchanged.

We are confident in our future and remain focused on growing profitability and delivering improving returns on capital over the medium term in an industry with really attractive structural growth.

Thank you all for your participation. Now we open the Q&A (inaudible), Bruce, Xavier and myself, we are ready to take your questions. Thank you.

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## QUESTIONS AND ANSWERS

**Clara Valera** - Fluidra SA - Investor Relations & Business Development Director

Many thanks, Eloy, Bruce and Xavier, for your presentation. We now begin the Q&A session. (Operator Instructions) The first question comes from Chitrita at JPMorgan.

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**Chitrita Sinha** - JPMorgan Chase & Co - Analyst

I have 2, please. Firstly, could you provide more color on your regional development and in particular in North America, which was more positive than expected and Europe, which came in below your expectations. How do you expect this wait-and-see approach in Europe impacting the rest of the year versus what you were seeing at the start of the year?

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**Bruce Brooks** - Fluidra SA - Chief Executive Officer, Executive Director

Okay. So let me talk about Europe first. I guess where I would go, so I'd say it's still early days, and the season is just getting started. But I think because of the way that the Easter holiday falls, it's usually kind of the unofficial kickoff to the pool season. But when it's in March, that's not really the case.

So I think that's why we probably tried to give you a little bit more color on April than we normally would. So I mean, if you think about where we are from a year-to-date standpoint, we're actually pretty encouraged despite the kind of wait-and-see that we saw in the first quarter.

Year-on-year, we definitely saw an improving trend in Central Europe and the Northern European area, Iberia and Italy, Greece, those markets held up well. And I would say, repair and maintenance is definitely continued to be resilient, and we're pleased with where we are on commercial.

But just to kind of close down on Europe. When you look at it on a year-to-date basis, it's less than half of what you're seeing as far as the drop in Q1. So think kind of low to mid-single digit as far as a year-to-date run rate.

So actually more encouraged in Europe than you would have probably think just from the first few months numbers. From a North America standpoint, and this goes a little bit over the -- really the world, we were concerned, frankly, coming out of January. February started to show some positive signs. March was even better. And then we've seen that continue in April. So again, we're encouraged by what we're seeing in North America.

I think if you think about the various segments, new construction appears to be down similar to the direction that we've been talking. Aftermarket has held up well. We're seeing remodel be a little bit more positive than maybe we thought at the beginning of the year, and we're pleased with our momentum on the commercial front. So hopefully, that answers the question.

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**Chitrita Sinha** - *JPMorgan Chase & Co - Analyst*

Yes, very clear. Just on pricing, I guess it contributes about 1% in the quarter at the group level. Are you still seeing stronger pricing in North America?

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**Bruce Brooks** - *Fluidra SA - Chief Executive Officer, Executive Director*

Yes. From a pricing standpoint, again, we're pretty much right in the range that we expected in the beginning of the year. We took kind of a, I think, 2% to 4% price in North America that is coming through and is right in line with expectations.

In Europe, in the equipment front, we were in that 1% to 2% range, but we knew we were going to have some dilution based on chemicals. Obviously, chemicals get loaded up at the front of the season. So we feel like we're right on track on our 1% to 2% guide on pricing for the year.

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**Clara Valera** - *Fluidra SA - Investor Relations & Business Development Director*

The next question comes from Francisco Ruiz at BNP Paribas.

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**Francisco Ruiz** - *BNP Paribas - Analyst*

I have a follow-up question on the volumes. If you could be a little bit more precise on how much the new builds and remodeling and maintenance has grown in terms of volumes this quarter?

If it's possible to have more view on the geographies, it would be better. My second question is given the recent acquisition of a (inaudible) distributor in the U.S., I mean, the Home Depot deal, do you expect any pricing pressure because of that?

And on the third question is merely a modeling one, which is, I mean, we have seen a massive decline in financial cost this quarter. What are the expectations that we should take into account for the rest of the year.

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**Bruce Brooks** - *Fluidra SA - Chief Executive Officer, Executive Director*

Okay. So, Paco, I'll try to take the first couple and then pass the last one to Xavier. From a guidance standpoint and trying to give you more color as you requested. I really don't think there's a lot of change. So not a lot of surprise from what we're seeing.

First of all, from a North America standpoint, we're not facing the inventory correction. And so that looks like that is still on track to be a little bit of a tailwind for us. And right now, again, we're encouraged by what we're seeing on the sell-through front. No doubt the macro and it's still early. I mean it's the pool business, right? So the second quarter and the third quarter are quite important to us in total.

I think we're seeing pretty much exactly what we thought. So we thought that new build would be down 10% to 15%. We see it tracking to the lower end in North America, and we see it a little tougher than that, so more towards the higher end in Europe at this point in time.

For us, we tend to do well, particularly in North America, in the higher-end pool segment and in the Sunbelt. And so that's -- that helps us on a mix overall inside of North America. Aftermarket is remaining really resilient as people get ready for the season. So no real change there. We kind of look for that to be more flattish.

On the remodel front, we expected that to be down 5% to 15% I think North America is on the low end to maybe even a little bit better than what we were anticipating and no change to Europe being a little bit tougher at this point in time.

Price holding up well, as we talked about earlier and still feel good about -- feel very good about the margin evolution and the Simplification Program. So all in all, not a real ton of news for you, maybe a little bit slightly different mix, but pretty much on track to the guidance.

As far as Home Depot is concerned, I mean, I think, first, the deal reinforces the attractiveness of our sector. And then from what we're being told, and we've had a number of conversations with the SRS leadership team. They're going to continue to operate this as an independent business. And if anything, they've got more capital to try to invest into growing the pool pro space. So I don't see a dramatic change there.

I guess the last part of that question was do we see margin compression because of this? Traditionally, in North America, distribution has been very supportive of price because it helps the increase of the overall size of the market when you don't have a very price-sensitive type of market. So I don't see any of that at this point in time. Xavier?

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**Xavier Tintore Segura** - Fluidra SA - Chief Financial, Sustainability & Transformation Officer

Good, Paco. And on your third question on the decline on financial cost, this is basically driven by a reduction in FX and the lower absolute levels of debt. Remember that 80% of our TLB as swap rates and that's the benefit that you are seeing readthrough to the P&L. As you look at the full year number, I think you -- we guided to around 10%, probably 15% lower number than what we saw a year ago. So that's around EUR 65 million to EUR 70 million.

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**Clara Valera** - Fluidra SA - Investor Relations & Business Development Director

And the next question comes from Bruno Bessa at CaixaBank.

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**Bruno Bessa** - Banco BPI - Analyst

I have three, if I may. The first one, focused on the Q1. You mentioned that is changed a bit the dynamics of consumers in the quarter and also impacting the trading day that you have. So my first question here is if you could give a bit more visibility on what would have been your sales performance, adjusting for (inaudible) impact if we would be thinking about a positive year-on-year evolution, excluding Easter, this will be the first question.

On the second question, well, we are already in the most important quarter of the year. You mentioned that April provided good indications in terms of sales. You have a target in terms of sales evolution for the full year between minus 2% to plus 5%, if I'm not mistaken. Preceding that in Q1, you were at the low end of this guidance or even below that, the end of the guidance.

And is it reasonable to think that in Q2, you will be more biased towards the upper end of this guidance that you provided for the whole year. So this will be the second question.

The third question, now that you are seeing a more normalized industry backdrop, particularly in the U.S. with good indications in the U.S. And considering that 2024 will still be a transition year. My question is more focused on 2025. I remember that in the last Capital Markets Day, you

mentioned a recurrence of sales growth of about 6% for the company and the normal industry circumstances. My question here is if you see the market evolving towards that level already in 2025?

**Bruce Brooks** - Fluidra SA - Chief Executive Officer, Executive Director

Okay. I'm not sure I got all of that. So help me out, Clara, if I missed a little bit and XT. So first of all, on Easter and the timing, first quarter had a couple of less trading days compared to last year, 1 in Europe and 2 in the U.S. It's tough to get super precise here because, let's say, trading days are not equal.

A January trading day versus a June trading day is a dramatic difference. So -- and even March factors into that as well. So Easter, again, is important, being early. And it's really more for our customers than the end user as they kick off to the season. So it's just about when they get started. And that's why I've tried to provide a little bit more color on the year-to-date type of number.

So again, we feel really good where we are at the end of April. We're definitely positive on a year-to-date basis in North America. And we've reduced the negative run rate that we've seen in Europe by more than half. So I mean, it's, I think, a good point. As far as May and June are concerned, this is the pool industry. Now it's like, okay, the season needs to get started and the weather needs to turn on and the economy prediction. So I mean this is our critical quarter. And I can't isolate it down to really what the run rate will be in May and June.

Just take it again that we're encouraged with where we are from a year-to-date standpoint. I don't know if you want the last one XT, but I can try. I mean 2025 economic forecast, I mean, we're hoping to see that interest rates evolve down a little bit and then we can start to get some momentum. But we really feel like the industry is normalized. This is a bit of that stabilization, and we're hoping to get back towards growth in 2025. We are talking about having a Capital Market Day a little bit later in the year.

**Clara Valera** - Fluidra SA - Investor Relations & Business Development Director

And there are no more questions on the call list, but I'll give you a few seconds in case someone wants to ask a question. And if not, we will close the call at this point. Good. It seems there are no further questions. And as always, the Investor Relations team is around if you have any other questions or follow-ups, please get in touch with us.

We thank our speakers and participants of today's call. And with that, the call is -- this marks the end of today's presentation. Thank you very much, and goodbye.

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