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FDR.MC - Q3 2018 Fluidra SA Earnings Call

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NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

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## PRESENTATION

**Cristina del Castillo García** - *Fluidra, S.A. - Director of Investor and Shareholders Relations*

Welcome to the presentation of Fluidra's results for the third quarter 2018. My name is Cristina del Castillo, Director of Investor's Relations and Shareholder Relations at Fluidra. Today's presentation will be made by Eloi Planes, Executive President; Bruce Brooks, CEO; and Xavier Tintore, CFO. You can follow the presentation through your screens. (Operator Instructions) All of the documents are available on our website, fluidra.com, under the chapter Shareholders and Investors in the Periodical Public Information [lead]. It has also been sent this morning to the stock exchange authorities.

This conference will be available on our website this very afternoon.

We will start the presentation, and now I give the floor to Mr. Eloi Planes.

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

Thank you, Cristina. Good morning, and welcome to Fluidra's Results Presentation for the Third Quarter 2018.

Today is the first time that we will talk about the combined results of Fluidra and Zodiac once the merger was made effective last 2nd of July.

In order to make this presentation as easy to understand as possible and to make you understand the business evolution, we will present the new Fluidra on a pro forma basis for 9 months excluding the nonrecurring concepts. We believe it's important to focus on these pro forma results in order to give them the maximum clarity and transparency in the real company's evolution.

The merger of 2 different accounting structures, together with the typical transaction and adjustment costs that are implied in such a merger, add complexity to the figures. Xavier will devote time during his presentation to clarify these concepts.

This has been an unusual campaign with a late start of the summer, both in the American market and in the Southern European market. And this was reflected in the company's evolution during the first quarter. The figures in July made us foresee a good third quarter, and that has been the case. The third quarter has allowed us to recover sales both in the South of Europe as in the American market. Markets that show a growth rate under constant currency as of September of about 5.5%.

In spite of this recovery, the weather has had a negative impact in our campaign, an impact that, we believe, has been above 1%.

As you will see during the presentation, the results are solid ones with a good performance of the margin and a good control of the expenses, and they are well aligned with the forecast we shared with you last July.

In terms of the merger, the project is very consistent and the process is making headway very fast under the established terms. The management team and the organization are working in all territories and they are implementing the integration plan. Our merger with Zodiac defines a before and an after, not only in our company, but in the whole pool industry.

## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

The operation we closed in July is unique both from a strategic point of view and from its industrial rationale point of view. It has been a long and rewarding journey in which we have had time to value the project that we presented last November.

After that period, we can restate both the fundamentals in the industry and the operations fundamentals. During these months, we have worked and we have deepened in the preparation of a new strategic plan 2022, a plan that we will share with you next Monday, November 12, with all of you in the Llotja de Mar in Barcelona, which will also be -- which you will also be able to follow in a webcast. As you shall see, it is a well-balanced and very robust plan that shows high value creation.

Without any further ado, I'm going to give the floor to Bruce, CEO of Fluidra.

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### **Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

Thank you, Eloi. It's a pleasure to be here today and with all of you for my first Fluidra quarterly earnings call. Fortunately, we get to start with strong Q3 results. I will explain the main figures for the period and the highlights. Later, Xavier will provide more details on the financial results.

First of all, the numbers you see in Slide #4 are the 2018 and 2017 pro forma figures for 9 months for Fluidra and Zodiac combined. As Eloi mentioned, we will focus on the pro forma results to give you a clear view of the true business performance. We had an excellent third quarter with a sales growth of more than 12% in the stand-alone period. Almost all geographic areas had very positive trends. Summer weather may have arrived late in the Northern Hemisphere, but it always arrives.

If we look at our year-to-date performance adjusted for currency, we grew 4.5% compared to the prior year. Europe is now growing above 6%, and North America is growing at 5.6%. The rest of the world underperformed with the sales declining in several markets. That performance was largely affected by a challenging comparison to a large amount of Commercial Pool activity in Asia in 2017.

We will go into the revenue details on the regions a little later on.

We also delivered solid margin improvement. Recurring EBITDA for the year-to-date is EUR 183 million, an increase of 4.9% compared to last year. Adjusted for currency changes, the growth is near 8%. Cash earnings per share show the positive leverage story with an increase of 12.6% before currency. Margin expansion and an improving tax rate offset higher interest expense, driven by premerger finance rates and currency. Net financial debt is EUR 666 million, which is 3% higher than the same period last year. We are encouraged by this result, considering that it was negatively impacted by north of EUR 50 million of merger, transaction fees and integration expenses.

Net working capital growth of 14% reflects a specific nonoperating issue that Xavier will explain later. Without this impact, working capital grew at a more natural 5% rate.

We will regularly share the captured synergies run rate in our quarterly earnings release. We are pleased to report that after just 3 months, we have already captured EUR 3.2 million of annual run rate synergies. Or said another way, these are the full year value of cost synergy actions that we have already taken.

Speaking of synergies, on Page 5, I'd like to bring you up to date on 2 key merger topics. First, integration. As mentioned earlier, we continue to make good progress in integrating the 2 companies and becoming one team. Our new organization structure is already in place. We have 21 teams and more than 200 people working on the integration process. We're executing our plans to capture cost synergies. And as I mentioned, we've already executed EUR 3.2 million of cost reductions, which is slightly ahead of our plan. In addition, we have identified several good opportunities for revenue synergies. I'm pleased with both the discipline and the speed of the process.

As you may have seen last night, we sent an additional relevant fact to the CNMV. So our second highlight is that we have reached an agreement to divest our Aquatron cleaner business to BWT, a water treatment company based in Austria. As you will recall, as part of the European competition review, we agreed to divest Aquatron as a remedy in the pool cleaner market.



## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

The agreement with BWT is still subject to regulatory approval, and we expect that it will close in the next 3 months. The agreement is structured with a fixed price of EUR 26.2 million that will be adjusted by net financial debt and net working capital levels at closing.

In addition, there is an earn-out structure linked to Aquatron results through 2023. Fluidra will continue to distribute Aquatron cleaners for several years, although with some limitations. In September, we booked a EUR 3 million impairment of goodwill for this transaction. However, we may receive by the end of the earn-out period the full book value or more for the asset.

Turning to Page 6. You can see the sales evolution by geographic area. We have realigned the areas to adapt to the new sales mix post merger. Europe, which is still our main market, will be shown in 2 areas: Southern Europe, which includes France, Spain, Italy, Portugal and Greece as its main markets; and rest of Europe, which includes all other countries in the region, including Russia. North America is now much more substantial and includes the U.S., Canada and Mexico.

The fourth region is the Rest of the World, with major pool markets in Australia and South Africa. In addition, this region includes the developing markets of Asia, Middle East and South America.

The challenging weather impact that we saw earlier in the year has now been diluted by the strong Q3 performance, but the late start of the pool season in the Northern Hemisphere has still had an impact on our market and our sales. We estimate that the late and unusual start to the season impacted our growth rate by more than 100 basis points.

Southern Europe performed well during the third quarter with double-digit growth in Italy, Portugal and Greece. And although Spain and France were impacted by weather in the spring, they recovered well with mid-single-digit growth now year-to-date.

Rest of Europe has had a very positive year, including nice weather, and has grown, adjusted for currency impacts, by more than 8%. That growth has been led by Northern and Central Europe with slower growth in Eastern Europe.

North America had a very good stand-alone third quarter with strong growth in the U.S.A. Sales of Jandy, our core equipment brand for the pool professional, continue to lead with a low double-digit growth rate. This performance is helping to offset the late season.

Mexico and Canada showed good performance as well and that gave us a solid accumulated growth of 5.6% on a constant-currency basis.

Rest of the World's performance year-to-date was also impacted by currencies. So the reported 7.5% decline is only down 1.7% adjusted by this effect or on a constant currency basis. The decline was driven mainly by the impact of commercial pool projects executed during 2017 that was not fully compensated by continued solid performance in Australia and Brazil or by the new projects in the pipeline.

I'm pleased to report that the sales momentum for Q3 carried through October around the world. And now with the challenging comparison in Asia behind us, we see growth throughout our entire global footprint.

Page 7 shows the sales by business unit. Residential Pool evolution and Fluid Handling showed the impact of the irregular season in some geographies, as we saw in the previous slide. Commercial Pool revenues decreased 5.9% due to the impact of prior year large projects for the Asian Games in Indonesia, Summer Universiades in Taipei and fountains in East Europe, which were executed mainly during the first months of 2017 and were not totally compensated this year.

Pool Water Treatment has recovered nicely with 5.2% growth, supported by disinfection devices and chemical consumables.

With that, I'll turn it over to Xavier to explain the financial results in more detail.



## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Thank you very much, Bruce. In terms of understanding the business evolution, the results shown on Page 8 are pro forma results for the first 9 months of both merged companies. For this very same reason, Aquatron results are included here, too. In spite of the fact that the divestiture commitment acquired with the European Commission implies the need of reflecting this activity as an interrupted activity -- as a discontinued activity, as we have announced the sale commitment has already been signed and we hope to complete the transaction soon. And then Aquatron will leave our perimeter in the next few months. Having said that, we will now analyze on Page 8 the evolution of the main P&L account lines. Remember, it is a 9-month pro forma.

The P&L sales figure grows by 1.3%. If we exclude foreign exchange, foreign currency, it would be a growth of 5.4%. The lower pace of growth that we saw at the beginning -- during the first half of the year associated to a certain delay at the start of the campaign due to a colder and rainier weather compared to the previous year has been compensated or offset with an excellent third quarter. The gross margin reached 52.7%, 60 basis points above the previous year. And here, we would like to highlight 2 positive factors. The first one is the sale price management and the second one is the mix associated to a lower sale volume for commercial pool projects in Southeast Asia. These 2 positive factors, they more than offset the increase in raw materials and commodities.

Operational expenses before provisions and amortizations reached EUR 360.6 million, with a growth rate of 2.6%, an increase that shows -- that reflects basically our investments for growth in the U.S.A. I'd like to highlight that this caption excludes nonrecurring transaction and integration expenses. Provisions for bad debt reached EUR 3 million with deterioration compared to the previous year due to the evolution of the Middle East and Eastern Europe. EBITDA reached EUR 183 million, with an increase of 4.9%, which if we adjusted per currency, it is 7.9%, thanks mainly to the increase of the gross margin.

The account shows a significant increase in amortization of intangibles due to the merger. This fact stems from the purchase accounting exercise and the assignment of amortizable intangible goodwill that have started being depreciated on the 2nd of July. This caption -- this item will be significant because the value of the intangible asset in the balance sheet reaches EUR 778.6 million. For this reason, rather than EBIT, will talk about EBITDA, which is a better measure of the company's result after the depreciation of the assets that require reposition CapEx. EBITDA during this period grew by 7.5%, reaching EUR 151.9 million.

The financial result is the aggregation of the financial expense of both companies with the capital structure that both had until the 30th of June and the new capital structure starting on the 2nd of July. The variation in the financial result is due mainly to the currency difference impact.

The improvement in the tax rate reflect the country mix and is, above all, caused by the tax reform in the U.S.A.

This P&L account on Page 8 shows, as I've already said, the pro forma activity in both companies. Of course, obviously, the reported information of the Fluidra consolidated group only shows Zodiac's activity since the 2nd of July. And we have included this P&L account of the balance sheet in the appendix. Although this is not standard, I believe that, in this case, it's worthwhile to go to the appendix for a few minutes in order to explain its content.

Page 13 shows the reported P&L account. It shows 6 months of the old Fluidra's activity and 3 months of the consolidated activity of the new Fluidra, already including Zodiac's activity. This account shows many impacts associated to the merger, [H1] and its corresponding caption. We shall mention them next.

On Page 14, we include a reconciliation between the pro forma 9-month sales figure and the reported sales figure. Obviously here, items are related to the sales made by Zodiac during the periods in which it was not consolidated with Fluidra, 9 months in 2017 and the first 6 months in 2018.

We also increased by almost EUR 26 million in 2017 due to the adjustment of the early buys campaign in the U.S.A. so that, that year is comparable with 2018. We also exclude Aquatron sales as a discontinued activity.

On Page 15, we include a reconciliation between the pro forma EBITDA on Page 8 and the reported account on Page 13. Most captions are related to the merger operation with Zodiac and I shall mention the most important ones.



## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

The first lines belong to the EBITDA impact of the sales we explained on the previous page. As you will remember, we said in November last year that the transaction would imply about EUR 45 million expenses associated to attorneys, investment banks and refinancing expenses mainly. We will be slightly above that amount.

To the EUR 21.1 million reported in this reconciliation, we need to add EUR 14.6 million due to the refinancing and also EUR 12 million of expenses paid by Zodiac before being consolidated and included in the consolidation perimeter and the EUR 3 million reported by Fluidra in 2017. Almost all of the transaction expenses have already been accounted for and liquidated. Thus, we consider this chapter to be over.

We also pointed out in November last year that in order to obtain the EUR 35 million from synergies, we would have to invest about EUR 30 million during the next 3 years. We have already used EUR 7.8 million under that concept.

The following impact that's worthwhile mentioning is the inventory step-up for value of EUR 31.4 million. As you know, the rule demands assigning a purchasing price for all assets, valuing them at market price, which is what's reflected in this inventory step-up.

It is important to highlight that this is an adjustment that has no impact whatsoever on the cash. And this amount reflects the total revaluation, the total step-up that will go through the P&L account. Now these adjustments, as I've said, reconcile the pro forma figures reported in the reported account.

And finally, in this appendix on Page 16, we show the balance sheet as of September with the provision application of the PPA. Although this analysis is totally closed, we do not expect to have any significant variations.

And now let's go back to the presentation. So let's go back to Page #9. We will see that Page #9 shows the evolution of the group's working capital. The net working capital reached EUR 286.4 million, with a growth rate of 14.2%.

If we analyze these per caption, we will notice that the growth is highly aligned with the business, both in terms of inventory and in terms of accounts receivable. It is the accounts payable, the ones that generate differences.

The 2 main factors that explain the EUR 23 million difference are the existence of contingent payments for purchases to companies or earn-outs and also the dividend to be paid. Both were paid in October 2017, and that's why this timing effect will disappear during the next quarter. Without that factor, the net working capital growth is almost 5%, which is well aligned with the business evolution.

It is important to highlight the new company's pattern in terms of net working capital over sales, which is a bit different, given that the third quarter is the quarter with the lowest sales percentage because the U.S.A business start building up inventory and it starts serving clients in November and December significantly within the pre-campaign known in the U.S.A. as the early buy period. The next page shows the evolution of the net financial debt and the free cash flow.

We have preferred to show a pro forma free cash flow based on the EBITDA. Given the existence of many nonrecurrent items associated to the transaction, cash generation is quite high. The most significant variation with regards to the 2017 pro forma belongs to the working capital evolution.

This point is explained by 2 factors. The first one is the adjustment in the early buy period, adjustment carried out in 2017, which implied an improvement in the working capital at the end of December 2016. And the second one, as I've just mentioned a few minutes ago, is the temporary effect of earn-outs and the dividend to be paid for about EUR 23 million. The net financial debt is EUR 666.3 million, which is 3.1% above the previous year, and this reflects basically the payments associated to the transaction and the integration of the company.

And without any further ado, I give back the floor to our Executive President, Eloi Planes, to conclude this results presentation.

## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

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

Well, thank you, Xavier. Thank you, Bruce. The 2018 campaign started very late with real bad weather in the whole Northern Hemisphere. In spite of having an unfavorable weather environment, Europe has shown growth rates above 6% and North America above 5.5%. These growth rates are well consistent with our forecasts medium and long term.

The results we have presented are solid. Under constant currency, growth rates are 4.5% in sales and the expansion of margins of 7.9% in EBITDA and the expansion of cash EPS of 12.6%. These results, which have been leveraged on the last quarter's high growth and a good performance of sales in October, as Bruce has just told us, makes us restate our estimates for this year. These estimates of the pro forma results place sales between EUR 1.31 billion and EUR 1.34 billion, EBITDA between EUR 215 million and EUR 230 million and the ratio -- and the debt -- net debt/EBITDA ratio between 3 and 3.3x.

Our teams are making headway quickly in the integration plan and in the synergies capturing. The new structure is working in all of our geographies from the very day of the merger. We are implementing our cost capture and sales synergy plans. Everything is flowing as planned. We have been working for many months together and we have been able to assess the project we presented in November last year with greater perspective.

Today, we can restate with greater knowledge and depth, both with regards to the industry fundamentals and with regards to the operations fundamentals. This merger operation places us as a point of reference in the world market, and it turns us into a more global, more efficient and more profitable company.

This project was born with the will to grow to become a world point of reference and with great expectations for the next 3 years because our markets have a great potential, both in residential pool and in commercial pool, and because the background trends in the markets in which we operate are very positive for our activities.

We hope to see you next Monday, either with your presence or through the webcast, in order to share in great detail with all of our management team our 2022 strategic plan, which, as you will have an opportunity to see, is a very solid and well-balanced plan that shows high value creation.

And so far, our presentation for today. The only thing I have left to do is to thank you for your participation and to tell you that we will be delighted to answer any queries or questions you may have for us. Thank you.

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### **Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Well, thank you, Eloi, Bruce and Xavier for your presentation. And now we will start the Q&A with all of the ones that have been received so far. (Operator Instructions)

## QUESTIONS AND ANSWERS

### **Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Let's start with the questions. The first one, non-recurring transaction and integration costs we have just reported for 9 months, EUR 29 million approximately. How much could it be for the whole of the year?

### **Unidentified Company Representative**

Yes. Okay. I have mentioned a little bit the 2 main extraordinary expense concepts. Like as we said, we have expenses related to the transaction with the operation, which are related to lawyers, attorneys, investment banks and refinancing. Now that chapter for the whole period accounts for approximately EUR 50 million, and it has already been practically completed. It is possible that something else will come but it's not going to be significant. Now the second expense chapter that we have had here is the integration expense, which is related to the EUR 35 million synergies

## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

that both companies have had. And here, we gave a reference of about EUR 30 million for the next 3 years. We have already used EUR 7.8 million out of this. And next quarter, there may be an amount of about EUR 5 million. And this will be done as we execute it because we are doing programs month by month, but EUR 5 million would be a good indication. Next question?

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Adjustments for inventory step-up. Could you give us greater details about that? You have included about EUR 31.4 million within the pro forma EBITDA of EUR 183 million.

### Unidentified Company Representative

Let me see. As I've explained during the presentation, the inventory step-up, first of all, it is a noncash effect. It's just the assignment of part of the sale price to the inventory cost. And it is totally -- it has gone through the P&L account this quarter. We have already turned around the whole company stock and it is not included in the pro forma. We have only included it as a figure to reconcile -- as a reconciliation figure in the reported account. You can see it in the caption between the pro forma EBITDA and the reported EBITDA.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Seasonality. How do you expect the net working capital evolve during the fourth quarter compared to whether we can see improvements in terms of the trends we have seen during the third quarter for the year-end?

### Unidentified Company Representative

As I've also mentioned during my presentation, the weather pattern for the company is working -- the merged working capital -- the temporary, sorry, the temporary pattern we have had for the consolidated company is different from the one, especially for the fourth quarter. And that's due to the fact that this -- the campaign, the early buy campaign in the States start during the fourth quarter. And the expectation is that, at the year-end, the percentage of working capital, which would be about 25% -- should be 25% or 26% of the sales figure. Thank you. Next question?

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

If you restate the sales guidance and the pro forma EBITDA, I understand that Zodiac's fourth quarter is significantly stronger than the third quarter as opposed to Fluidra on a stand-alone basis. What is that due to if both of them are overexposed to the Northern Hemisphere? The EBITDA of the fourth quarter of Zodiac was EUR 30 million. Is that right? Is it the [early buys] program normalized?

**Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

I think what you're seeing is the impact of the shift of the early buy, which is now normalized and were through. So the history in the Americas is that companies go out, pool companies go out and get the orders in place in September, October. And then they have a period of time to ship these generally in the fourth quarter. So the good news, and I can't comment on the exact quantities or orders, is that the early buy orders are in hand for Zodiac for the first quarter. So the early buy is complete. And as mentioned in the call, we're comfortable with the guidance and it feels like the early buy shift or the early buy normalization to match the market has moved from that calendar Q3 to Q4.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Thank you, Bruce, for clarifying the fourth quarter's EBITDA of the EUR 30 million. It is directionally good. Okay. If my calculations are right, the sales and EBITDA the first 6 months of Zodiac in local currency have been of approximately EUR 354 million in sales and EUR 80 million of EBITDA. In





## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

other words, 13% above the same period last year. But I understand that the first quarter of this year has been positively impacted by the early buy program adjustment. Therefore, what approximate growth has been excluding that impact?

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Okay. The figures that you point out here are directionally good. Now the figures we have shared with you are comparable. In other words, the adjustment of the early buy in the figures we have shared with you is normalized. In other words, you can start -- you can use those figures and start out with them as it was a good basis to actually measure the effect.

**Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

Just to echo what Xavier is saying, is that '17 is really adjusted for the early buy. So if you looked at Zodiac's quarter in isolation, yes, you get that. But with the adjustment in '17, now you see a more normal business flow.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Now with regards to the synergies, have you started seeing any sales synergies through the introduction of Zodiac product in your distribution network or through a greater penetration?

**Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

From a sales synergy perspective, we have identified a lot of opportunities going forward. But being the timing of the close, we really have pushed those for season '19 and beyond.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Next question. With regards to the stand-alone quarter, what has been the growth, the pro forma growth, in sales and EBITDA?

**Unidentified Company Representative**

Let's see. It has been a very good quarter, as we have said, with growth rates in sales that are close to double digit. And of course, this implied a significant expansion through operational leveraging and the EBITDA growth has also been very significant, too, also double digit. In fact, above -- more than 20%.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

On a pro forma basis, have we seen any benefit or improvement during the third quarter as a result of the delays in the sales through the second quarter as was happened to your peers, profits for early sales, et cetera? Can you elaborate on that?

**Unidentified Company Representative**

Well, basically, what we have seen, and that's what I mentioned in my presentation, rather than a benefit or the profit of early sales, it is related to the fact that the season -- the campaign started with a strong delay. And that's why the sales during the third quarter have been higher, but that's -- it's a weather -- it's a timing effect due to the weather.



## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Okay. If we talk now about the final user market, what are the prospects? The U.S.A. has certain relaxing of consumption levels. Europe, uncertainty due to Brexit. Can you remind us what the exposure you have to IT?

**Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

The market outlook in the U.S. certainly has many mixed signals, but we certainly have not seen any impact due to housing at this point. The larger impact on new construction has really been our builder capacity and rain this fall in places like Texas in October. The backlog for new construction is still very strong. We'll talk more Monday about the market overall and how resilient it is. But remember, in the U.S., 80% of the market is driven by the less discretionary aftermarket and only 20% is new construction. And at this point, that new construction is still significantly below the historic average and the -- and certainly the all-time peak.

**Unidentified Company Representative**

Now with regards to the second part of your question. The exposure that the company has in the U.K. is relatively small. The new combined company has an exposure that's below 3% of sales in our U.K. business. And on the other hand, it's a business that's working very well with very good growth rate.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

The implementation of the price policy, how much has it been? How has it been applied? Any loss of customers or market share?

**Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

Based in the U.S., August 1, and then price increases through the market with no loss of customers or share. The increase will cover our cost pressures, and we expect to do the same in Europe at the turn of the year.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you shed a bit more light about the growth of the net working capital in this period?

**Unidentified Company Representative**

Well, that has already been mentioned during the presentation, so I'm going to repeat a little bit what I've already said. But basically, the most relevant effect is in accounts payable for about EUR 25 million associated to a couple of temporary effects in the comparative with -- in the comparison with 2017, the significant payments that were made in October and that this year we will not have to make. And thus, during the next quarter, the fourth quarter, these trends should be normalized.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Now with regards to Aquatron's sale, when will you foresee its entry in cash?



NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

**Unidentified Company Representative**

The closing is expected -- and of course, this is subject to the approval by the European Commission, but the closing is expected to occur -- it would be approximately about 3 months. So we expect that during the first quarter 2019, that will be materialized and reflected in our accounts.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

What's the working capital over sales ratio on average in a normal environment?

**Unidentified Company Representative**

It would be about 29% approximately.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Do you expect high restructuring and merger costs during the fourth quarter? And how much would it be in cash?

**Unidentified Company Representative**

That has already been answered already.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Okay. Maybe it's too early or maybe you will cover this on Monday, but have you got any idea about the potential impact of changes in company -- or in corporate tax and the change in the tax treatment of international profits of Spanish companies? Talk to us about taxes.

**Unidentified Company Representative**

Yes. I think it's too early really to be able to make a comment about this. Next Monday -- as we have said, next Monday, during our Investors Day presentation, we'll talk about what are the projections of long-term taxes for the company, and we will get into the detail of that.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

The Aquatron divestiture, what's the debt? In the appendix, I see it had sales of EUR 5.2 million and EBITDA of EUR 4.7 million during the 9 months of 2018. Is the EBITDA margin that high?

**Unidentified Company Representative**

Okay. The asset value is of approximately EUR 30 million in our books, and this sales over EBITDA ratio that you see is due to the fact that most sales made by that company are not third-party sales -- sales to third parties, but they are sales made to the group companies, which are the ones that make the distribution of the product. The sales of the company are of about EUR 25 million and EUR 30 million approximately every year. But as I'm telling you, what happens is that only 5 are made directly by Aquatron as a company, which are the ones we are forced to selling. It is true that in the sale agreement of the company that we announced last night, there's a certain distribution commitment during the next years, although Aquatron will, of course, start becoming a competitor, which is what the European Commission wanted. It's going to be a competitor that will be selling the product directly in the markets in which we operate. So from a sales perspective, in the future, we will need to adjust our income by approximately EUR 25 million and EUR 30 million.



NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you give us the revenue of -- the EBITDA of Fluidra on a stand-alone basis for the 9 months?

**Unidentified Company Representative**

Well, we would need to start focusing the company on the new Fluidra. So from that point of view, we believe that the guidance we already gave you last July was a guidance focused on the joined company. And in order not to add any confusion, because, of course, during these last 6 months we started carrying out operations together, both groups, we will focus all of our communication on the combined company.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

During the last call, it was said that the revenue guidance is based on a ForEx of dollars at \$1.20. Given that the dollar has become stronger and the guidance has been kept, does that mean that the end of the year figure will be on the high range or the organic growth has been disaccelerated?

**Unidentified Company Representative**

No. We are very consistent with the guidance that we have been giving. We do not say whether it's going to be on the upper or lower side of the range. We just say it's going to be on that range. And we believe that the evidence and what we have said here today in our presentations point out to the fact that the third quarter has been a quarter with a very strong development of our organic business. And I believe that Bruce, too, in his presentation, he mentioned that we still see these trends.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you confirm that the EUR 9 million of nonrecurring integration costs or synergy costs, could you confirm that this cost is still EUR 30 million? And could you give us the temporary calendar -- the temporary timetable for these expenses? And until when will they have an impact on your accounts?

**Unidentified Company Representative**

Well, this is going to be mentioned in great detail on Monday during the Investors Day, in addition to the synergies, the expenses to obtain those synergies and the integration of both companies. And we will give you an in-depth detail of the calendar year by year.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you explain a little better what are the market conditions in Europe beyond the U.K.?

**Bruce W. Brooks** - Fluidra, S.A. - CEO & Director

The season is winding down in Europe, but it's been an excellent season in the north, as we commented during the presentation. The season has continued with strength right into October, as I mentioned. And we've seen the recovery in larger markets in the south, i.e. France and Spain. So the trend from the third quarter continued into October.



## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you quantify the profit or the improvement of the late start of the campaign during the third quarter?

### Unidentified Company Representative

Well, I believe we have already mentioned that. At the end -- during the first half of the year was a campaign that was relatively weak. And sales, during the third quarter, they show a certain recovery effect of that weak start of the campaign. And they place us on average to close to 5%, which is something -- which is slightly below the guidance we gave you. But we think that the weather impact represents 100 basis points, 1% over the sales figure.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

When you talk about EUR 25 million or EUR 30 million in terms of impact for the divestiture of Aquatron, is it a sales impact or EBITDA?

### Unidentified Company Representative

It is a sales impact. The company makes about EUR 25 million to EUR 30 million in terms of sales and we cannot say precisely the exact amount because, as I'm telling you, there is a distribution contract. And at the end of the day, we'll have to see what the company's capacity to distribute this product in the next few months and the next few years. The impact in terms of EBITDA is about EUR 5 million.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you give us an idea about the level of EBITDA of the last 12 months for the combined company, both reported and pro forma?

### Unidentified Company Representative

Well, no. We do not make any disclosure of ATM figures, but given most of the public elements that you have available, it is a piece of data that we can elaborate for next calls.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Could you please give us the sales and EBITDA figure of the third quarter 2017 that you used to calculate the sales growth of about 10% and more than 20% in EBITDA in the stand-alone quarter in 2018?

### Unidentified Company Representative

Well, I believe that most -- we are referring to EUR 276 million and about EUR 28 million or EUR 27 million in terms of sales. At any rate, this information is an information that can be calculated between the public information you have available that has been reported and you can reach that figure. EUR 236 million in sales and EUR 27 million in EBITDA.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Okay. Fine. Thank you. So for today's presentation, there are no further queries. We thank our speakers, Eloi, Bruce and Xavier. Thank you all for your attendance and participation. And as usual, you know that the Investor's Relations Department is available to make any -- to respond to any of your queries. Thank you, and have a pleasant day.



## NOVEMBER 09, 2018 / 10:00AM, FDR.MC - Q3 2018 Fluidra SA Earnings Call

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