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PRESENTATION

Luis Boada - *Fluidra, S.A. - IR, Corporate Communications & Business Development Director*

Good morning, and welcome to Fluidra's 2020 Q3 Results Presentation. I am Luis Boada, Investor Relations, Corporate Communications and Business Development Director at Fluidra. It is a pleasure to be presenting our results to you today.

Today's presenters will be Mr. Eloy Planes, our Executive Chairman; Mr. Bruce Brooks, our CEO; and Mr. Xavier Tintore, our CFO. You can follow this presentation in its original English version or its entirety in Spanish. You can select your preferred option in the drop-down menu at the bottom right of your screen.

Based on feedback received from investors and analysts, some of you in the call, today's presentation will include live Q&A instead of online written questions. (Operator Instructions)

Today's presentation is accessible through our website, fluidra.com, and was uploaded when market opened to the CNMB as well. The replay of today's presentation will be made available on our website shortly after we finish.

Let us start with the presentation by opening the floor to our Executive Chairman, Mr. Eloy Planes.

Eloy Planes Corts - *Fluidra, S.A. - Executive Chairman, Executive President, MD & Co-CEO*

Thank you, Luis. Good morning, and welcome to our 2020 3rd quarter earnings presentation. I hope you are all safe and well. This year-to-date has been an extraordinary one in our lives. At this stage in the year, I would have preferred to present our result in a COVID-19-free world, but unfortunately, that's not the case. We are still executing in unusual environment in this new normal situation.

Therefore, I would like to start again by thanking our people, all of whom have demonstrated great commitment to our customers. Our teams have proactively responded to this continued challenge with extra effort and speed, strengthening our business. That's the real key factor behind Fluidra's strong third quarter. We feel very proud of our team. They are driving the company's performance.

We started the year when the pandemic hit, making us withdraw our guidance and dividend due to this uncertainty. As soon as we were back in business, post hard lockdowns in May, the strength of our sector's demand resumed. We were then able to post solid first half results with a strong

momentum in July, growing at double digit. As you will see in today's presentation, that trend was maintained in linearity throughout the quarter, experiencing a record in sales, a superb finished to the 2020 Northern Hemisphere Residential Pool season.

Besides the outstanding top line growth, I would like to highlight that we have continued executing our plan on margin expansion initiative, an intrinsic value-add characteristic resulting from the 2018's merger. As of September, we had already achieved our full year synergies target, so we are well on track to deliver our overall program in 2021.

Perhaps the most important highlight of the quarter is our excellent cash generation. We are a high cash-generating business that naturally lends itself to shareholder remuneration and accretive M&A in a fragmented market. Resuming our dividend payments with a EUR 41 million paid yesterday and the 3 bolt-on acquisitions closed so far this year are a good testimony of it. This accretive capital allocation still sees as a low leverage levels.

As I mentioned, the situation in the world is still unusual. We cannot know how the pandemic will evolve in Q4 and during 2021. But as Bruce will share with you in a few moments, businesses readings and outlook remains strong, both on aftermarket as well as new builds. Our full year results for 2020 will show a strong performance, on which we will be able to build back to the industrial's historical long-term growth rates. While we remain cautious, we are ready to keep executing our strategy, and our future perspectives are very encouraging.

At this point, I give the floor to Bruce, who is our CEO; who along with our CFO, Xavier, will provide a deeper look at the 2020 third quarter figures and outlook.

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

(foreign language), Eloy. It's a pleasure for me to join you live from Barcelona this time to share our earnings for this 9-month period of 2020.

Let me start with comments on our overall performance and highlights for the quarter and then turn it over to Xavier, our CFO, to provide more details on the financial results. I will then return to provide some color on our outlook.

The numbers you see on Slide 5 are the 2019 and 2020 financial highlights for January through September. Our global platform continued to demonstrate its value as we saw extraordinary growth in the quarter, chasing the pent-up demand in the channel and putting us in excellent position year-to-date. In this 9-month period of 2020, sales grew 9.2%, adjusted for currency and perimeter, compared to the same period in 2019 to EUR 1,142.9 million. This was a stellar quarter, with record sales in Q3.

Adjusted for currency and perimeter, EBITDA and EBITA both clocked in at 22.3% and 32.4% to EUR 248 million and EUR 202.1 million, respectively. Both measures showed superb operating leverage with strong cost synergies, delivery and read-through of our value initiatives. We do not usually speak to last 12 months EBITDA, but as we have now crossed over the EUR 300 million mark, I cannot resist to point out this new high watermark.

Cash earnings per share grew 42.6%, adjusted for currency and perimeter. Based on the aforementioned positive EBITA growth, compounded with lower interest paid due to the start of the year's debt repricing. As for operating net working capital, we ended the period 24.5% lower from the same period last year on an FX and perimeter adjusted basis at approximately EUR 241 million, improving the ratio to sales by an outstanding 688 basis points.

Our net debt and net financial debt stood at approximately EUR 583.6 million and EUR 468.5 million, respectively, having decreased 23.1% and 28.5%, respectively, on an FX and perimeter-adjusted basis. The decrease in net debt was driven by excellent cash generation and puts us far ahead of our plan from a leverage perspective, as our current LTM net debt-to-EBITDA ratio stands at an impressive 1.9x pre-dividend and 2x pro forma for the -- after the EUR 41 million dividend payment.

We also achieved full year run rate synergies of EUR 36.2 million, up almost 39%. We're proud to share that the achievement of synergies has already surpassed our full year target, and we remain ahead of schedule.

Moving to Page 6. Let me share some highlights for the quarter. We continue to operate with agility in the new normal with these appropriate measures and processes in place to ensure preparedness for resurgences. As for sales evolution, we performed superbly during every month of Q3, with continued strong demand in the Northern Hemisphere as the season winds down. The desire for safe and larger space to enjoy your family, we believe, is a macro trend that supports both our engines of growth, aftermarket and new build.

Aftermarket, our biggest driver, has led the step change in performance as people remain home and pool usage remains high. On top of that, we started to see a greater contribution of our second engine of growth as accelerated new pool permits begin turning into digs or actual construction. New build backlog is very strong, with many builders reporting commitments greater than 6 months, laying a strong foundation for 2021.

Our OpEx levels continue to normalize, and we continue to execute our plan, delivering strong results on our important margin expansion initiatives like value improvement and lean. Due to the strong performance year-to-date and expected for the full year, voluntary temporary compensation reductions of nonexecutive Board members, executive Board members, management and other employees will be reimbursed.

On the supply chain front, we saw a marginal impact of COVID-19, resulting in increased costs as we continue to catch up with additional manufacturing labor and some transportation headwind in a supply-constrained environment. Our excellent cash generation saw us resume our dividend to shareholders, as yesterday, we paid EUR 0.21 per share, resulting in an outflow of approximately EUR 41 million.

Lastly, we continue executing our accretive inorganic growth strategy with 3 bolt-on acquisitions year-to-date, joining Fabtronics and Aquafive that we commented in earlier results presentations. Most recently, we acquired the Brazilian company, Ten Four. The company has revenues of around EUR 2.7 million and specializes in the packaging and sale of pool chemical products. This acquisition makes Fluidra the only player in the Brazilian market with a complete offer of equipment and pool chemicals.

Turning now to Page 7. You see the sales evolution by geography. During this 9-month period, global sales grew 7.5% compared with the same period of 2019. Stand-alone Q3 sales grew 20.1% and an even more impressive 25.2% when adjusted for currency and perimeter. Our global footprint and product diversification helped us compensate for the uncharacteristic sales decreases related to the Coronavirus lockdowns experienced mostly in Q2.

Southern Europe's excellent recovery continued with currency and perimeter adjusted growth of 20.2% in Q3, driven by France, Spain and Italy's strong sales in the quarter and 1.3% in the 9-month period. Our performance year-to-date in Southern Europe is composed of 2 contrasting dynamics: our residential business experiencing an underlying growth year-to-date in the mid- to high single digits; and the commercial pool business heavily impacted by the hospitality sector, down close to 20%.

The Rest of Europe continued to deliver stellar results, accelerating its growth to 41.6% in Q3 on an adjusted basis, driven by outstanding performance in Germany and Eastern Europe. In the 9-month period, this area saw adjusted growth of 25.2%.

North America continued its double-digit growth, up approximately 16% on an adjusted basis in the 9-month period. Residential pools large aftermarket led base was favored by very good weather and stay at home trends. This resulted in sensational sell-through in the channel, pressuring our manufacturing team to chase this pent-up demand. Q3 sales grew over 38% in Northern America for the third quarter when adjusted for currency and perimeter.

The Rest of the World saw sales growth 3.3% for the quarter and decreased 2.4% for the 9-month period on a currency and perimeter adjusted basis. This area saw a relatively better performance this quarter with mid-single-digit growth in residential markets, offset by double-digit decline in commercial pool-driven markets. This overall performance demonstrates the continued resiliency of our business and strength of our market's fundamentals.

Next, on Page 8, we see the evolution by business unit. Residential pool is our largest segment and accounted for 71% of Q3 sales, growing close to 26% for the quarter, supported by pent-up demand and encouraging signs of the cocooning effect. New construction, our second growth engine, accelerated in Q3. The residential segment is up 11.8% for the 9-month period.

As expected, commercial pool continued to be impacted by COVID-19's effect on the hospitality sector with a quarterly decrease in sales, of a little over 1%. The relative improvement versus Q2 is explained by the greater weight of aftermarket, especially that coming from commercial pools at apartment buildings, condominiums, and even camping sites. It was also partially explained by the launch of our commercial pool business in North America, which is a small contributor, but has no prior year comparable.

Larger hospitality remain weak. Many projects resume work towards completion, but the pipeline for new projects is soft. This business unit suffered an 8.6% decrease in the 9-month period compared to the same period last year. Again, the relatively better evolution of this unit highlights the resiliency of the business in such a challenging environment.

Pool order treatment grew 11.2% for the quarter. This business unit saw great performance of the water care equipment segment, which more than offset the weaker evolution of chemicals impacted by commercial pool. Commercial pools need to comply with very high standards of disinfection based on beta loads. So their relative use of chemicals is much greater than for residential pools.

The fluid handling business grew an excellent 20.6% for the quarter, more aligned with the residential segment. In summary, our global footprint continues to play an integral role in helping us deliver robust growth, together with excellent cash generation.

I want to thank our talented team of more than 5,000 employees and business partners for their agility, positivity and sacrifices during these challenging times. To move from shutdown to full speed, using our values and keeping customers at the center of all we do makes me know that we are truly one Fluidra and continue to have many opportunities in front of us.

With that, I'll turn it over to Xavier to explain the financial results in more detail before I return to share our outlook.

Xavier Tintore - Fluidra, S.A. - CFO

Thank you, Bruce. Let's turn to Page 9 now. In order to provide you with a consistent view of the performance of business, the profit and loss account in this page excludes nonrecurring expense in the cost of goods sold and OpEx lines. Below EBITDA, you have the nonrecurring charges identified in one caption. In addition, in the Appendix, you have the reported P&L with all the nonrecurring expense properly classified by nature.

Let's now comment on the profit account for September. Sales growth of 7.5%, that is 9.2% adjusted for currency and perimeter, with a strong sustained recovery from the pandemic that started in May has accelerated in Q3, as Bruce has explained. Gross margin reached 52.3%, 110 basis points higher than prior year, driven by price increases and positive impact of cost synergy, partially offset by country and product mix. These 2 mix factors that have had a significant impact in Q2, have had less of an impact in Q3 as we drove a more natural product mix.

Operating expenses of EUR 347 million with an increase of 2.1%, show good operating leverage as a result of the impact of our cost synergies and the measures implemented to reduce fixed OpEx due to the pandemic, offsetting one-off costs associated to COVID-19 and increases in variable compensation.

Provision for bad debt is EUR 4.5 million or 0.4% of sales, with an increase of EUR 1.2 million over last year, driven by collection issues in Middle East Australia and Northern Africa.

EBITDA reached EUR 248 million with an increase of 19.2%, driven by higher sales volume and good operating leverage. EBITDA margin reached 21.7%, an improvement of 220 basis points. EBITA increased by more than 25%, and margin reached 17.7%. Below the EBITA line, the decrease of amortization, which is associated to M&A and mainly to the Zodiac merger, is driven by the natural decrease of these intangibles.

Nonrecurring expense of EUR 13.4 million showed a very significant decrease of more than EUR 25 million, driven by lower integration cost and stock-based compensation. The most significant item reported under this line now is stock-based compensation with EUR 7.2 million.

Net financial results is EUR 33.6 million, 6.3% lower than 2019. The decrease is driven by lower interest expense as a result of the repricing that we did in the beginning of the year, partially offset by FX impact.

As a result of higher volumes and margins on a lower expense base, lower nonrecurring expense and lower financial charges, net income reached EUR 77 million compared to EUR 24.1 million last year, an increase of more than 200%. As you know, we track cash net profit, a good indicator for Fluidra, as we have a very significant amortization which is purely purchase accounting-related and other noncash costs that impact materially our net profit and EPS calculation. Cash net profit reached EUR 123.9 million with a 42.5% increase, driven by the higher net income and lower cash interest paid.

Page 10 shows the evolution of net working capital for the group. Operating net working capital reached EUR 241.5 million or 17% of LTM sales, an improvement of 688 basis points to prior year. The increased level of activity in the quarter explains the payable and inventory evolution. We have been driving towards reestablishing our inventory levels in this supply chain-challenged environment and have only partially achieved that as demand has continued at very strong levels.

Account receivable shows also an improvement driven by better geographical mix and good collection patterns in North America and Europe. On the earn-out and other items front, the most significant impact in this quarter is the EUR 41 million dividend payable that has been paid in October.

The following page shows the free cash flow statement for the first 9 months as well as the net debt evolution. Q3 has been a phenomenal quarter in terms of cash generation, which adds to a great Q2. From an operating cash flow perspective, the company has generated EUR 223.8 million, that is EUR 114 million more than last year, driven by better results, lower interest paid and cash generation from net working capital.

On the investment section, there is a significant swing as during 2019, we cashed in the sale of Aquatron, and in 2020, we have completed the acquisition of Fabtronics in Australia, Aquafive in Belgium and Ten Four in Brazil. We have also paid some earn-outs. I want to point out that CapEx shows also a decrease from EUR 31.9 million to EUR 25 million due to the COVID-19 measures.

With this great performance, net debt reached EUR 583.6 million, showing a decrease of almost EUR 200 million to prior year, representing a ratio of 1.9x EBITDA compared to 3.1x in 2019, more than a full turn of reduction in the last 12 months. Net financial debt, excluding leases, reached EUR 468.5 million and 1.5x EBITDA.

As previously said, in October, we have paid EUR 41 million for dividend, resuming our traditional dividend payment that was stopped for the last couple of years to delever the company after the Zodiac merger. We have now reached our long-term leverage target as we intend to run the company at around this 2x net debt ratio, which means that we'll be devoting cash to accretive M&A and dividends, as we indicated in our last Capital Market Day.

So in summary, great performance that shows the cash generation strength of our business.

And with that, I will turn the call to Bruce and Eloy to close the quarterly call.

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

Thank you, XT. Moving on to Page 12. Let's talk about our outlook. As discussed in today's call, we saw a superb finish to the 2020 pool season for the Northern Hemisphere. Early data for October points to double-digit sales growth as demand remains robust. Management is confident on delivering a strong Q4 that follows the same constant FX growth trend and EBITDA margin as in year-to-date. This is predicted upon our new normal, excluding any potential hard lockdown effects in the quarter.

Aftermarket resiliency has been demonstrated and new build activity is accelerating. The fundamentals of the sector remain very strong, especially when you add the tailwind from the macro stay-at-home cocooning effect. Early buy orders received in the U.S. so far show a strong increase, itself, a positive indicator for an encouraging 2021.

Meanwhile, we expect to see continued weak performance in the commercial pool segment, so long as the hospitality sector remains affected by COVID-19. I remind you that this segment represents a relatively small portion of the total business.

Stabilized supply chain and lockdown-free markets will create unusual quarter-to-quarter comparisons in 2021 as the market returns to historic growth rates off the elevated base. I would like to remind you that the U.S. is still below its long-term historic average of new pools being built in a world where we have not had data for as long is below the number of pools built prior to the GFC.

Our high cash-generative business will see us continue with our policy of accretive capital allocation as we execute our pipeline of ongoing M&A activity.

And now back to the Chairman to put a bow on our 9-month 2020 earnings prepared results.

Eloy Planes Cortes - Fluidra, S.A. - Executive Chairman, Executive President, MD & Co-CEO

Gracias, Bruce. Thank you, Xavier. As you have seen from today's presentations, we are experiencing encouraging trading strength so far. We are delighted with overall results in the first 9 months of the year, and we are expecting a strong finish to the year 2020.

I would like to emphasize that we have reached our long-term leverage target ratios through a phenomenal cash generation this year. Market dynamics in the Northern Hemisphere and orders received show a solid increase, and our residential sell-through remains very strong. Besides, preliminary data for October points to maintain double-digit sales growth.

We remain cautious and prepared going forward as we are in this dynamic situation. The 2020 momentum and the very significant revised orders position us well for a strong 2021 as we deliver against our 2022 strategic plan. The company continues to strengthen and our intrinsic equity story remains the same, resilient, double-digit market, combined with our leading platform, enabling growth through customer collaboration, significant margin expansion with a strong cash conversion, which drive an excellent return on capital that can be accelerated by accretive capital allocation.

Thank you for joining us today and for your continued interest. I hope you all stay safe. And with that, I will turn the call back over to Luis to begin our Q&A session.

QUESTIONS AND ANSWERS

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

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

Operator

(Operator Instructions)

Our first question comes from George Featherstone of Bank of America.

George Featherstone - BofA Merrill Lynch, Research Division - Research Analyst & Associate

My first one would be, can you break out for us the Q3 organic growth rate by aftermarket and new build?

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

George, nice to hear from you. I hope you are well as well. That is a very tough one inside a quarter and something that's going to take us till the end of the year and some time after to really unpack the breakout between aftermarket and new construction.

If I just had to try to give you indicators, what we have seen in our numbers versus maybe what we saw in Q2, is Q2 was largely driven by aftermarket. Q3, we saw the aftermarket continue to remain strong, and then we started to see new construction really add to the momentum that we had from the aftermarket. So as kind of mentioned in the prepared remarks, both of these engines are starting to really run.

George Featherstone - BofA Merrill Lynch, Research Division - Research Analyst & Associate

Appreciate it. It's difficult at this early stage to understand that. Maybe on the second question then around pricing. Given the market dynamics and supply remaining tight and demand remaining high, how should we think about pricing into Q4?

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

So pricing really depends a little bit where you are in the world because it really depends based on the start of the season. So for example, in Australia, we went ahead and made our pricing actions in -- before the season, let's call it, July. In North America, we took our pricing actions as of October 1, kind of right before the early buy. And for Europe, they tend to go after the first of the year.

I think this is -- we've talked about this industry before. It's an industry that takes price, lower inflationary times, 1 to 2, in higher inflationary times, 2 to 3. We certainly see, going into '21, as a higher inflationary or higher cost type of environment. So our prediction is 2 to 3, 2 to 3-plus is the type of overall macro price that you'll see for '21.

George Featherstone - BofA Merrill Lynch, Research Division - Research Analyst & Associate

Okay. Great. And then final one for me. How much visibility do you have on 2021? It sounded, though, just from the commentary on how the early buy season is going so far that the trends that you're seeing currently could continue into next year. It would just be great to get something about how much visibility you have on that?

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

I think it's early on '21, George. I think -- we'll come back and we'll certainly give direction in the new year. From a sales perspective, we feel like stay at home trends favor both new construction, which we know we've got a significant backlog for, and aftermarket. So more pools that are built, the bigger the aftermarket is. The more you use the pool, the more you spend. So we're encouraged off of the new base that we see.

From a margin perspective, we're going to continue our margin expansion initiatives, finish up on the synergy program and continue to drive value improvement in lean. And we'll forecast another positive cash year with continued strength, enabling dividend and more bolt-ons. So we're optimistic for '21.

Operator

The next question on the line comes from Francisco Ruiz of Exane.

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

Congratulations for the great figures. I have 3 questions. The first one is on working capital. I remember that Xavier commented that this normalized working capital level of 20% to 22%, and now you are at 17%. Could it be a new normal, this one? Or we could expect a rebound in the working capital in coming quarters?

The second question is on early buys. You commented that it has been a positive indicator. So could you quantify a little bit versus probably last year or something like that in order to have a better view on how the season is going?

And the third question is looking at the Spanish budget and on the tax on dividends that the government would like to implement, do you have any views on that? And how could it have affected the company next year?

Xavier Tintore - *Fluidra, S.A. - CFO*

Yes. I'll start with the #1, Bruce, and then you follow. Yes, net working capital, we are very happy with the performance we had at the end of Q3. And as you well pointed out, we guided to finish 2020 in December at around 22%. Really, the level of activity at this point in time is helping us a little bit there. And maybe, although the target is still the same, we can beat that target by roughly, I would say, 100 basis points or so. We could be a little bit better at year-end.

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

As far as the early buy is concerned, we've never given specific numbers. I do believe it's a nice leading indicator on how the industry is feeling about the following year. Demand continues to be strong. So demand orders, even at this point, continue strong. Early buys come in, and let's just say that it's double-digit plus versus where we were prior year.

I think I'll give the dividend question back to you, XT.

Xavier Tintore - *Fluidra, S.A. - CFO*

Yes. Paco, it's probably a little bit too early to note what is the impact. It's true that this will -- this tax will have an impact as we distribute dividends in the different subsidiaries that the company has in Spain. Also, I just want to highlight that as part of the merger with Zodiac, we have been simplifying our legal structure. And clearly, that simplification will benefit now in terms of potential tax impact on that change.

Operator

Our next question comes from Christoph Greulich of Berenberg.

Christoph Greulich - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

It's 2 questions from my side, please. So among your key messages on Slide 4, you mentioned the strong industry indicators. Could you just summarize what are the main indicators you're looking at here? And then also, when you mentioned the early buy orders in North America, is there anything similar in Europe that gives you signals for 2021?

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

Okay. As far as the indicators that we can look at, I'd say the best indicator is talking to our channel partners and seeing how they're feeling about the market. What we're seeing in aftermarket, and like we said, the demand orders for this time of year have remained very strong.

The other thing that we look at is new construction permits. Permits are outpacing, frankly, the industry's capacity right now. New construction permits in the States are north of 30% growth when you combine the various markets that report. Not all markets report. And we're seeing permit work in Europe, again, not all work the same way, but it's kind of showing a mid-teen type of growth in new construction.

So aftermarket continues to be positive. There's -- it's tougher to get indicators there. Permits take time to turn into construction or turn into digs, which is really based on the capacity right now of the industry. But frankly, we haven't seen new build permits and this type of backlog at this level since pre-GFC.

Christoph Greulich - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Okay. That's great. If I could just have one other one. With regard to capacity in the industry, do you see any, let's say, material bottlenecks to meet the strong demand in the market? And what part of the value chain? Is it more on the supply side, the manufacturing side or rather at the side of the pool professionals that could be capacity bottlenecks?

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

Before I go to manufacturing capacity, let me answer the rest of your question on the early buy. There is not an early buy type of program in Europe. Apologies for missing that.

As far as manufacturing capacity, I think '20 is such an unusual year in the sense that in March and April, we're thinking the industry was going to be down significantly. Everybody was closing down their manufacturing facilities, trying to get their COVID protocols in place and then ramp back up to kind of full speed. I don't see any real manufacturing capacity issues in the industry. I do think we benefited a bit in '20 just because of our more diverse global manufacturing footprint than some of our competitors because we still are dealing with COVID and COVID and employees and making sure that we can continue to protect our employees but still supply our customers. So we feel like we've got good, robust processes in place to protect them, but we don't see a big issue there.

On the second part of your question, specifically as it relates to new construction, there is a bottleneck with the amount of new pools that pool professionals can put in, in a year. We think that, again, in North America, the market will grow about 20% this year, taking the overall number to, let's call it, between 90,000 and 95,000 pools. But frankly, the orders are for much higher than that. So we think that will be, again, a positive thing for '21.

In Europe, we don't have the same data, but the dynamic is much the same. Capacity is ultimately constrained in new construction.

Operator

The next question on the line comes from Manuel Lorente of Mirabaud.

Manuel Lorente - *Mirabaud Securities Limited, Research Division - Analyst*

Maybe can you narrow in a little bit the double-digit growth that you're seeing in October?

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

I think as far as the double-digit growth in October, is -- are you -- I'm not sure exactly what you're looking for, Manuel. Are you looking for a particular growth range in October?

Manuel Lorente - *Mirabaud Securities Limited, Research Division - Analyst*

Yes. No And I'm having a look to the Page 12 of your presentation, when you're referring that October point to double-digit sales growth. Is that low single digit, mid-single digit, high single digit?

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

Easier for you, let's call it about 15%.

Manuel Lorente - *Mirabaud Securities Limited, Research Division - Analyst*

15%, 1-5?

Luis Boada - *Fluidra, S.A. - IR, Corporate Communications & Business Development Director*

Terry, it looks like we could go to the next question, please.

Bruno Filipe Bessa - *Banco BPI, S.A., Research Division - Research Analyst*

So a couple of questions from my side. The first one, focusing on the margin evolution. Last year, we saw an improvement in terms of margin quality compared to Q3, and by itself (inaudible) in Q3. And should we see similar trend this year? And if you could explain what is the reason for this improvement in terms of margins in Q4 against Q3 with lower sales levels. This will be my first question.

And my second question, focusing on cash flow and net debt evolution. During Q4, you will be paying EUR 41 million. And if I understood correctly, we should see a normalization of working capital towards levels closer to the target that you have for the year-end. So does this mean that you are expecting net debt to increase by year-end when compared to the end of Q3? So this will be my second question.

And the last question, just wondering if you could provide us some visibility on the trends that you are seeing in regions in the Southern Hemisphere, like in Australia, for instance, in terms of sales evolution of that -- this region...

Xavier Tintore - *Fluidra, S.A. - CFO*

Thank you, Bruno, for your questions. I'll take the first 2 and then Bruce can take the last one. As to margin, really, we are seeing a nice improvement this year with this 110 basis points that we have seen year-to-date, which is a result of the pricing read-through that Bruce has talked about a little bit earlier. It's a little bit higher in North America than what we see in rest of the world. And we also see some benefit coming from the cost synergies. That's helping offset some negative mix as we have higher sales in countries where -- like in Northern Europe, where we carry a little bit -- slightly lower margin than in the States or in Southern Europe. So that's basically the explanation as to margin gains year-to-date.

I think your question was also asking if we were to see similar trends in Q4. And I would say that probably not as significant as we have seen year-to-date as the mix of Q4 last year was a more natural mix, and we expect a similar one this year. Maybe a little bit of pressure from higher sales in Northern Europe, but I would say directionally, the trend should be similar to what we saw last year.

As to your second question around cash flow and net debt, you're right. I mean we paid yesterday the EUR 41 million of dividend. And as I mentioned earlier, we are going to be finishing the year with a higher net working capital than what we had. So the net debt number should increase slightly in the fourth quarter.

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

Okay. As far as the performance in the Southern Hemisphere really in Q3, what we've seen is the continued challenge in Asia. Asia, for us, is predominantly commercial. So that market has been tough. So let's call that double-digit down. On the -- in addition, South Africa, which is a good-sized pool market, I would say the economy there has not recovered as fast as in some of the other markets. I think the encouraging sign of Southern Hemisphere is that we're seeing a good start to the season in Latin America, in particular in Brazil, which has a bit more of a residential component. And then Australia, which is the largest component of Southern Hemisphere for us, we're seeing the benefit of cocooning begin down there as well as they've finally broken into nice growth on the residential side.

I put one little caveat in Australia, which is Victoria, which is an important state in Australia with Melbourne as the heart of it, was locked down for most of the quarter. So with the exception of that, we're really seeing the good trends in the residential-driven markets.

Operator

(foreign language)

[Interpreted] There are no further questions in the Spanish room.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

This marks the end of today's presentation. We thank our speakers and participants. As always, please feel free to reach out to our Investor Relations department for further questions. Have a good day.

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