REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FLUI.MC - Q4 2022 Fluidra SA Earnings Call

EVENT DATE/TIME: FEBRUARY 27, 2023 / 10:00AM GMT

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

Jingyi Zheng *Crédit Suisse AG, Research Division - Research Analyst*

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

PRESENTATION

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

Good morning, and welcome to our full year 2022 results call. I am Clara Valera, Investor Relations and Business Development Director. Joining me today on this call is our Executive Chairman, Eloy Planes; our CEO, Bruce Brook; and Xavier Tintore, our CFTO. They will walk you through a few slides on our results, and then we will all 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, 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.

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

Thanks, Clara. Good morning to you all, and thank you for your interest in Fluidra and for taking the time to join us this morning. Today, we are presenting our full year 2022 results, and Bruce and Xavier will provide more detail shortly.

First, let me summarize the points I wanted to get across to you this morning. We are pleased to have achieved the 2022 guidance we shared with you last October: sales of EUR 2.4 billion, EBITDA of EUR 512 million and cash EPS of EUR 1.40.

We started 2022 with a strong growth in the first quarter, followed by a weaker second part of the year with volumes affected by a correction of inventory in the channel as supply chain disruptions and demand patterns normalize. To offset continued cost inflation, we carried out a number of price increases in the last 12 months. These increases will support gross margin recovery as we enter in 2023.

As we have shared with you, we implemented a simplification program in 2022 to further enhance our gross margin and reduce our fixed cost base over the next 3 years. We have already taken actions to deliver benefits in this 2023.

Our business is strongly cash generative. At present, net working capital and net debt levels are temporarily affected by the current trading environment. We are focused on bringing this back to our target levels. Save that, our capital allocation policy remains unchanged, centered around investing to grow the business, a consistent dividend policy and accretive M&A to strengthen our platform.

Moving now to Slide #5. I would like to put in context 2022's performance. Fluidra is today a structurally stronger business than 3 years ago. We have grown revenues at a compounded annual growth rate of 20%, and we have expanded our EBITDA margins. We are a more reliable partner, having grown our share in a larger industry. The installed base has expanded with more than 1 million additional pool in the last 3 years with higher value and underpinning aftermarket demand for the future.

We are a global leader, and we continue to work to increase our market share, offering more connected and sustainable products and creating value for our stakeholders. Despite the current economic environment, my leadership team, my Board and myself, we are very confident that all our work to strengthen and position the group for a long-term success is in excellent shape. We look forward to discussing our results with you this morning.

And with that, the baton, I hand first to you, Bruce, to continue with our presentation.

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

Gracias, Eloy, and good morning, and thank you all for participating today in this conference call.

Moving to Slide #6. Let me start with comments on our overall performance and highlights for the full year and then turn it over to Xavier to provide more details on the financial results. I will then return to provide some color on our simplification program and outlook.

The numbers you see on Slide 6 are the 2021 and 2022 financial highlights for the full year. Sales grew by 9% compared to a very strong prior year to EUR 2.389 billion driven by price, acquisitions and currency. These more than offset a volume slowdown due to the correction of inventory in the channel, mainly in the U.S., and softer demand, in particular, in Northern Europe. Adjusted for currency and perimeter, sales declined by 1%.

EBITDA was 7% lower compared to a very strong prior year period, reflecting cost inflation pressures and an unfavorable product and geographic mix. With the action we have taken on price, we're seeing a sequential underlying improvement in gross margin as we enter 2023. And as Eloy mentioned, we are addressing our fixed cost base.

Going down the P&L, cash EPS is lower year-on-year as a result of a one-off tax benefit effect from the Zodiac merger in Q2 of 2021, along with higher finance costs.

Trading conditions in the second half of 2022 have also influenced our inventory and payable levels. Operating net working capital to sales in the last 12 months was around 24% compared to 16% last year. Our inventory doesn't age and we'll correct it in the coming quarters.

Consequently, the ratio of net debt to last 12 months EBITDA at the end of the year was around 2.6x, temporarily above normal levels. We expect to deleverage once our working capital levels normalize.

Moving to Page 7, let me share some highlights of the year. Importantly, on the pricing front, we have achieved mid-single-digit price increases in North America and low single-digit price increases for Europe for the 2023 pool season. I'm excited by the opportunity we have to become a more efficient and effective business.

To that effect, we spent a good part of the year assessing and building our simplification program. We're taking the necessary actions to deliver EUR 100 million of EBITDA over the next 3 years. I'll spend a bit more time on this later.

On the M&A front, the integration of the business we acquired in 2021 went according to plan, complementing and enhancing our product portfolio, particularly in the U.S. Additionally, we completed 2 acquisitions and agreed a third to strengthen our European distribution network. We continue to work on developing our pipeline of opportunities.

As a testament to our customer-centric approach, I'm proud we have been named Vendor of the Year by the 3 largest distributors in North America for the second year in a row. My thanks go to our teams for this achievement. These awards are a reflection of the extraordinary effort everyone at Fluidra makes to take care of our customers all the way through our value chain.

On the sustainability side, which is core to our vision, mission and values, let me highlight a few points. On the environmental front, we're happy to share that we reached our 2022 target to source more than 80% of electricity from renewable sources. We ensure a high level of employee engagement according to our 2022 survey with an outstanding 90%. No doubt, our people are our competitive advantage. We continue to work to reducing the gender wage gap and we made good progress in 2022, reducing it to 5%. We believe in equal pay for equal work between men and women, and we are well positioned to attain our 2024 goal.

Our efforts are recognized by ESG rating indices. CDP has upgraded us to B. Having further improved our S&P rating, we've been included for the first time in their yearbook of most sustainable companies, leading the pool sector.

Moving to Slide #8, I want to spend a bit of time to remind you our focus on innovation, which goes hand-in-hand with understanding our customers and end users' needs. The Astralpool's HALO Connect is a new scalable way to enable connectivity in existing pools and introduce automation on the pool pad developed by the team in Australia. In the middle, you can see our new cordless robotic cleaner, which addresses a key user issue, the cord, without compromising on quality.

Our Jandy Speedset variable speed pump saves energy and has a new digital user interface that transforms usability, making it faster and easier for the pool professional to install and for the consumer to manage. It's great for the aftermarket. We see growing demand for variable speed pumps supported by legislation to replace single-speed pumps and energy savings advantages.

More than 20% of our sales come from products developed in the last 5 years. We have 3x more patents than the next industry player. Our track record in research and development and innovation is core to our ongoing success in the marketplace.

Moving to Slide #9. You see in the right side of the slide, the positive contribution of price, FX and acquisitions more than offset the lower sales volume in the year. On the left-hand side, you can see a breakdown of sales geographically, both for the fourth quarter and for the full year. I will provide more detail by region.

As you can see, total sales in the fourth quarter were down 16% year-on-year on a strong performance in the prior year of 19% when adjusted for FX and perimeter. In Southern Europe, we saw softness in the Mediterranean area, with some customer destocking. This region saw a 15% decline in a seasonally weak quarter but a 7% growth in the full year on an FX and perimeter basis.

The rest of Europe is negatively affected by the energy crisis and the macro and geopolitical environment weighing on consumer sentiment as well as some inventory correction. Adjusted for FX and perimeter, this area was 24% down in Q4 and 15% in the 12-month period.

North America recorded a negative evolution affected mostly by the inventory correction in the channel. Organically, this region had a tough comparable of 56% growth at constant FX and perimeter in 2021. This area declined 25% in the quarter and 6% in the full year once adjusted for FX and perimeter. The destocking process is stronger in North America as we are pure manufacturers. We estimate sell-through during the year was up by mid-single digits.

Rest of the world sales evolved positively led by Australia, our main country in the area. Adjusted for FX and perimeter, growth was 7% and 15% in the quarter and in the 12-month period, respectively.

With that, I'll turn it over to Xavier to explain the financial results in more detail before I return to share some details on our simplification program as well as on our outlook.

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

Thank you, Bruce.

Let's turn to Page 10 and take a look at the P&L in some more detail. Sales grew by 9% in the full year to EUR 2.4 billion. Gross margin reached 51.3%, 180 basis points lower than prior year. We have seen a continued acceleration of pricing read-through, with price minus inflation representing 260 basis points of increased margin. While mix, driven by product, region and acquisitions, represents minus [40 basis points].

Operating expenses reached EUR 713 million, an increase of 16%, which is 4% if we adjust for perimeter and FX, impacted by higher logistics and transportation costs as well as investments in marketing, IT and R&D. Acquisitions represent 7 points of the OpEx growth, while FX is 5 points.

EBITDA reached EUR 512 million, a decrease of 7% driven by the impact of lower volumes and margin contribution, together with the increased expenses that cannot be offset by acquisitions and currency. EBITDA margin reached 21.4%, which is 370 basis points lower than in prior year.

EBITA of EUR 421 million was down 13% with a margin of 17.6%. Below the EBITA line, amortization increased to EUR 75 million driven by the intangible assets arising from the acquisitions completed in 2021.

Nonrecurring expenses of EUR 42 million includes simplification one-off cost of EUR 21 million, stock-based compensation of EUR 15 million and integration and other nonrecurring expenses of EUR 6 million.

Net financial results amounts to EUR 79 million, EUR 35 million higher than last year due to EUR 14 million of unfavorable noncash FX impacts, the EUR 12 million write-off of noncash fees generated in the refinancing carried out in January and the remainder being higher interest expense on higher debt. Tax rate was at 27% versus a 24% rate in 2021, which benefited from a one-off impact related to the Zodiac merger.

Net profit reached EUR 160 million compared to EUR 252 million in 2021, down 37% as a result of lower EBITDA, additional amortization, higher financing costs and a higher tax rate.

As you know, we track cash net profit, a good indicator for Fluidra, as we have a very significant amortization entirely purchase accounting related that impacts our net profit and EPS calculation. Cash net profit amounted to EUR 269 million, down 20% on prior year, which is better than the development of net profit due to the noncash nature of some of the financing costs and higher amortization.

The following page shows the net working capital evolution of the group. Net working capital amounted to EUR 569 million at 23.8% of sales compared to EUR 341 million and an unusually low 15.6% of sales last year. This increase is due to a combination of higher inventories and lower payables.

The inventory evolution shows the impact of the volume slowdown generated by the correction of inventory in the channel. In the last quarter, our inventory level has come down EUR 100 million as we adjust our purchases and manufacturing volumes to the correction. This slowdown has, in turn, impacted our accounts payable figure.

As a percent of sales, net working capital is 2% down at the end of December compared to the end of September. We estimate that the normalization of our inventory levels would require approximately 2 more quarters. Net working capital will go up for seasonal reasons by the end of Q1 before it starts to normalize in Q2. We are confident in our progress to evolve towards our midterm target of 18%.

Page 12 shows the free cash flow statement as well as the net debt evolution. Free cash flow has been a use of EUR 229 million versus a use of EUR 410 million in 2021. However, the components of this cash usage are very different year-on-year.

If we look at the operating cash flow, the company generated EUR 120 million versus EUR 343 million in 2021, mostly driven by the increase in working capital I discussed earlier.

On the investment front, we have spent EUR 468 million less cash in 2022. The key driver of this improvement is the inorganic activity executed during 2021 as we completed a number of acquisitions versus a single one completed in 2022.

On the financing front, we have used EUR 65 million more cash than last year, driven by the increased dividend paid. We also completed a 3.5 million share buyback program last September, investing around EUR 60 million.

Finally, net debt reached EUR 1.319 billion, up EUR 250 million. Our leverage ratio is 2.6x. As we look into Q1 2023, we expect our leverage ratio to go up. with a quarter of low volumes due to the inventory correction compared to a very strong performance in the prior year, which will impact our LTM EBITDA and will be coupled with not yet normalized net working capital. We are confident that this is a temporary effect that will correct in the following quarters.

And with that, I will give the floor to Bruce for guidance and closing comments.

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

Thanks, Xavier.

Moving to Slide #13, let me shed some light on our simplification program. This program is mainly built on 2 core areas: one focused on improving gross margin and the other focused on reducing the fixed cost base. It is also underpinned by our drive to foster an agile organization, our culture and Fluidra values.

When we talk about gross margin improvement, it's about redesigning our global product offering by standardizing components and optimizing cost. This, together with the globalization of our procurement model and SKU rationalization, will make us more cost efficient.

We continue to see labor inflation. We are working on reducing our fixed cost base, streamlining our operations and simplifying our organization to adapt to the markets we serve while we continue to support investing in our people, product development initiatives and the digitalization of our business.

All in all, we expect to deliver EUR 100 million of EBITDA over the next 3 years, with 1/3 accumulating in each year and total one-off costs below 1x.

As you see on the right-hand side of the slide, all the initiatives implemented to date represent savings of EUR 17 million on an annual run rate basis, which will be reflected in our 2023 performance. We'll provide you with regular updates on the simplification program. We're confident in delivering 1/3 of the program's total savings in 2023.

Moving to Slide 14. You can see the full year 2023 guidance. We expect the first half to be impacted by the ongoing inventory correction in the channel as we return to normalized industry patterns with a tough comparable versus same period of 2022 where we grew by more than 30% in the first quarter.

As we shared in October, we expect the more cyclical residential new construction demand, which represents approximately 30% of our sales, to be around 20% weaker year-on-year. We expect a more resilient aftermarket, although affected by the ongoing correction in the channel and lower volumes in certain product categories, which performed strongly during the pandemic. On the other hand, we expect commercial pool to continue to benefit from tourism recovery. Helped by a positive price read-through, lower cost and the benefits of the simplification program I outlined earlier, we expect gross margin to recover.

All in all, we're expecting a level of sales between EUR 2 billion and EUR 2.2 billion, EBITDA between EUR 410 million and EUR 480 million and cash EPS between $0.95 and EUR 1.25. Please note that we're assuming current FX rates.

And now back to the Executive Chairman to wrap up the prepared remarks before moving to Q&A.

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

Thanks, Bruce.

Moving to Slide #15, I would like to summarize a few key takeaways. We have closed 2022, achieving the revised guidance. Despite macroeconomic uncertainties, we now face 2023 with the industry transitioning toward more normalized pattern. We have an experienced management team to lead us through this phase.

Our efforts, our focus on margins and cash generations, we have started the year with good progress on this front. Our balance sheet remains solid with a debt structure that provides flexibility and allow us to navigate through the current environment.

Fluidra is very well positioned to continue to lead the pool and wellness market and to deliver improving returns on capital in middle term with our customer-centric approach focused on high quality and excellent service with our broad product portfolio and geographic footprint, with leading market positions in the key countries where we operate, with our leadership in more sustainable and connected pool and with our efforts to become a more agile, effective and efficient organization.

Thank you all for your participation. And now we open the Q&A turn. Bruce, Xavier and myself, we are ready to take your questions. Thank you very much.

QUESTIONS AND ANSWERS

Clara Valera - *Fluidra, S.A. - IR & 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 George Featherstone from Bank of America.

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

I've got a couple. So maybe just starting with the guidance, I wonder if you could bridge the guidance like you've done your revenues last year on Slide 9, just kind of breaking out perimeter, price, volume, FX, et cetera, assumed in the midpoint. And then maybe just sort of within that, you've been talking to channel partners at the start of the year, just kind of get an update on how the normalization of the channel is tracking relative to your assessment that you made at the back end of last year, that would be really good.

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

Okay. George, it's Bruce. Thanks for the question. All right. So I think the first one was kind of the building blocks to the sales and EBITDA guidance. I guess to start, I'd say we expect lower sales in value terms. We've got that as a decline of 7% to 15% driven by lower volumes but also higher prices. So there's a lot of moving parts, as I guess you figured out.

With regards to volume, we expect a decline of 10% to 16% driven by a combination of weaker new build. New build, we have down in the 15% to 25% range. And then on the aftermarket, we have that down driven by inventory correction, which is where we have that, a bit lower on the remodel and some of the pull forward that we spoke to in the comments. That should put the aftermarket down at about 10% to 15%, largest part of that really by the inventory correction. And then we have better demand in the commercial pool, let's call that one flat to plus 5%. Then we've got price, okay?

And just a reminder, it's going to be a tougher Q1, then we'll start to improve sequentially from there. Q1 was up 30% in 2022 on top of, I think, 60% in Q1 of 2021, so a pretty tough comp. And that's where we'll see the majority of the inventory destocking.

As you move into gross margin, we'll see a sequential improvement as pricing is up year-on-year, while we see the cost base more stable and hopefully slightly lower. U.S. price increase is in the 3% to 5% range; in Europe, 1% to 2%, on top of all the price increases that we took in 2022.

As far as just continuing to move down the P&L into OpEx, around 30% to 40% is variable. So you'll see that impacted with the sales decline, but we're still seeing fixed cost inflation. We've kind of pegged that one at about 5%. Obviously, we're working to restructure a bit and going with strict cost control, so that should deliver some fixed cost savings in 2023 while we continue to invest in things like R&D and digitalization.

So all in all, a bunch of moving parts. Hopefully, you're hanging with me on that one, George. If we need to do it again, we'll do it again off the call, if needed.

On your second question, which was inventory and how did that match up to what we were expecting, I will remind everybody that this is not an exact science. But our indicators really confirm the correction in the channels was broadly in line with our expectations at the end of the year. Last year, we estimated there was around EUR 300 million to EUR 350 million of Fluidra inventory in the channel at the end of June. We think about 2/3 of that was corrected in the second half of 2022.

We estimate there's still EUR 100 million to EUR 120 million of inventory in the channel. I would say that's slightly above our estimate back in October but really not by much. We think that will correct mostly in this first quarter, although some will probably leak into Q2. Obviously, this will depend on what the macro situation kind of impact that has on demand. I hope that answers the question, George. If you need to follow-up, let me know.

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

That's great. Yes, that kind of answers it. The next one would kind of be on the leverage situation. So I just wanted to kind of get your assessment as to whether you think you're at peak leverage as well because I guess the natural rollover sequentially is you're going to hit lower EBITDA. So just mechanically, you might see leverage tick up even higher. I just wondered if you could kind of help us through that phasing throughout this year, how we should think about that.

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

Yes. George, this is Xavier. Let me take that one. Yes, as I mentioned on my remarks, my prepared remarks, and as you were pointing out, as we look at Q1, leverage is going to go up as we face a very tough comp in terms of EBITDA on Q1 last year. Now with lower volumes in Q1 this year, which obviously will bring in lower EBITDA, coupled with higher net working capital for seasonal reasons, I think that this will get back in line as we move into Q2, Q3 of the year.

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

Thank you, George. The next question comes from Andre from Credit Suisse.

Jingyi Zheng - *Crédit Suisse AG, Research Division - Research Analyst*

This is Jingyi asking on behalf of Andre. I have 2 questions. The first one is to follow-up on the guidance. On your outlook for EBITDA, in context of your full year guidance of EUR 410 million to EUR 480 million, can I ask what is your expectations for Q1 and the first half of '23?

And my second question is on your aftermarket resilience. So apart from the inventory correction effect in the countries or regions that are already impacted by residential downturn on the new installation side, I wonder what you're seeing on aftermarket segment, what are you experiencing? And have you already seen any weaknesses already?

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

Okay. So I think the first question was Q1 and how the top line will be. As I mentioned earlier, with the inventory in the channel, Q1 will be definitely a tougher comparable based on the percentages we were up last year and again, on top of a strong 2021. So we would expect Q1's top line to be down, I'd say, at least 20%. So it will be a tough Q1 from a top line perspective.

Jingyi Zheng - *Crédit Suisse AG, Research Division - Research Analyst*

I was asking about the EBITDA for Q1 and first half of 2023.

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

Yes. We don't really guide EBITDA by quarters, but as you work out the math, we are saying that we're going to have top line declines more or less in line with what you have seen in the fourth quarter. And based on our variable fixed cost structure, you will see that read-through and therefore, impacting the EBITDA in the first quarter, as I mentioned in my previous answer to George.

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

Can you repeat the second question for me again about the aftermarket?

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

I think the other question was around what are we seeing in terms of aftermarket demand in the markets where we operate.

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

Yes. So I think consistent with the comments earlier, right, wrong or indifferent, we put inventory correction into the aftermarket section. That's the biggest impact that we're seeing. If you isolated that out, we're seeing some reduction in remodel, although not as much as we're seeing in new construction. We still see a little bit of impact on some of the products that were, we think, pulled forward during the pandemic and things like above-ground pools and heat. But overall, the base part of the aftermarket business, the maintenance side, has been holding up well and is resilient.

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

The next question comes from Christoph at Berenberg.

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

A lot has already been ask and answered actually, but yes, a few follow-ups. Maybe starting with the channel destocking, so if I remember correctly, from last year, the expectation was to be done or see basically the destocking completed by the end of Q1. Now on the slide, you're talking about the first half a bit more broadly. You made some comments on that. Also, if you look in the U.S., to some of your peers that have already reported, like I think your biggest, let's say, customer in the U.S., I mean have reported flat inventories in Q4. One of your OEM competitors has talked about destocking lasting until the end of Q3. So I'm just trying to understand a bit why the situation for Fluidra might be a bit different than the reporting of U.S. peers is suggesting.

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

Okay. Christoph, I really think you saw this last year as the OEM manufacturers were reporting. I think depending on your supply chain and how quickly you were able to correct your supply chain, you either went into the inventory correction earlier or later. I think let's just say, without getting too specific about competitors, which we don't do, I think we're probably in the middle of the pack. So one might have entered a little bit earlier. One might have entered a little bit later. And so we still feel like we'll do most of the remaining correction in Q1. Some might leak a little bit into Q2. But that's our read at this point in time.

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

Yes. That makes sense. Maybe a quick question or a follow-up maybe on the cost side. So you mentioned also briefly that 30% to 40% of your OpEx can be considered as variable. So the savings from the lower volumes, so the variable part in OpEx, is that completely separate from the simplification program? Or is there some kind of overlap there?

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

No. Christoph, when we refer to the simplification program, that addresses the fixed cost base. And there's really 2 components, as we highlighted, one that addresses the fixed cost that is hitting more in 2022. And there's a second component that goes to redesigning product, to sourcing, SKU rationalization and so on. That obviously addresses product costing, and you will see more of that in gross margin. That's more back-end loaded. You'll start to see the benefits in 2023, but it will be most of the benefit hitting in '24 and '25.

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

Just a final one on the net financial expenses. I mean that number has fluctuated a bit throughout 2022. If I look at the individual quarters, I guess, there was a bit of an FX impact. So maybe just a quick word on the outlook for '23. Is it implied in your cash EPS guidance what type of financial expenses should we expect there?

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

Yes, sure. Christoph. Yes, I think that we have had a few one-offs in 2022. As you look at 2023, you should be expecting financial expense that would be more or less around, I would say, 10% to 15% lower than what we had this year. and basically with more interest expense, more cash interest expense based on higher debt and a little bit higher cost, as you know, we have fixed interest rate on roughly around 80% of our Term Loan B but our RCF and some of our bilaterals are not fixed rates, so that will mean that we have higher interest expense.

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

Thank you. The next question comes from Francisco Ruiz BNP Paribas.

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

I have some questions. The first one is if you could give us an update on your visibility in the final demand as of today. I mean you have commented at what you expect for the whole year. But could you tell us if the visibility has improved or you're still in the same situation as a couple of months ago?

The second one on, although, Xavier, you have commented on the net debt evolution, just a couple of things there. I mean, do you think that the 18% working capital to sales could be achieved at the end of 2023? And with this, if you could give us a range in terms of net debt to EBITDA for the full year?

Then the third question is what are the assumptions between your bull and bear case scenario on the guidance, the different assumptions?

And last, but not least, you commented that you have EUR 17 million already on run rate, on synergies, on the new simplification program. Could you confirm that this is included in your EBITDA in 2022, or it's not?

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

Okay. So Paco, I will take the first part on visibility. We have participated in a number of shows, a number of events with our dealers. And I think you continue to hear a pretty mixed bag of expectations out there. And I think those expectations that we're hearing, you're seeing in our building blocks to the demand that we talked about earlier. So frankly, in my mind, until we really get into the volume part of the season, the visibility piece is not dramatically different than where we were a few months ago.

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

Okay. Paco, let me take the next few, let's see, everything that's related to leverage. Yes, we are targeting this 18% net working capital to sales as a midterm guidance. We believe that we will be well below 20% this year. Obviously, we don't guide it specifically, but we feel confident that we will move in that direction that we have commented in the call.

As you look at our 2023 guidance, and we don't guide for leverage ratio, but if you do the math, with the EBITDA and net working capital indications that we have provided, what you will see is that we will reduce slightly our leverage ratio in 2023. You know that our policy is to run the company at around 2x. But precisely, when we say that that's our policies, it's because we're going to be able to have room to face challenging macro environment like the one we are having today, okay? So that's to net debt.

Then I'll go to the simplification one, the EUR 17 million guidance that we have provided, that's the impact that you will see in 2023. There's almost nonmaterial impact in 2022 coming from that from that program.

And then I think your fourth question was around the assumptions on guidance, which I think Bruce mentioned before. So I was wondering if you could be a little bit more specific on what sort of clarification you need around those assumptions.

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

I mean, is it the different volume scenarios that you have mainly on this 15% to 25%, you mentioned new builds and the 10% to 16% in volumes, or there is something else?

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

Look, I think we provided you a little bit the range in terms of volumes. If you look at new build, you have this 15% to 25% declines. If you look at the aftermarket which, as we've mentioned, includes the inventory correction of roughly around 5%, the range is between 10% to 15%. And then we believe that commercial is going to be probably a source of growth, roughly at around 5%. Then if you look at pricing, we said low end, high end is in North America between 3% to 5%, in Europe between 1% to 2%. That more or less derives you the top line range in the assumption. And then from there, we've talked about the inflation being roughly around 5% on cost, and that derives you to the EUR 410 million to EUR 480 million of EBITDA top range.

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

Thank you, Paco. The next question comes from Manuel Lorente from Mirabaud.

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

Can you hear me?

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

We can hear you, Manuel.

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

My first question is on the pricing volume dynamics for next year. I wasn't expecting somehow that due to the ongoing destocking in the channel component, it would be tough to see price increases this year. However, you are pointing to a 1% to 2% price increase in Europe, roughly 3% to 5% in the U.S. So I was wondering whether you kind of specify a little bit those price increases because, in the current demanding backdrop, I was expecting more pressure on prices.

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

I'm not sure what direction you're expecting the prices to go, Manuel. So let me try to just put a little bit more color on it. Hopefully, that answers. And if not, we can take it off-line. But the pricing is, as we said, 3% to 5% in America, 1% to 2% in Europe. That's the price increase that we took in October to really set up the new pool season of 2023. But if you remember, we talked a lot about our pricing over the last couple of years and, in particular, in 2022. And that it took a little bit longer time to read through than we would have liked to have seen based on the backlog and the supply chain.

So those price increases are reading through at this point in time. That's why we talked about gross margin sequentially improving. And even underlying gross margin in Q4 is a good story despite some challenge in geographic mix and a little bit of product. So overall, we think we're in good position to recover our gross margins in 2023. And hopefully, that answers the question.

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

So those prices are the ones in...

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

Manuel, it's hard to hear you. Maybe a different angle to what Bruce said is, look, this is an industry where demand is inelastic to pricing, and that's one of the reasons why, generally speaking, we've said that once prices are set, they stick with us. I mean the only areas where you wouldn't see that will be more commoditized products like chemicals that will fluctuate with the commodities up and down. But if you look at the pricing on equipment, that tends to stick and, therefore, even though in a destocking environment with lower volumes and so on, there is positive pricing impact built into the guidance.

Operator

Thank you, Manuel. The next question comes from Alvaro Lenze from Alantra.

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

Just a couple of quick ones. First is on the potential restructuring costs that we could see going into 2023. I don't know if you mentioned it already, but how much could we expect? And when should the restructuring costs or the provision for restructuring be recognized?

And secondly, we have seen an increase in the D&A expense in Q4, just to clarify if there is any nonrecurring impact there. Or what is the reason for this increase that was significantly above my estimate?

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

Yes, Alvaro, on the restructuring, I would say that if you look at nonrecurring expense for 2023, you would be more or less looking at a sort of flattish number to what you have seen in 2022 with a different sort of building blocks with lower stock-based compensation and probably a number of simplification related cost of roughly around, I would say, probably close to EUR 40 million. Those are the components.

And then as to the other question, I would say that there is nothing materially driving that increase in depreciation other than the additional amortization associated to the PPA of the acquisitions that took place in '21 and '22.

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

Thank you, Alvaro. The next question comes from Bruno Bessa from Caixa Bank.

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

Just a very quick one. Just if you could provide us any visibility on how weather is evolving in the different geographies and how this could impact the season, the pool season, this year.

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

Bruno, could you repeat your question? Sorry, it was really hard to hear you.

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

Yes. My question was related with the weather in Europe and in the U.S. How do you see it impacting the pool season this year? I don't know if you could hear me better now.

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

I've got that one. So as far as weather, I guess I have to say it's a little early to see how it's going to impact in reality on 2023. But you are correct, the January, February season in the U.S. has been unusually wet and cold in the West and in Texas and a little bit tough in the Snowbelt as well. I mean this is the shoulder part of the season, so it's obviously the lower part. If this would continue into Q2, really the demand for pool starts to build then, then obviously, it would be a bigger concern. So right now, I would say too early to call but slightly negative to start the year.

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

Thank you, Bruno. This marks the end of today's presentation. We have no more questions on the line. So I'd like to thank our speakers and all of the participants. And as always, please feel free to reach out to the Investor Relations team if you have any further queries. Thank you, and goodbye.
