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PRESENTATION

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

Good morning, and welcome to our first half 2023 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 Brooks; and Xavier Tintore, our CFTO. They will walk you through a few slides on our results and then they 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, Executive President, MD & CEO

Thanks, Clara. Good morning to all of you, and thank you for your interest in Fluidra and for taking the time to join us this morning. Today, we are presenting our first half 2023 results, and Bruce and Xavier will provide more detail shortly. Let me first summarize a few key takeaways.

We are delivering within our range of expectations for the year in a normalizing market with a challenging macroeconomic backdrop. In the second quarter, we continued to see lower residential new build demand as well as unfavorable weather shortening the pool season. As anticipated, sales volumes were also affected by the correction of inventory in the channel, which progressed well during the second quarter. We expect to leave it broadly behind us by the end of this year's pool season.

Pleasingly, gross margin is recovering both year-on-year and sequentially, with good price breakthrough. As a management team, we are taking action. We have a sharp focus on controlling costs, and we are normalizing our inventory levels. We are a better business today than in 2019, but more importantly, we are strengthening the business for the long term. Our Simplification Program, as you will see later, is well on track and we continue to build our global living platform.

The macroeconomic context remain uncertain. We are narrowing our 2023 guidance to reflect a deterioration in economic conditions and also the progress we have achieved in the first half to recover margins together with the outstanding work of our teams to reduce our cost base. We are confident in our future. Fluidra is well positioned to continue to lead the pool and wellness market, delivering improving returns on capital over the medium term in an industry with attractive structural growth.

With this, I pass the floor to Bruce to present in more detail of our first half results.

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

Good morning, Eloy, and thank you all for participating today on this conference call. Moving to Slide #5. Let me start with comments on our overall performance and highlights for the first half, and then turn it over to Xavier to provide more details on the financial results. The numbers you see on Slide 5 are the 2022 and 2023 financial highlights for the first half.

Sales declined by 18% and to EUR 1.186 billion compared to a solid growth in H1 last year, up 8% organically driven by lower volumes. This performance was within the range of our expectations. EBITDA was 20% lower compared to a strong prior year period with continued positive sequential gross margin evolution over the last 4 quarters, mitigated by the effect of lower sales. Our restructuring and cost control initiatives also contributed greatly to the performance, partially offsetting fixed cost inflation. I'm thankful to our teams for their efforts.

Going down the P&L, cash EPS was lower year-on-year as a result of half year's operating performance. We have managed our stock levels significantly down from a year ago, and this is reflected in a lower operating net working capital. As a percent of sales, it was around 31% compared to 29% last year, with the slowdown in procurement and production as trading normalizes impacting payables. Xavier will provide more detail later.

Even against a more difficult backdrop, our business continues to be cash generative and net debt is down around EUR 180 million this quarter. Beyond financial results, we also continue to build our global leading platform. We have expanded our EMEA PRO Center network to bring us even closer to our customers, with 5 more centers, which are a one-stop shop for the pool pro, with the high-quality service and availability standards we are known for.

We are also investing in our logistics network to become more efficient. In the U.S., we have integrated recent acquisitions, and we are streamlining our operations to better serve our customers while we reinforce our aftermarket program. In July, we completed the acquisition of Meranus, a well-established player in Germany, which will cement our #1 market position in the third largest market in Europe.

Another key initiative for the company is what you have in Slide #6, our Simplification Program. Let me share our progress on the program. This program, which is delivering long-term value and enhancing our resilience, is mainly built on 2 core areas: one, focused on improving gross margin; and the other focused on reducing structural overlaps and streamlining our operations. It is also underpinned by our drive to foster an agile and dynamic organization, our culture and our values.

As you will recall from our previous earnings calls, we expect to deliver EUR 100 million of EBITDA over the next 3 years, with 1/3 accumulating in each of the years, and total one-off costs below onetime. Our teams have made great progress. As you see on the right-hand side of the slide, we have to date around 350 initiatives being implemented, which amount to savings of EUR 57 million on an annual run rate basis, representing 57% of the total program. We expect EUR 29 million will be reflected in our 2023 performance, up from the EUR 24 million reported in our Q1 results.

Most of the 2023 savings relate to our efforts to reduce our fixed cost base, reducing headcount and simplifying our organizational structure to become more efficient. In 2023, we also expect a contribution from our initiatives to enhance gross margin, which will have a greater impact on an annual run rate basis in the future. This first phase of initiatives is centered on leveraging our scale and global strategic procurement efforts to reduce the bill of materials across key products and cost categories as well as design-to-value initiatives.

We are confident on delivering 1/3 of the program's total savings in 2023. We'll continue to provide you with regular updates.

Moving to Slide #7, where I'd like to talk to you about our world-class commercial pool offering. Commercial Pool sales, while a smaller portion of our portfolio, are up 6% year-on-year on a constant FX and perimeter. We are underrepresented in this market, and we have the opportunity for further growth. We provide a range of pool, wellness, fountains and lake solutions for a range of sectors from sports clubs to hospitality. You can see here a few recent examples.

On the left, I'd like to highlight competition pools. Last year, we built 2 temporary pools in Rome for the European Aquatics Championships. This year, we are extending and renovating 3 pools at Chile's National Stadium aquatic center for around EUR 3 million. Both these projects used our Skypool panels in galvanized steel, which allow easy, safe and reliable installation with great accuracy, complying with the most stringent requirements. They also allow, if needed, disassembly after the event concludes.

On the right, you can see a picture of the recently completed fountains along a bridge in Andorra, which features a number of symmetrical effects on both banks of the river, as well as a water curtain that is digitally backlit as one approaches the bridge. The water used by these fountains is collected and recycled from the river Valira. Another example are the fountains by the Astana Grand Mosque in Kazakhstan, with an impressive display of multiple water jets and synchronized music and colors.

The cornerstones of our success in Commercial Pool are an unmatched complete product offering and turnkey project services. We have a broad product portfolio, which we have expanded with recent acquisitions in North America. In EMEA and APAC, we can offer fully fledged turnkey project services. Our specialized team can support our customers from ideation to design and execution of commercial pool, wellness fountains and lagoon projects around the world.

Moving to Slide #8 into the details of the first half. On the right side of the slide, you can see the positive contribution of price to sales performance in the first half and the volume decline. This compares to an 8% organic growth in H1 last year on top of a 50% growth in H1 2021. Overall, sales in the first half were within the range of our expectations, but with varying moving parts. The adjustment of inventory in the channel, having been slower than we anticipated in Q1, progressed well in Q2. Unfavorable weather, particularly in the U.S. and a tougher global macro environment have been headwinds during this period.

New construction demand was at the lower end of our expectations, while maintenance and repair were broadly as expected. Commercial Pool sales were in line. By region, the general development was roughly as anticipated.

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

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

Thank you, Bruce. Let's turn to Page 9 to start with the P&L. Sales declined by 18% in the first half to EUR 1.186 billion. Gross margin reached 52.5%, 140 basis points higher than prior year, with sequential gross margin recovery from 51.6% in Q4 2022 and 52.1% in Q1 of this year. We have seen good pricing read-through and favorable product and geographic mix, which more than offset the impact of lower manufactured volumes due to adjusting inventories and some inflation impacts.

Operating expenses reached EUR 335 million. a decrease of 12% with lower logistics and transportation costs where we are seeing deflation and the contribution from our Simplification Program, where we invest in IT and R&D. In particular, around our sustainable pool product offering and connected pool pack. EBITDA reached EUR 288 million, a decrease of 20%, driven by the impact of lower volumes which cannot be offset by increased margin percent and reduced expenses. EBITDA margin reached 24.3%.

Q2 on a stand-alone basis has performed nicely versus prior year on the back of good gross margin recovery and cost control, delivering a 26.5% margin, almost 200 basis points higher than last year despite the decline in sales. EBITA of EUR 244 million, was down 24%, with a margin of 20.6%. Below the EBITA line, amortization is down 6% at EUR 34 million. Nonrecurring expenses of EUR 28 million are up from EUR 11 million last year, driven entirely by the impact of the Simplification one-off costs, which account for EUR 20 million.

Stock-based compensation of EUR 6 million is flat to prior year, while M&A costs and other nonrecurring expenses represent EUR 2 million. We expect nonrecurring expenses to be around EUR 55 million in 2023, of which around EUR 7 million are related to stock-based compensation. Net financial results amount to EUR 36 million, EUR 9 million lower than last year despite higher interest rate as 2022 had a EUR 12 million write-off of noncash fees generated in the refinancing.

Just to remind you, our main funding facility is a EUR 1.1 billion TLB in euros and dollars that matures in 2029. 80% of the TLB has a fixed interest rate until June 2026. Tax rate was 28% versus a 26% tax rate in 2022. Net profit reached EUR 104 million compared to EUR 166 million in 2022. As you know, we track cash net profit, a good indicator for Fluidra, as we have a significant amortization charge entirely purchase accounting related that impacts our net profit and EPS calculation. Cash net profit amounted to EUR 151 million, down 31% on the prior year.

Page 10 shows the free cash flow statement as well as the net debt evolution. Free cash flow generation for the first half was EUR 13 million, in contrast with the use of EUR 113 million in 2022. Operating cash flow was EUR 68 million versus a use of EUR 67 million last year, with weaker EBITDA more than compensated by a EUR 250 million lower investment in working capital. If we zoom into net working capital, which you have in the appendix, Page 19, you will see that for the first time since the market started to normalize, it was lower than in the prior year. In this case, by EUR 50 million with varying components.

Inventories are EUR 140 million lower than in the prior year. But as we correct inventory levels with lower purchases, which in turn mean lower payables, by more than EUR 130 million. All in all, we continue to execute our plan to normalize net working capital, working towards our year-end target of around 20%. On the investment and financing front, cash usage is very similar to what we used last year. Finally, net debt reached EUR 1.3 billion, up EUR 55 million. Our leverage ratio is 3x. We have reduced debt by EUR 178 million in the second quarter. We are confident that this evolution will continue in the following quarters.

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

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

Thank you, Xavier. Let me provide more color on 2023 guidance. When we started the year, we shared with you a wide guidance range, recognizing an expected normalization of the industry following years of strong growth, the correction of the inventory in the channel and expectations of softer demand, in particular for residential new pools.

As the year goes on, the correction of the inventory in the channel is progressing well. Sales volumes are more in line with the lower half of our range, driven by new build demand down at least 25%, unfavorable weather and a weaker macro. And FX has been a bit against us more recently.

On the other hand, we have a wide geographic footprint with a strong foothold in Europe, where we are distributors, and serve our customers the full aftermarket bundle, including chemicals, which are flat year-on-year. Importantly, our actions to recover gross margin and reduce our cost base are delivering.

While macroeconomic uncertainty remains, on balance, we are narrowing our guidance to the lower half of the range we shared with you in February as we head into the second half of the year when comparables should get easier. In particular, in the fourth quarter when last year we were experiencing a strong inventory correction. Our 2023 guidance is EUR 2 billion to EUR 2.1 billion in revenue, and EUR 410 million to EUR 450 million in EBITDA, from EUR 2 billion to EUR 2.2 billion and EUR 410 million to EUR 480 million when we started the year.

I now hand over to Eloy for his final remarks.

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

Thank you, Bruce. Moving to Slide #12. I would like to summarize a few key takeaways before the end of today's presentation. We delivered good performance in the first half of this year against a difficult backdrop, with weaker demand compared to a very strong performance in the prior 2 years, channel inventory correction and a challenging macro environment.

Difficult times also present opportunities. opportunity to accelerate improvements. We continue to drive the implementation of our Simplification Program, which will continue to deliver value into the future. As we have shared with you today, we are well on track to achieve our target for the full year and to deliver margin enhancement in the years to come. We are making progress on the normalization of our levels of working capital, and we are focused on cash generation. While net debt is above our target level, our balance sheet remains solid and provides flexibility to navigate through this uncertain macro environment.

Looking into the future, I'm confident in the attractiveness of our sector and our ability to create value for our stakeholders as the global leader in the pool and wellness sector. We are extremely well positioned to continue to lead this market with our broad product and global geographic footprint, our high quality and service, our leadership in connected and sustainable pool and our Simplification Program to transform Fluidra, enhance our margins and become a more efficient organization.

Thank you all for your participation. And now we opened the Q&A. Bruce, Xavier and I, we are ready to take your questions.

QUESTIONS AND ANSWERS

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

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

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

I've got 3, but I'll ask them one at a time. So firstly, on the destocking forecast that you've put out, they seem fairly consistent with what your peers have been saying. But I just want to kind of understand a little bit about what brings confidence to your assessment that the destocking will be done by what sounds like the end of Q3?

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

George, it's Bruce. I'll take that one. I think really, I mean, we feel good about the progress that we saw in Q2. It was better than Q1. And in our estimation, we think it's mostly done. Europe, in particular, is, let's call it, materially clean. And we started to see a better ordering pattern in late June and now into July. Now North America had more, and we saw huge progress and we believe we will be clean by the end of Q3 in North America.

So from a back half perspective, Q4 will be definitely stronger than Q3, but definitely in the right direction. It's always hard, I think, on the quarters to put an exact number on it, George. But from a full year perspective, we feel pretty good about that range that we've given before of 5% to 6%. And frankly, looking forward to 2024 and getting into a normalized inventory situation.

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

Bruce, that's super helpful. Maybe 1 then on that kind of sort of post normalization period. So some of your peers have come out and said they think the market is kind of mid- to high single-digit growth rate after, I guess, when we go after this year. Is that consistent with how you see the world?

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

I guess -- good question, George. I mean we're clearly not going to guide for 2024 yet. We do think we'll be normalizing from an inventory perspective. So I think that part will be all good. I think the macro remains highly uncertain. But from a -- I guess, challenges to the industry, we feel like we're closer to the bottom. Now as we look into '24, I'd say I'm not expecting a significant recovery in new build, while I do think you'll see the aftermarket show the resilience that we've seen in most of it, even through this year. And hopefully, we'll start to see the benefit of all the new pools that have been put in over the last few years.

If you're talking a little bit more to the midterm, George, absolutely. I mean I think the industry gets back to kind of that low digit growth of just volume going into the aftermarket year-on-year with the average ticket rising, a little bit of price. And so yes, we think we get back into that range fairly quickly. Just want to separate out, you're probably not looking for my economic forecast. So we'll call that the midterm.

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

Bruce, that's exactly what I was referring to. Okay. Final one for me then. Have you seen anything in terms of how your product mix has evolved recently to suggest that customers are maybe trading down to a more lower value segment?

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

For the most part, George, in new construction, we tend to be particularly strong at the higher end. So we're not seeing trading down there. I would tell you that the digital product or connected product is still performing significantly ahead of the pace of the rest of the overall business. We've got a really wide range of products. So we can accommodate customers at different price points. We see a little bit of that in some of the cleaning products, where maybe they're going for a lower price point robotic cleaner, with the exception of we launched a cordless cleaner this year and it's done quite well. So I would say nonmaterial, but clearly, the consumer's being a little bit more thoughtful right now.

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

The next question comes from Lucas Ferhani from Jefferies.

Lucas Ferhani - Jefferies LLC, Research Division - Equity Associate

I also have 3 possible. Just the first one on free cash flow. Are you comfortable with the direction of travel into year-end and reducing kind of the working cap ratio? And -- I'll do the first one initially.

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

Thank you, Lucas. I'll take the one. This is Xavier. Yes, we are comfortable with the performance of net working capital, as I explained in the call. Q2 has been -- has shown good progress in that direction with a significant reduction of inventory. And obviously, we have this impact as we lower the manufacturing volumes on payables. As I said in the call, we will continue to execute in the plan towards our year-end target of finishing around, I would say, 20% as a percent of sales.

Lucas Ferhani - Jefferies LLC, Research Division - Equity Associate

Okay. Perfect. And then on the gross margin, obviously, you're still doing very good progress sequentially year-on-year. Do you have a target roughly of where you want to take that gross margin because you're now back to kind of peak levels you've had before. Do you think there's room for the gross margins to even before the 53% that you've had previously? Or it's not really -- you're not looking necessarily to optimize for the gross margin in itself?

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

Yes. Lucas, it's Bruce. We really don't guide for gross margin individually. I'm happy to talk a little bit about price. Happy to talk about the Simplification Program and our efforts to continue to drive, but we definitely think more on the EBITDA side.

Lucas Ferhani - Jefferies LLC, Research Division - Equity Associate

And just maybe asking differently. Is gross margin going to be a bit more kind of stable going forward versus the move you've seen over the past few quarters?

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

Yes. I think, first of all, really pleased with the recovery that we've seen over the last 4 quarters. In the first half of the year -- let me answer it this way. I think it's going to be more stable, but the composition is going to be a little bit different. So in the first half of the year, you saw a bit more price readthrough and helping us offset the lower volumes. I think in the second half of the year, you'll see pretty consistent gross margins, but you won't see the same price as we've anniversaried price increases and -- but we also see cost inflation a little bit less in the back half. So...

Lucas Ferhani - Jefferies LLC, Research Division - Equity Associate

Okay. Perfect. And the last one was just on new build. Can you give us again your split? A little bit now, obviously, there's been a massive decline in new build and aftermarket has been more resilient and also versus kind of COVID. Just what's your kind of new build versus aftermarket split now. And also do you see a scenario where new build is kind of down again in 2024? Or where you see levels potentially ending this year? You're comfortable about you would not see new build down, but potentially flattish to growth?

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

I don't know that we're ready to give you a new build number yet for 2024. As I said in my remarks, I think we'll be pretty cautious on that one. I think as far as it's concerned this year, we think it will be at the low end of our expectations or at least 25%. Pool permits and feedback from our customers currently suggest kind of a 25% to 30% decline for the year. I'd say globally, it's a little worse in the U.S. versus in Europe, where less pools are financed. And then if you go back to the U.S., we tend to do well again at the high end where they're not financed. And so we think we're doing a little bit better than the market as accounts to this year.

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

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

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

The first one would be on the customer demand and price sensitivity of customers. You have had a couple of distributors of pool products in the U.S., mentioning that customers are becoming more price sensitive. You have also mentioned that you're not seeing major down-trading or lowering prices. So I just wanted to see how do you see prices evolving from here and whether some of the deflation that we are seeing in some commodities could be put back into the supply chain in the sense of offloading prices, or if you're confident that you will maintain prices as they are?

And secondly would be on the cost cutting. If you could please give us some indication that you have guided that you're on track to deliver on your targets. But it's been -- the cost cutting has been higher than I expected. So I don't know if there is some potential upside to the numbers that you have provided in previous calls.

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

Okay. Alvaro. I'll take the first one on price and I'll let Xavier take the second one on the Simplification Program. So again, I think we're pretty pleased with what we're seeing on price in 2023. We knew we were behind the curve in 2022, and you're seeing that catch-up in the first half of the year. We're not seeing significant price pressures on most of our product categories. We've seen some pressure in some of the more, call them, commoditized product areas, such as chemicals.

In general, this is an industry where demand is relatively inelastic, and we believe lowering prices will not stimulate demand. There has been some areas this season, heat pumps and above-ground pools where we've seen some discounting, and again, it didn't move the needle. So as we think about a tougher economic environment, it's not unusual you'll see a bit of trading down. We've got a broad portfolio of product that make sure that we're well positioned at point of sale for whatever the consumer is looking for.

As far as we start to think of going forward in the Southern Hemisphere, where the season is about to start, we have just increased prices. And we plan to take price in the Northern Hemisphere for 2024 in a more normalized fashion.

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

Alvaro, I'll take the second one. We are very pleased with how the Simplification Program is working towards our EUR 100 million target of savings over the next 3 years. I'll just remind that around 2/3 of that will be more improvements on the gross margin as we work on procurement and design to value, which are more back-end loaded. While in -- more on the fixed cost reduction, we -- that's more front-end loaded and we have been executing quite well. So we are happy with the progress. But we're still targeting to deliver that EUR 100 million, as we indicated, we're still far away from thinking about upgrading that guidance.

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

Three from my side, please. Firstly, on the guidance. So you obviously made some very nice progress on the margins, especially now in Q2. So despite the easing comps, it seems like that the bidding guidance implies more or less flat margins in H2. So just wondering if it's fair to assume that the margin guidance is somewhat more conservative than the top line guidance that you've given. Then secondly, we've heard that the premium or high-end pools demand here is holding up better compared to the entry level one. Could you give us some numbers on your exposure to the premium pools and how this (inaudible) market? And then just lastly, on the unfavorable weather, yes, if you could quantify that negative impact you had here in H1?

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

Okay. A lot to unpack there, Christoph. Do you want to start with margins, Xavier?

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

Yes. I'll take the margin guidance. Yes. I mean, Christoph, if you run the numbers on the balance of the year, really when you look at low end and high end of the guidance, you have a wide range. Obviously, at this point in time, there's still a lot of volatility around volumes and so on. But if you look at the range, you have margins on the -- higher than last year when you look at the higher end of the range and slightly below prior year.

But we are very confident on our margin initiatives, the Simplification impact and so on. And we feel very secure that our margin improvement programs will deliver in the second half.

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

Yes. And thanks, XT. And as far as the new pools is concerned, I'd say really hard for us to break out differential between high-end pools and lower end. I guess what I would say is part of our strength is Jandy in North America is higher-end pools. We've spent a lot of time out in the market for the last couple of months talking to our builders, et cetera. And we see the high-end guys fill for the year and starting to talk about what they're going to be doing into the back half.

We also tend to be a little bit stronger in the Sun Belt. And certainly, the geographic migration continues to help us. And those 2 things combined make us believe that we're performing maybe a little bit better in the new construction. But I don't want to kid you either, Christoph. I mean it's a tough environment out there. We see the permit data is reading to 30% plus down in North America, and we're still sticking to our 20% to 35% -- or excuse me, 25% to 30% down as we look for the rest of the year.

As far as weather is concerned, it's always a fun one in the industry to talk about. We usually say over the course of the season, you're going to see a kind of a plus or minus 1% impact of weather. This year has been particularly challenging in the U.S. and in some key states, like California. So for the first half of the year, we see it closer to 2% in the States. As we look at Europe, it's been a late start with a little bit cold, but it's been hot and dry as recent. And let's say it's probably closer to 1% in Europe for the first half. So know that that's super precise, but it's really not as precise as I made it sound.

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

Thank you, Christoph. Please bear with us a couple of seconds as we wait to see if there are further questions. Okay. The next question comes from Manuel Lorente at Mirabaud.

Manuel Lorente - Mirabaud Securities Limited, Research Division - Analyst

Probably my question is regarding your degree of confidence regarding this new guidance. So can you give us a little -- some indications regarding, I don't know, maybe July trends or Early Buy in North America in the sense that is there any degree of confidence now that the trough is already there and the future is more or less -- or the worst is really clearly behind us?

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

I guess, first, I'd say it's not really new guidance. We just have narrowed it down closer to the bottom half of the range. I'm not sure it's really much different than what we've shared before. I mean, I think new construction is really at the bottom end. Aftermarket remains resilient. From a remodel standpoint, I think it's performed better than new, so not surprising. Commercial has been pretty good and on our expectation, pricing holding up well. But I think the big piece in the first half has really been the inventory correction.

So seeing the order patterns start to get better in Europe is helping Obviously, the weather has turned on. I would say, sell-through in July is a little bit better than what we saw in the first half of the year, but the tones are pretty similar. So generally speaking, I'd just say volumes at the lower end of the range and really pleased with the work that the teams are doing on gross margin recovery and the simplification plan. So that's where we are.

Manuel Lorente - Mirabaud Securities Limited, Research Division - Analyst

I see. So maybe a follow-up on the FX front. On this guidance, let's say, the average of the first half or current evolution of the euro-dollar trend?

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

Yes, the guidance assumes the current evolution of FX. We had minimal to no impact in the first half and the guidance assumes an impact of around 2.5% to 3%.

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

Thank you, Manuel. There are no more questions. So this marks the end of today's presentation. We thank our speakers and participants. As always, please feel free to reach out to the Investor Relations team for further queries. Thank you, and goodbye.