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PRESENTATION

Luis Boada

Good afternoon, and welcome to Fluidra's Q3 2019 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.

(Operator Instructions)

Today's presentation is accessible through our website, through fluidra.com and was also sent a few hours earlier to the CNMV. The replay of today's presentation will be made available on our website shortly after we finish.

Let's start with the presentation by opening the floor to Mr. Eloy Planes.

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

[Interpreted] Thank You, Luis. Good morning, and welcome to Fluidra's third quarter results presentation for 2019.

The whole of Fluidra's management is physically in California in board and high management meetings, and for this reason, we have had to change our regular time for this conference to be able to adapt to the different time zones. I'd like to start out by making a general appraisal before getting into the presentation of results, after the first campaign after the effective merger between both companies.

As you know, 2019 was a key year, probably the most crucial year for our strategic plan. This year, we are not only implementing our integration, but we are building out the basis that should assure our capacity to lead our industry. Our main goal has been to ensure a quick and efficient integration, focusing on acting as a single company in the minimum time possible and focusing on executing the synergies, the cost synergies identified before the start of the campaign in order to generate the minimum impact in our customers. At the same time, we have worked in the preparation of products, equipment and strategies to be able to assess and implement the sales synergies that with the complementarity of products and geographies thanks to our merger.

From that point of view, the company has acted with great agility. And we had a chance a little less than a month ago to share with our investors and analysts, the new cost synergies, goals and our sales goals during our fourth Investor Day in Barcelona. With regards to those cost synergies, you will be able to see in the presentation that the level of synergies already implemented shows run -- an annual run rate slightly above EUR 26 million, going over the original EUR 19 million synergies that we had actually planned for 2019.

The good implementation pace and a greater visibility has allowed us to increase our total goal in terms of synergies by EUR 5 million. And now we have a [total] volume of EUR 40 million for the whole of our strategic plan 2022.

Now with regards to the sales synergies, we have given visibility for the first time to our goals and the detail of our commercial and product plans. Our ambition is to reach EUR 42 million in net [terms] after adjusting our total goal of EUR 60 million due to dis-synergies.

Let's now analyze the year's results. I'd like to highlight that the figures for the third quarter show growth rates in all of our geographies. The 2019 campaign started late and with certain weather impact, especially in North America. However, the sales evolution during the first 9 months of the year already show a very solid recovery. The dynamics in our main markets, i.e. Europe and the U.S.A. is speeding up, and this positive trend has been kept during the start of this last quarter. Given the results we have reached -- till now and the dynamics that we see in Europe and in the states, at the beginning of this fourth quarter, we have the pleasure to tell you that we will be reaching our goals -- the goals defined for 2019.

The balance is very satisfactory so far. We have built up a global platform that's very solid, leaving behind the most complex and the riskiest part of the merger. If we now look towards the future, we find ourselves in an excellent position to keep on implementing our plan.

Before giving the floor to Bruce and to Xavier, who will be presenting in greater depth, the results for the company, I just want to share with you that we had a chance to celebrate during the swimming pool trade show in Barcelona, our 50th anniversary. We are truly proud of our past, and we are looking towards a limitless and promising future with great optimism.

And now I'm going to give the floor to Bruce Fluidra's CEO.

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

Gracias, Eloy. It's a pleasure to be here today to discuss our performance during this 9-month period of 2019. I'll start with comments on our overall performance and trends in the business and then turn it over to Xavier, our CFO, otherwise known as XT, to provide more details on the financial results.

The numbers you see on Slide 5 are the pro forma 2018 and 2019 figures for January through September for Fluidra and Zodiac combined. I remind you that the merger was officially completed on the 2nd of July, 2018.

For the first 9 months of the year, sales grew 3.3%, 3% if adjusted for currency and perimeter, to EUR 1,062.7 million compared to the same period of 2018. This marks a strong Q3 despite an extremely challenging U.S. quarter comparable for Q3 2018. The strength of our global platform shines through, as Europe continues to lead growth, while the U.S. maintained strong momentum already shown in Q2.

Despite the negative leverage associated with the drop in volume year-to-date caused by weather, change of distribution and the move of our heater factory during the first half of the year in North America. We grew our global EBITDA 5.4% to EUR 190.5 million. This progress is driven by synergies and good control of OpEx by the team in the face of margin pressure from product mix, tariffs and merger start-up inefficiencies. We can start to see some operational leverage kicking in, which will align us well for our full year guidance once we realize the early buy related volume from the U.S. in Q4. We continue to invest prudently in OpEx while realizing synergies, allowing for margin read through and still positioning us strongly for Fluidra's growth.

EBITDA and cash earnings per share grew 6.5% and 12.5%, respectively. The results corroborate our improving return story, which, as I have mentioned in the past, is part of our strategic plan. We have continued to focus on improving product quality, value improvement for product cost reduction, integration synergies it's on track with our longer-term goals. As for net working capital, we ended the period 6% last year at EUR 303.4 million, largely based on inventory.

Current net working capital reflects our readiness for a standard Early Buy campaign, whereas 2018 showed an unusually low inventory level due to last year's beat the price increase, which happened in Q3 in the U.S. Net debt stands at EUR 675.3 million, having increased 1.4% as compared to the same period last year. When compared on a constant currency basis though, net debt decreased 2.4% and is in line with our expectations for a full year of strong cash generation.

Moving to Page 6. We hosted our fourth Investors Day in October to coincide with Fluidra's 50th anniversary celebration and in conjunction with the international pool and wellness trade show in Barcelona. These events gave us the opportunity to celebrate this memorable anniversary with many of our stakeholders. As you can see in the first picture of this slide, the celebration highlight was an artistic performance in a Fluidra-equipped competition pool with synchronized swimmers, lights and our own water jets, demonstrating a great and unique pool experience.

Over the course of the fourth Investors Day, we presented a deeper look at synergies and key initiatives to investors. We were pleased to share that we have revised our targets for value and lean initiatives as well as cost synergies upwards by EUR 5 million each to EUR 30 million and EUR 40 million, respectively. We also shared for the first time a revenue synergies target of EUR 59 million to be achieved by the end of 2022. Net of dis-synergies, that target is EUR 42 million.

In North America, revenue synergies will be generated from the development of a new commercial pool unit that will leverage our existing manufacturing footprint and know-how as well as the expansion of our Residential Pool offering. In Europe and the southern hemispheres, synergies will be generated by leveraging our large capillarity or customer base with the expanded range of products. Upgrades on our cost base savings as well as light shed on revenue synergies should be considered as an upside opportunity or a nice hedge against a potential change in macro environment.

Turning now to Page 7. You see the sales evolution by geography. During this 9-month period, global sales grew 3.3% compared to the same period of 2018. The vast majority of geographic areas had very positive sales trends. We continued to accelerate growth on the back of more normal weather in the Northern Hemisphere. Southern Europe grew 3.2% in Q3, was solid evolution in France, adjusted for perimeter, the growth was an even more impressive 6%. The Rest of Europe displayed currency and perimeter adjusted growth of 7.5%, with continued outstanding performance in Northern Europe. Altogether, approximately 55% of our sales came from the European area, again, highlighting the benefit of our global diversification.

North America continued to claw back against the slow start to the season. We experienced a 4% growth in the area, negative 2% currency adjusted. I remind you that during Q1, this currency adjusted number was negative 20.1%. When we see this quarter, on a standalone basis, despite a very tough comparable, growth was 6.1% adjusted for FX and perimeter.

Growth was helped by solid sell-through in the channel and gas heat. I'm happy to share that we were able to catch up in terms of gas heaters backlog shipments and report a strong performance in this product family year-to-date. Excellent work by our team, facing a difficult challenge. The quarterly performance in North America demonstrates the resiliency of our business and our belief in the continued strength of our market's fundamentals.

We are also pleased to share that orders are now in hand for a solid Early Buy campaign, helping our U.S. business return to growth on an annualized basis. The rest of the world was down 0.5 or 0.5%, adjusted for currency, with good performance in Asia, offset by weaker performance in South Africa and merger-related start-up challenges in Australia.

As you may recall, we merged our Australian operations this August and operated during the remainder of the quarter with some IT system integration issues that negatively impacted our shipments. Backlog is solid, and the team is progressing every day as we continue to work through the systems migration in Q4. Our global October sales results are in, and we've have seen continued strength in the vast majority of our geographies, reassuring us on a solid first full calendar sales year together.

Next, on Page 8, we see the evolution by business unit. Residential Pool accelerated growth to 3.1% year-to-date, driven by heaters catch up, pumps, lighting, equipment and pool covers or a more normal business pattern. Adjusted for perimeter, the growth was an even more respectable 5%.

Commercial pool continued to grow at 3.7%, confirming the positive trend we saw in the first half of the year and setting us up well for the remainder of the year. The pool water treatment business continued to accelerate, delivering growth of 5.9%. Growth was broad-based driven by chemicals and water care equipment. Pool and wellness, fluid handling maintained a strong growth trajectory of 5.1%.

So in summary, I'm positive with our overall results for this 9-month period of 2019 following a solid Q2 delivery. Our global footprint helped us deliver positive growth year-to-date, despite a challenging Q1 for North America and a difficult Q3 comparable from 2018. Despite some persisting merger-related headwinds and tariffs, we are laying a strong foundation for margin improvement via synergies, value improvement, lean and prudent OpEx investment.

With the Early Buy orders in hand and the weight of the U.S. volume in Q4, we are well positioned to continue to accelerate our results and deliver our year. Importantly, we are also not only on track with the integration. We have exceeded and upgraded our synergy targets.

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

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

Muchas gracias, Bruce. [Interpreted] The results on Page #9 [had as] a goal to ease the understanding of the business evolution by comparing equivalent figures. The accounts that are [not] comparable due to the merger that took place in July 2018 are included in the appendices to this presentation together with a reconciliation of the pro forma presented on Page #9.

Please remember as well that this page excludes all nonrecurrent expenses associated to the transaction or the integration of both companies. Additionally, and given the enforcement of the IFRS 16 rule, we have excluded its impact on the central column referring to 2019 in order to be able to talk about comparable figures with 2018. We have added an additional column on the right-hand side headed with IFRS 16 with the data adjusted for these concepts.

Okay. Having said that, let's now analyze the evolution of the main lines in the P&L account. The pro forma sales figure grew by 3.3%. And if we exclude ForEx, it would be a growth of 2.0%, and if we adjust for perimeter duly -- due mainly to the disinvestment, the divestiture in Aquatron, the growth rate would be of 3% the gross margin reached 51.2%, which is 30 basis points below the previous year. We have adjusted in the third quarter's pro forma of the previous year. Some items, some margin items to the OpEx in order to be consistent. This readjustment is only for the quarter and has no impact whatsoever on the total values for 2018. At any rate, we have added in the appendix a breakdown of the evolution quarter-by-quarter of the whole years 2018 and 2019 for your information.

The 30 basis points of the margins. Evolution is due to the import tariffs in the U.S.A. and the product mix, given that a lot of gas heater sales were carried out in the quarter, and they have a margin below the sales mix of the [builder] price increase in 2018. These negative factors are not totally compensated or offset due by the increase in sales prices. Operational expenses before provisions and amortizations reached EUR 357.5 million, with a growth rate of 2.3%. This increase which is net of synergy savings reflects, on the one hand, the investments in our key commercial initiatives like the growth in the aftermarket sector in the U.S.A., the development of products based on IoT, all the commercial equipment for sale synergies. And on the other hand, certain inefficiencies in the integration, as Bruce has just already mentioned.

Bad debt provisions reached EUR 3.3 million with a deterioration compared to the previous year, worsening compared to the previous year due to the evolution in Australia. EBITDA reached EUR 190.5 million, with an increase of 5.4%, which is a figure that's very similar when we adjust for ForEx and perimeter. For currency and perimeter, the limited operational leverage is due to the lack of volume in the U.S.A., the product mix and the factors -- the cost factors mentioned previously.

Under the EBITDA, the account presents a significant increase in the amortization of depreciable intangibles associated to the merger with Zodiac. The financial result reached EUR 32.3 million, which is 6.9% below the sum of the financial expense of both companies in 2018. The variation in the financial result is due to the lower cost of the debt and the impact of the foreign exchange differences. The net result adjusted for nonrecurring expenses reflects a reduction due to the increase in the amortization of intangibles after the merger.

As we have been doing ever since the merger with Zodiac was made, we have included the account of the company in an appendix and a detailed reconciliation of the pro forma used in this page. Given that the structure of the information is similar with less items, conciliation items in the previous year, we will not make any comments about this in this conference.

Page #10 shows the working capital evolution for the group. The net working capital reached EUR 303 million with a growth of 6%. This increase is due to the growth of inventories of 8.5%, which is 6.3% if we adjust for currency and perimeter. 2018 showed an inventory value that's unusually low due to the Early Buy of -- in terms of our customer sales before the rise of prices in August in the U.S.A. This year, they have values according to the preparation for the Early Buy's campaign and they're well aligned with our perspectives for the end of the year. The accounts collectible show a balance that's slightly below the previous year due to a good evolution of the quarter sales.

Page #11 shows the evolution of the net financial debt and the free cash flow. We have preferred to show a flow based on EBITDA, given the existence of nonrecurrent items associated to the transaction, which would distort the comparison between 2018 and 2019. The results for these first 9 months are positive with a cash generation of EUR 177.8 million, 2.8% above the previous year. The debt is of EUR 675 million, 1.4% above the previous year. Now if we adjust to equivalent exchange rates, the debt is 2.4% below the previous year and is well aligned with our expectations for the year's end.

And without any further ado, I'm going to give the floor now to our Executive Chairman, Mr. Eloy Planes to conclude this results presentation.

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

[Interpreted] Well, thank you, Bruce, and thank you, Xavier. After an unusual start of the campaign, the third quarter results have consolidated us on the road to growth with a good recovery of the American, North American market and the acceleration of growth in the European market.

With regards to the operational issues, you have been able to see during the presentation that the synergies run rate, the cost synergies run rate already reached EUR 26 million. This figure has made us review and update by EUR 5 million our total synergies goal, and the plan, therefore, has been raised to EUR 40 million. And with regards to the sales synergies that we gave you for the -- we have given for the first time visibility to our goals. And to the details of our commercial plans and our product plans during the Investors Day last month, in Barcelona, we have identified almost EUR 60 million of total opportunities, which is equivalent to EUR 42 million net, once we have discounted the dis-synergies. The dynamics in our main markets, i.e. Europe and the U.S.A., have been accelerating. And this positive trend has been kept during the beginning of this last quarter. The fourth quarter in the U.S.A., where we face a standard early buy campaign is going to be very robust after the recovery of the market during these last few months.

Our orders portfolio point this out, the weight of America during the last quarter and also its greater contribution to margins allows us to foresee a significant improvement of our performance for the year's end. Given the results we have obtained till now and the dynamics in Europe and the U.S.A. at the beginning of this fourth quarter, I'd like to tell you that our forecast is to be placed within the goals we defined for 2019.

Sales between EUR 1.35 billion and EUR 1.4 billion and EBITDA between EUR 240 million and EUR 260 million and a net debt over EBITDA ratio below 2.6x.

Listen, after the first year of our strategic plan, we were leaving behind the most complicated and the riskiest part of the merger. The balance is very, very satisfactory. We have built up a global platform that's solid and forward looking. If we look towards the future, we are in an excellent position to keep on implementing our plan.

So without any further ado, we end our results presentation today. The only thing I have left to do is to thank you for your participation in this multi conference and to tell you that we'll be delighted to answer any question you may have for us. Thank you.

QUESTIONS AND ANSWERS

Luis Boada

Many thanks, Eloy, Xavier, for your presentation. We will now begin the Q&A session. Let me remind you that you can send questions through the Ask a Question tab on the bottom left of your screen?

So first question says, looking to the low end of your guidance, both in terms of sales and recurrent EBITDA, the EBITDA margin implicit for Q4 stands at high double-digit, above the margins in Q3 2019. Is it fair to say that Q4 margin should stand above Q3 if the price increase effect in the U.S.? Or is there any other explanation for this?

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

As I mentioned during the presentation, we're expecting to have a really strong Q4, mostly due to the North American business. From a mix perspective, a country mix perspective, the fourth quarter is very heavily weighted to America. So you should expect to see a significantly strong margin pickup inside the quarter. It's been an eventful year as Eloy mentioned. We had a slow start to the season in the U.S., the first year after the merge, so some merger-related inefficiencies that we continue to speak about. And all in all, in a year like this, I think it'd be reasonable to expect this to be in the middle to mid low of the guidance range rather than the higher end.

Luis Boada

Next question. Could you please quantify the impacts from tariffs in the U.S. in Q3 margins? What should we expect going forward?

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

Yes. As we mentioned during our Investor Day back in Barcelona, in October, the full year impact of tariff is going to represent approximately around 50 basis point margin impact. Although it's true that the impact of -- in terms of incremental impact, the impact isn't really this first the 9 months of the first 3 quarters. The impact in the later part of the year is not that material as we are already had the tariff impact in 2018.

Luis Boada

Next question. Could you please provide an update on sales development in October and November?

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

Sure, Luis. Happy to. As we mentioned during the presentation, we had a very strong October in just about every geography that we serve. So certainly, that makes the comparable easier as we look forward. And most importantly, for those that are not familiar, we have the phenomenon in the U.S. for years and years and years called the Early Buy, which basically allows us to have visibility to the orders for the fourth quarter for our most heavily weighted business in that quarter, again, which is North America. So we feel like we're in good shape on what proceeded in October. And again, specifically with the Early Buy campaign compared to what it was last year.

Luis Boada

Next question. How should we think about the evolution of the business, excluding synergies? Is gross margin deteriorating?

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

Okay. From an underlying business perspective, I think the business is really strong. In order to assess our performance, I think, again, you've got to remember that we've got some really unusual quarterly and year-to-date comparisons going on. We mentioned the volume situation in North America, and that really will help in Q4. You've got really unusual comparisons with the beat the price from the last year. Having said that, we mentioned a couple of factors affecting greater margin read through in our P&L. Merger-related inefficiencies and tariffs as well as some investment in some strategic initiatives, like IoT, commercial pool launch in the U.S. So supporting the revenue synergies. We feel like we're well positioned for 2019 and then in good position as we look to the future.

Luis Boada

Next question. Despite higher EBITDA, better working capital and flat CapEx, free cash flow in Q3 versus Q3 '18 has declined. What is the reason for this?

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

I'll take this one, Luis. Basically, we don't -- we've always said that we have to look at the evolution of our business on a full season basis. The reason is basically change in working capital. And as we have mentioned in the conference call, this year has had some quarter-to-quarter noncomparability due to some issues in 2018 and 2019 numbers, and that's basically what drives this evolution. Our current levels of working capital really reflects our preparation or readiness for our standard -- for an Early Buy, standard Early Buy season and is well aligned with our expectations for year-end.

Luis Boada

Next question. Could you please provide more details as to what has impacted trading in South Africa?

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

Sure, Luis. I'll take that one. South Africa is an important market for us. It's one of the highest pool density per capita markets in the world, but it's not a particularly dynamic economy at this point in time. So what we're seeing is kind of flat to minor growth in South Africa, but it continues to be a good market for us.

Luis Boada

Next question. Year-to-date, nonrecurring costs reached almost EUR 40 million when comparing to EUR 108 million EBITDA to EUR 169 million that we guess is by looking at the pro forma reported numbers. Whereas, on your strategic plan presentation, you pointed to EUR 22 million of nonrecurring costs needed to achieve synergies. Why such a big difference?

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

Yes, I'll take that one, Luis. Really, if you look at the reconciliation between pro forma and reported EBITDA on Page 16 of the deck, you will see the different components. What we really highlighted at our Investors Day was what was the nonrecurring cost associated to capturing the synergies. We guided to EUR 22 million, as you mentioned. And at the end of September, we've reached EUR 16 million. So we are well aligned with that guidance. In addition, below the adjusted EBITDA, you have other costs like LTI, run rate, LTI based on stock-based compensation and some profit and loss from sales of subsidiaries, expenses that are in nature, nonrecurring, but not related to the transaction.

Luis Boada

So following up on that question, what should we expect for 2020?

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

As we indicated for 2020, on the Investor Day, for transaction for integration-related nonrecurring expense, we expect around EUR 5 million. And then obviously, we will continue to have stock-based compensation and some of the other non-recurring items that you see on Page 16.

Luis Boada

Next question. In Q4 2018, your debt rose, while in this quarter, next quarter, should decrease to hit your 2.6x net debt-to-EBITDA ratio. Could you explain the difference in more detail between both quarters year-on-year?

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

Sure. Again, I refer back to the comment of unusual quarter-to-quarter performance. Clearly, when you look at Q4 2018 and Q4 2019 expected numbers, the net working capital evolution should be different to what we have as the season plays differently. And then in addition, there's another quite significant factor that has to do with nonrecurring expense having had last year quite a significant transaction and integration outflow associated to that caption in the P&L.

Luis Boada

Next question. Could you please explain in more detail the positive impact from the Early Buy campaign in the U.S.?

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

I'm not sure, Luis, that we can go much deeper on the actual situation with the orders. What I would remind everybody is in 2018, the comparison is very unusual, okay. We had a material price increase that took place in the third quarter. And I would tell you that many of our distribution based customers probably anticipated a good bit of their volume for the 2019 campaign. And what we've seen in 2019 is the return to a more traditional Early Buy. Probably, the best news that was in there that may have gotten lost is that the sell-through in the channel in Q3 really accelerated in the U.S. And then with the strong early buy orders. We feel very confident on that top line number in the U.S.

Luis Boada

Next question is on cost synergies. Having increased the target recently, would you see potential for further upside as we go through 2020?

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

Yes. Obviously, we have recently provided an upgrade to the targets. It's not a point in time now where we have to look at this. Obviously, we continue to see opportunity in operations, as we have shared with the market. But as you'll recall, we have upgraded the guidance on the commercial piece from 12 to 17. We continue to see potential operations in synergies and operations going forward, but this will come certainly at a later stage in the plan, okay.

Luis Boada

Next question concerns pricing for 2020. Should we anticipate a normal step-up? Or is there a reason for 2020 to be different?

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

Thanks, Luis. I'll take that one. So I think you really have to look at this, depending on where you are geographically in the world. One of the things that will help that margin in Q4 is that the price increase for the coming Seasons campaign has already been taken and implemented in Australia. And South Africa. So from that standpoint, that price increase is already through as we go into the Southern Hemisphere is heavier weighted portion of the year. In addition, the Americas price increase return to the attritional October 1 date. So that one is also through. That one is maybe a bit smaller than last year, but I would say, higher than normal based on the cost headwinds that we have continued to see in the business. Again, that price increases through. And so we'll be helping from a margin perspective in Q4. As you go to Europe, our traditional timing for price increase is the beginning of the year. And I think you'll see just a more normal price increase based on the inflation that we've seen in the marketplace in Europe.

Luis Boada

Next question. Do you expect a positive working capital contribution at the end of the year, thanks to a further reduction on stocks?

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

Yes. As mentioned during the call, we will see an unusual comparison between Q3 and Q4 this year, and we do expect better contribution coming from net working capital in the next quarter than what we had last year.

Luis Boada

We have now covered all received 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 our Investor Relations department for further queries. Good afternoon.
