May 16, 2023

Maytronics Announces First Quarter 2023 Results*

- **Revenues** amounted to NIS 524.4 million, a decline of 7.9% compared to Q1 2022, when the Company delivered 36% growth.
- Excluding the impact of ECCXI's acquisition, which was consolidated for the first time from the end of July 2022, revenues were down 6.6%. The lower revenue decline is the result of ECCXI's negative contribution (NIS 7.6 million) to Q1 revenues due to intercompany consolidation accounting principles and strong seasonality in ECCXI's business, which is reflected in high inventory build-up for the season in the quarter and relatively low seasonal sales in the winter months (January-March).
- Geographic revenue breakdown:

  North America sales: Up 6.4% compared to the corresponding period last year, when sales growth of 38% was delivered.

  Europe sales: Down 22.5% compared to the corresponding period, which saw 36% sales growth.

  Oceania sales remained unchanged compared to last year.

  RoW sales: Down 36.8% after 78% growth in the corresponding period last year.
- Residential robotic pool cleaner sales totaled NIS 431.1 million, down 16.5%.
- Commercial robotic pool cleaner sales totaled NIS 33.6 million, up 69.8%.
- Revenue from sales of safety products and related pool products totaled NIS 59.7 million, up 79.2%.
- **Gross profit** was NIS 240.8 million, up 2.1%. The gross margin rose to 45.9%, an increase of 450 basis points compared to the corresponding period last year, reflecting price increases and successful efforts to lower raw material costs. These were partially offset by the impact of lower production volumes. Additionally, changes in currency exchange rates contributed 130 BPS, and the initial effect of the trend of improvement in shipping rates is evident and contributed to a slight improvement in gross profit in the quarter.
- **Operating profit** was NIS 116.8 million, down 18.2%. Most of the negative impact is attributed to the negative contribution of the ECCXI consolidation, which amounted to NIS 18.7 million.

  Pro-forma EBIT excluding the impact of ECCXI's consolidation amounted to NIS 135.5 million, a decline of 5.1%, and the operating margin rose to 25.5% compared to 25.1% in the corresponding period last year.
- **Finance expenses** totaled NIS 18.3 million, compared to NIS 3 million last year. The increase in finance expenses is the result of a substantial increase in interest rates and higher credit levels, in addition to expenses arising from a negative valuation of hedging transactions due to the weakening of the Shekel against the Euro in the quarter.
- **Net income** was NIS 88.4 million, down 23.2%. Pro-forma net income excluding the impact of ECCXI's consolidation was NIS 107.2 million, reflecting a decline of 6.9%.

* The information presented below does not substitute the official reports of the Company as posted on the MAGNA electronic public disclosure system, and only the content of those reports is binding upon the Company.

Sharon Goldenberg, CEO: "We are wrapping up a quarter with a moderate decline in revenues relative to industry trends and in line with our expectations. First quarter sales are largely characterized by build-up in the distribution channels as the season draws near, and the decline in revenues reflects the continued process of inventory correction by the distribution channel and very high comparative figures following 36% growth in Q1 of 2022.

"We are pleased with the margin improvement, which is largely the result of the successful realization of price increases and further streamlining of raw material and manufacturing costs. Given the characteristics of 2023, the Company is focusing on efficiency enhancement and is controlling expenses with the goal of effective profitability management.

"Despite the negative contribution of ECCXI's consolidation in the first quarter, which is essentially of an accounting nature, ECCXI's robotic cleaner sales in the quarter demonstrate growth, which is a positive indicator of ongoing demand by end users. This is an acquisition that strengthens our presence in the online channel in North America, and we expect a positive contribution in the second and third quarters, which are stronger quarters in ECCXI's business. Furthermore, we are presently working on a plan to leverage the platform offered by ECCXI, and we trust that it has substantial growth potential going forward.

"Looking ahead, we believe to date that the results for the quarter and the current indicators, both support an estimate for maintaining the numbers presented in our outlook for 2023."

Business results for Q1 2023

Sales declined by 7.9% and amounted to NIS 524.4 million, compared to NIS 569.6 million in the corresponding period last year when very high growth of 36% was achieved, which reflected the perpetuation of the demand trends that were typical of the COVID-19 period.

The Company's revenues from sales of residential robotic pool cleaners amounted to NIS 431.1 million, down 16.5% compared to last year. The decline is due to inventory correction in the distribution channels in all major territories, and to the first-time consolidation of ECCXI, whose contribution to revenues in the quarter was negative due to the elimination of intercompany transactions. These negative effects were partially offset by price increases in the different territories.

The Company's sales in the commercial (public) robotic pool cleaner segment totaled NIS 33.6 million, up 69.8%. Revenue growth is largely attributed to ongoing demand in the segment and the upturn in the Company's ability to supply the demand for these products.

Revenues from safety products and other related pool products totaled NIS 59.7 million, up 79.2% compared to the corresponding period last year. Sales growth is largely due to the first-time consolidation of ECCXI, since 40% of ECCXI's revenues arise from sales of related pool products. By contrast, sales of pool covers, alarms and pool equipment by the subsidiary in Germany dropped following the downtrend in new pool construction.

Europe sales declined by 22.5% (-27% in local currency terms) and amounted to NIS 185.6 million, accounting for 35.4% of sales compared to 42% of sales in the corresponding period last year. The decline is relative to high comparative figures in the corresponding period, following 36% growth in Shekels and 49% in local currency. The decline in Europe sales reflects inventory correction in the distribution channel and regional macroeconomic effects that are due, among other things, to the continuing war in Ukraine. Furthermore, sales in the region are more strongly affected by the downtrend in new pool construction, which

led to a greater drop in sales of covers, alarms and other pool equipment sold by the subsidiary in Germany. Accordingly, the decline in robot sales in Europe is more moderate than the overall decline in the territory.

North America sales amounted to NIS 287.3 million, accounting for 54.8% of sales, compared to 47.4% in the corresponding period last year. Growth in the territory was 6.4% (-4% in local currency terms), and 9% excluding the ECCXI acquisition, which, as mentioned, made a negative contribution to quarterly robot sales, but contributed incremental revenues from sales of other products.

Oceania sales amounted to NIS 36.9 million, similar to the corresponding period, which accounted for 7% of sales compared to 6.5% last year.

RoW sales declined by 36.8% and amounted to NIS 14.6 million, accounting for 2.8% of sales, following 78% growth in Q1 2022.

The impact of **changes in currency exchange rates** on sales compared to last year amounted to an **increase** of NIS 42.5 million in revenues, largely due to the strengthening of the Euro by an average of 6.9%, the US Dollar by an average of 10.7%, and the Australian dollar an average of 5.4%.

Gross profit was NIS 240.8 million, up 2.1% compared to the corresponding period last year. The gross margin rose to 45.9% compared to 41.4% in the corresponding period, **an increase of 450 BPS**.

Gross profit was positively affected largely by the following:

1. Successful realization of price increases.
2. Reduction of BOM costs.
3. Increase in the sales mix of public pool robots.
4. Favorable currency effects contributed NIS 25.8 million to gross profit compared to the corresponding period in 2022 (130 BPS).

These effects were partially offset by the decline in production volumes.

R&D expenses totaled NIS 16.8 million, up 13% compared to the corresponding period last year and mostly attributed to the robot segment. Development costs in the robot segment were NIS 11.8 million, and development costs in the pool water monitoring, control and treatment segment amounted to NIS 4 million in the quarter, compared to NIS 4.7 last year.

Selling and marketing expenses were NIS 70.6 million, an increase of 51.9%. The increase is largely due to the consolidation of ECCXI, which contributed NIS 16 million to this line item, higher labor costs due to additional hiring compared to the corresponding period, and an increase in advertising and marketing expenses. Currency effects contributed over NIS 2.5 million.

General and administrative expenses were NIS 36.5 million, an increase of NIS 4.9 million. Most of the increase is attributed to the consolidation of ECCXI (additional expenses of NIS 3 million) and foreign currency effects, which amounted to NIS 1.1 million.

Operating profit totaled NIS 116.8 million, down 18.2% compared to the corresponding period last year. As mentioned, the ECCXI consolidation had a negative effect of NIS 18.7 million on operating profit; excluding the consolidation, operating profit declined by a more moderate 5.1%. It is noted that the effects of the consolidation are of an accounting nature and are specific to the inherent features and scope of the business in the first quarter. The Company expects that the consolidation of ECCXI's sales in the second quarter will have a positive contribution to the consolidated financial results.

The operating margin (excluding the ECCXI consolidation) was up 40 basis points compared to the same quarter last year, rising to 25.5%.

EBITDA amounted to NIS 137.8 million, down 12.5%. Excluding the ECCXI consolidation, EBITDA was down by 1.8%.

Net finance expenses were NIS 18.3 million, compared to NIS 3 million in the corresponding period last year. The higher finance expenses were caused by a significant increase in interest expenses, and combined with a substantial rise in credit levels, which amounted to NIS 948.1 million compared to NIS 500.6 million in the corresponding period last year and NIS 725.6 million at the end of the prior quarter, led to interest expenses of NIS 10.7 million in the quarter, compared to NIS 2.1 million in Q1 2022. Furthermore, the rise in exchange rates in the current quarter led to the revaluation of foreign currency transactions.

Income tax expenses were NIS 10 million in the quarter, reflecting a decrease of 59.1% compared to the corresponding period last year. The effective tax rate was lowered to 10.2% compared to 17.6% last year. The decrease in the effective tax rate is largely the result of a change in the profit mix in the Group.

Net income attributable to shareholders of the Company was NIS 85.5 million, down 23.5%. Pro-forma net income excluding the impact of ECCXI's consolidation was NIS 107.2 million, reflecting a decline of 6.9%.

Cash flows from operating activities consumed by the Company amounted to NIS 185.7 million, compared to NIS 220.9 million in Q1 last year. The decrease in operating cash flow consumed is due to an increase in trade payables in the period.

Due to seasonality, in the first quarter of the year sales volumes resulting from early-buy sales are high and the amount of receivables increases, whereas collection is relatively low, leading to a negative current cash flow. Based on past experience, collection from customers is expected to increase in the second and third quarters, and the Company is working to reduce inventory levels by the end of 2023 and thus strengthen its operating cash flow.

Operating working capital increased by NIS 430 million, funded by an increase in credit.

The increase of NIS 507 million in **inventory balance** is due to:

1. The first-time consolidation of ECCXI, whose inventory on the reporting date amounted to NIS 162 million.
2. An increase of NIS 317 million in **finished goods inventory** following the sharp change in trend during 2022 in the needs and nature of inventory build-up in the distribution channel, which, combined with a short pool season, are reflected in higher inventory levels, mostly in the subsidiaries, and are expected to supply the demand in the 2023 pool season in the Northern Hemisphere.
3. **Raw material and goods in process inventories** rose by a modest NIS 28 million compared to the corresponding period last year, reflecting a moderate decline of NIS 29 million compared to the end of 2022.
4. A comparison between the periods reveals a material increase in raw material prices and in the USD exchange rate in the past year, which contributed to an increase in inventory value.

The **balance of trade receivables** increased by NIS 77.7 million. There was no significant change in customer payment terms, and the increase is largely due to the mix of dates on which the sales were generated during the quarter.

Average customer days in the quarter were 66, compared to 49 days in the corresponding period last year.

The **balance of trade payables** increased by NIS 76 million due to business growth and higher inventory, as well as the ECCXI consolidation. Average supplier days rose to 85 compared to 60 days last year.

On March 31, 2023, **equity attributable to shareholders** of the Company totaled NIS 728.3 million, constituting 32.2% of total assets on the statement of financial position.

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