

Unofficial Translation from Hebrew

August 16, 2022

H1 2022 sales of NIS 1.136 billion, up 23.8% (27.6% excluding foreign currency effects) Operating profit of NIS 272.5 million, up 9.1% (19.7% excluding foreign currency effects) and net profit of NIS 224.7 million, up 11.5% (20.2% excluding foreign currency effects)

Q2 2022 sales of NIS 566.3 million, up 13.6% and 16% excluding foreign currency effects

Significant growth in all key regions (in foreign currency terms): 19% in Europe, 15% in North America, 42% in Oceania and 24% in RoW

Residential robotic pool cleaner sales totaled NIS 493.8 million, an increase of 15.1%

Commercial robotic pool cleaner sales totaled NIS 23.6 million, an increase of 20%; sales of safety products and related pool products dropped 2.1%

Gross profit totaled NIS 228.5 million, up 5%; the gross margin dropped to 40.3% of sales (41.9% excluding foreign currency effects) compared to 43.8% in the corresponding quarter last year

Operating profit totaled NIS 129.7 million, a decline of 6%; the operating margin dropped to 22.9% of sales (24.6% excluding foreign currency effects) compared to 27.6% last year

Net profit totaled NIS 109.5 million, a decline of 0.6% and 4.8% excluding foreign currency effects

Backlog orders on June 30, 2022, for delivery in 2022 amounted to NIS 399.4 million, an increase of 32.2% over backlog in the corresponding period last year

The Company maintained its sales forecast for 2022, estimating revenue growth of 18%-22%, excluding the acquisition of Backyard, which was closed at the end of July and to be partially consolidated commencing in Q3 2022

The Board of Directors approved an interim dividend of NIS 65 million

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Sharon Goldenberg, CEO: “Maytronics has delivered a half-year and quarter of double-digit sales growth in all regions, reflecting robust demand in challenging market conditions – cold, rainy weather that delayed the start of the season and the macroeconomic environment led to highly volatile market conditions. Nonetheless, sales of the Company’s robots have demonstrated resilience thanks to the brand’s strength, our digital marketing capabilities, and our global presence both online and in the professional channels. All of these have enabled the Company to continue to grow organically even in today’s market conditions based on the ongoing penetration of robotic cleaning technology, which is replacing other cleaning methods.

“If we look at the pool market in general, after two years of highly accelerated growth during the pandemic, 2022 is evolving as a year of transition as we return to pre-COVID demand patterns. The softening demand for the construction of new pools – mainly above-ground – is felt, and in some product categories in the swimming pool business, a significant drop in demand is being experienced. These trends, coupled with inventory in the supply chain, macro trends and the weather, have led to demand fluctuations in the supply chain.

“However, we are highly encouraged by the fact that robotic cleaning technology continues to gather momentum and to benefit from demand by pool owners. These trends support our estimates for accomplishment of the growth targets we have set for 2022 and continued growth in the years that follow.

“At the end of July, we completed the acquisition of Backyard, a leader in online sales in the US pool market. This is an important strategic step in Maytronics’ digital transformation and in its ability to reach the end user. We believe that this acquisition will enable us to capitalize on these capabilities to expand our offering of

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targeted products and services that deliver added value to the end consumer, which will contribute to the realization of the high growth potential inherent in the US market.

“Toward the 2022 season and during the season, we raised prices with the aim of mitigating the expected negative impacts on our cost structure, while keeping the balance with growth potential. However, a sharp drop in exchange rates eroded the price increase, and we also experienced an extreme rise in shipping rates in addition to a significant increase in raw material prices, which led to a decline in margins. We are considering a further adjustment to sales prices, which, combined with the trend of moderation in logistic supply chain challenges, are likely to contribute to improved margins. Also, after two years of focusing on meeting elevated demand, the Company will be able to devote more resources to projects that will enhance operational efficiency, amongst other things thanks to increased automation.”

Business results for Q2 2022

Sales grew 13.6% and amounted to NIS 566.3 million, compared to NIS 498.5 million in the corresponding period last year.

The Company's revenues from sales of **residential robotic pool cleaners** amounted to NIS 493.8 million, up 15.1% compared to the corresponding period last year, and up 17.4% excluding foreign currency effects.

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Growth is the result of continued elevated demand for private pool robots across all key regions where the Company is active, and an effective price increase of 5.5% in local currency.

The Company's sales in the **commercial (public) robotic pool cleaner** segment totaled NIS 23.6 million, representing 20% growth. The segment was positively affected by the recovery of the tourism and hotel industry, which led to increased demand. It is noted that in this segment, the Company continues to suffer from availability constraints in unique electronic components, which led to an inability to supply the entire demand.

Revenue from **safety products and related pool products** totaled NIS 48.9 million, a drop of 2.1% and an increase of 6% in local currency terms. Most of the Company's sales in this segment are made in Europe and denominated in Euro, which weakened by an average of 8.5% compared to the corresponding quarter. The relative drop in growth is attributed to the related pool products segment and the construction of new pools; by contrast, sales of water treatment products increased.

Europe sales totaled NIS 260 million, an increase of 8% (19% in local currency terms).

North America sales totaled NIS 262.7 million, an increase of 18% (15% in local currency terms).

Oceania sales totaled NIS 23.9 million, an increase of 35% (42% in local currency terms).

RoW sales grew by 24% and totaled NIS 19.7 million.

The effect of changes in exchange rates on sales compared to the corresponding period last year amounted to a decrease of NIS 11.7 million, largely due to the Euro, which accounted for 45% of the Company's sales and weakened by 8.5% against the Shekel. The US Dollar, which accounted for 49% of the Company's sales, strengthened by an average of 3.8% against the Shekel, and the Australian Dollar, which accounted for 4% of sales, weakened by an average of 3.2%.

Gross profit was NIS 228.5 million, up 4.6% compared to the corresponding quarter. The gross margin was 40.3%, a drop compared to a gross margin of 43.8% last year. The decline in the gross margin is the result of the following:

1. An increase in raw material prices and shipping costs compared to the corresponding period last year.

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2. Foreign currency effects, particularly the erosion of the Euro by an average of 8.5% and the Australian Dollar by an average of 3.8% against the Shekel, reduced gross profit by NIS 13.5 million (150 basis points).

These effects were partially offset by an increase in sales prices to the Company's customers – 5.5% in local currency, and by the effects of the increase in volumes and improved operational efficiency in manufacturing.

R&D expenses totaled NIS 11.5 million, up 5.8%. The increase is the result of Company's continued focus on the development of robots and water technologies. R&D expenses related to the monitoring and control system were NIS 4.1 in the second quarter, compared to NIS 2.2 million last year.

Selling and marketing expenses were NIS 52.4 million, up 25.3%. The increase is largely due to a significant increase in the costs of shipping to customers following a sharp price hike ranging from 180% to 250% (depending on the destination) on average in ocean freight rates, accompanying use of air freight, and an increase in inland transportation costs in the US and Australia. All of these led to an increase of 105% in the Company's shipping costs, which accounted for 66% of the total increase in selling and marketing expenses in the quarter. The remainder is due to workforce additions in most territories to support the Company's "Maytronics 2025" strategy, and higher advertising and promotional costs.

General and administrative expenses were NIS 34.9 million, up 23.9%, a total increase of NIS 6.7 million. The increase is attributed to higher consultancy costs due to the Backyard acquisition, an increase in workforce in HQ departments and mainly in IT due to the accelerated growth of the Company's business and to support the "Maytronics 2025" strategy, as well as general expenses impacted by business growth (e.g., local taxes and depreciation).

Operating profit totaled NIS 129.7 million, down 5.7% compared to the corresponding period last year. The operating margin dropped to 22.9% of sales compared to 27.6% in the corresponding quarter.

The drop in operating profit is largely due to the following:

1. Weakening of the major currencies against the Shekel, which lowered the operating profit by NIS 12.4 million.

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2. The impact of the sharp rise in shipping costs, which account for most of the increase in selling and marketing expenses.
3. Income of several million dollars that was not recognized in the quarter due to logistic delays at destination ports in the US and is expected to be recognized in the third quarter.

Finance income was NIS 757 thousand compared to finance expenses of NIS 1.9 million in the corresponding period last year. In the quarter, net finance income was recorded due to changes in exchange rates in the period and was offset by an increase in interest rates on the Group's lines of credit.

Income tax expenses were NIS 21 million, reflecting a drop of 17.5% compared to last year. The lower tax expenses are due to the drop in profit for tax purposes as well as recognition of Yizre'el Industrial Park as Development Zone A, which also affected the effective tax rate, now 16.1% compared to 18.7% last year, and to a change in the profit mix in the Group.

In the second quarter of 2022, Maytronics delivered **net profit** of NIS 109.5, a drop of 0.6% compared to the corresponding period last year.

Cash flows from operating activities amounted to NIS 139 million compared to NIS 238.1 million last year. Cash flow in the quarter was affected by collection from customers, which was offset by an increase in inventory balance following growth in finished goods inventory, inventory in transit and an increase in raw material inventory, largely due to business growth and a decision by the Company to make earlier and larger purchases of components and raw materials to ensure a response to demand and maintain manufacturing continuity to the greatest extent possible.

Business results for H1 2022

Sales grew 23.8% and amounted to NIS 1.136 billion, compared to NIS 917.6 million in the corresponding half last year.

The Company's revenues from sales of **residential robotic pool cleaners** amounted to NIS 1.01 billion, up 26.5% compared to the corresponding period last year. Growth in foreign currency terms was 28.8%. The increase is due to elevated demand for robotic cleaners in all key regions, a price increase

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of 6% in local currency, successful early-buy sales and solid preparations for the season in all markets in the Northern Hemisphere, and continued strong sales growth in Oceania.

The Company's sales in the **commercial (public) robotic pool cleaner** segment totaled NIS 43.4 million, up 0.5%. The sales volume was similar due to a certain recovery of the tourism and hotel industry in the period countered by the consequences of supply chain challenges, including the availability of segment-specific electronic components, which led to an inability to supply the entire demand, as well as the weakening of the major currencies against the Shekel.

Revenue from **safety products and related pool products** totaled NIS 82.2 million, an increase of 8.6% compared to the corresponding period last year. Sales growth in the segment is largely the result of increased sales of automatic pool covers and water treatment products.

Europe sales totaled NIS 499.6 million, an increase of 19% (32% in local currency terms).

North America sales totaled NIS 532.8 million, an increase of 27%.

Oceania sales totaled NIS 60.8 million, an increase of 18% (26% in local currency terms).

RoW sales grew by 48% and totaled NIS 42.7 million.

The effect of changes in exchange rates on sales compared to the corresponding period last year amounted to a decrease of NIS 35 million, largely due to the Euro, which accounted for 43% of the Company's sales and weakened by an average of 7.7% against the Shekel. The US Dollar, which accounted for 49% of the Company's sales, strengthened by an average of 1.5% against the Shekel, and the Australian Dollar, which accounted for 6% of the Company's sales, weakened by an average of 6%.

Gross profit was NIS 464.3 million, up 15.9% compared to the corresponding half-year period. The gross margin was 40.9% compared to 43.8% last year.

The decline in the gross margin is the result of the following:

1. An increase in raw material prices and shipping costs compared to the corresponding period.
2. Foreign currency effects, particularly the erosion of the Euro by an average of 7.7% and the Australian Dollar by an average of 6% against the Shekel, reduced gross profit by NIS 29.5 million (130 basis points).

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3. Income of several million dollars that was not recognized in the quarter due to logistic delays at destination ports in the US and is expected to be recognized in the third quarter.

These effects were partially offset by an increase in sales prices to the Company's customers of 6% in local currency, and by the effects of the increase in volumes and enhanced operational efficiency in manufacturing.

R&D expenses totaled NIS 26.4 million, an increase of 25.7% compared to the corresponding period. The Company continues to implement its development plan, which centers on the Company's vision to lead the sector, while pursuing the development of new generations of robots and new water technology products. Development costs in the pool water monitoring, control and treatment system amounted to NIS 8.8 million in the period.

Selling and marketing expenses were NIS 98.9 million, an increase of 32.2% compared to the corresponding period last year. The increase is largely due to a significant rise in the costs of shipping to customers following a sharp price hike in ocean freight rates, accompanying use of air freight, and an increase in inland transportation costs in the US and Australia. All of these led to an increase of 126% in the Company's shipping costs, an increase which amounted to NIS 16 million. These costs account for 66% of the total increase in selling and marketing expenses in the period. The remainder is due to workforce additions in most territories to support the Company's "Maytronics 2025" strategy, and higher advertising and promotional costs.

General and administrative expenses were NIS 66.5 million, up 20.8%. Most of the increase is attributed to IT due to the accelerated growth of the Company's business, the addition of workforce in management departments, consultancy fees associated with the Backyard acquisition, as well as general expenses impacted by business growth (e.g., local taxes and depreciation).

Total operating expenses in the period rose to 16.9%, compared to an OPEX to sales ratio of 16.4% in the corresponding period last year.

Operating profit totaled NIS 272.5 million, an increase of 9.1% compared to the corresponding period. The operating margin dropped to 24% of sales compared to 27.2% last year.

The drop in the operating margin is largely due to the following:

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1. Weakening of the major currencies against the Shekel, which lowered operating profit by NIS 26.6 million. Excluding currency effects, operating profit in the first half rose by 19.8%.
2. The impact of the sharp rise in shipping costs, which accounts for most of the increase in selling and marketing expenses.

EBITDA totaled NIS 302.4 million, up 9.2%.

Finance expenses were NIS 2.3 million, compared to finance expenses of NIS 4.4 million in the corresponding half last year. In H1 2022, net finance expenses were recorded due to increased interest on larger lines of credit.

Income tax expenses were NIS 45.6 million, an increase of 3.6% compared to last year.

The effective tax rate is 16.9% compared to 17.9% in the corresponding period, mainly due to the recognition of Yizre'el Industrial Park as Development Zone A and a change in the profit mix in the Group.

In the first six months of 2022, Maytronics delivered **net profit** of NIS 224.7, an increase of 11.5%.

Cash flows from operating activities amounted to NIS 81.9 million consumed by the Company, compared to NIS 122.1 million generated in the corresponding period last year.

Cash flow in the period was affected by an increase in the Company's earnings, which was offset by an increase in the balance of trade receivables and inventory balances.

Operating working capital is affected by business growth.

- An increase of NIS 323.4 million in **inventory balance**, largely due to growth in the Company's business, an increase in raw material inventory mainly following business growth, and a decision by the Company to make earlier and larger purchases of components and raw materials to ensure a response to the demand for its products and maintain manufacturing continuity to the greatest extent possible, as well as an increase in finished goods inventory in transit. This is also reflected in average days in inventory, which rose to 148 compared to 108 days in the corresponding period last year. In view of the expected trend of improvement in the supply chain and in the availability of some raw materials and expectations that demand in the pool industry will return to typical pre-COVID levels, in the next quarters the Group will work on adjusting the scope of raw material inventories.

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- An increase of NIS 166.3 million in the **balance of trade receivables**, largely due to sales growth and the mix of dates on which they were created. In the second quarter of 2022, the sales mix was more biased toward June compared to the corresponding quarter in 2021. Average customer days rose to 63 compared to 54 days in the corresponding period.
- An increase of NIS 84.5 million in the **balance of trade payables** due to business growth and increased inventory in the period. Average supplier days rose to 61 compared to 51 days in the corresponding period.

The Company's **cash flows used in investing activities** amounted to NIS 51.7 million, compared to NIS 42.6 million consumed in the corresponding period last year. In the first half, the Company invested more in the acquisition of fixed assets as a result of investments in its sites in Dalton and on Kibbutz Yizre'el – investments in the enlargement of manufacturing and operational space and office buildings, investments in production lines, equipment and machinery – following growth in the Company's business. Capitalization of intangible assets amounted to NIS 24.3 million (robots – NIS 16.7 million, water technologies – NIS 7.6 million), compared to NIS 16.2 million (robots – NIS 7.4 million, water technologies – NIS 8.8 million) last year.

On June 30, 2022, the Company's **equity** attributable to shareholders totaled NIS 729 million, constituting 37.8% of total assets on the statement of financial position.

For more information, please contact:

Amiram Bracha

Investor Relations

Mobile: + 972-52-302-7069

amirambr@maytronics.com