August 15, 2023

Maytronics Reports Second Quarter and First Half Year 2023 Results

- **Revenues** in the first half of 2023 were NIS 1.253 billion, up 10.4%, and excluding the ECCXI acquisition, reflect a very moderate decline of 3.9%, compared to pool industry trends.
- **Revenues** in the second quarter were NIS 729.3 million, up 28.8% compared to the corresponding quarter last year. Excluding the impact of the ECCXI acquisition, revenues were down by a moderate 1.2%.
- ECCXI's solo revenues in the first half of 2023, which represent online sales in North America, were up 5% compared to the first half of 2022, largely thanks to growth in robotic cleaner sales following ongoing strong demand for the Dolphin brand by pool owners.
- Q2 revenue split by region:

  North America sales were up 73.5%, and excluding the effects of the ECCXI acquisition, growth was 8.8%.

  Europe sales were down 13.6%.

  Oceania sales remained unchanged.

  RoW sales grew 26%.
- Residential robotic pool cleaner sales in the quarter were NIS 577.9 million, up 17%.
- Commercial robotic pool cleaner sales were NIS 36.1 million, up 53.1%.
- Revenues from sales of safety products and related pool products were NIS 115.2 million, up 135.8%.
- **Gross profit** in the first half of 2023 was NIS 547.8 million, up 18%, with a solid improvement of 282 BPS in the gross margin, which rose to 43.7%.

  Gross profit in the second quarter was NIS 307 million, up 34.4% and rising to 42.1% of sales, an increase of 176 BPS compared to the same quarter last year. Margin improvement in 2023 reflects the successful implementation of price increases, favorable currency effects and a reduction in raw material costs, which were partially offset by a decline in production volumes.
- **Operating profit** in the second quarter was NIS 128.6 million, a slight decline of 0.8%, and in the first half year, operating profit was NIS 245.5, down 10%.
- **Finance expenses** in the second quarter were NIS 17.3 million compared to finance income of NIS 757 thousand last year. Growth in finance expenses is the result of a substantial increase in interest rates and higher credit levels. In parallel, short-term credit declined in the quarter by NIS 147 million.
- **Net income** in the first half was NIS 181.2 million, down 19.3%. In the second quarter, net income amounted to NIS 92.8 million, reflecting a decline of 15.3%.
- **Cash flows from operating activities** in the second quarter were NIS 270 million, an increase of NIS 131 million which reflects the decline in inventory levels and accounts receivable collection.
- The board of directors approved an interim dividend of NIS 50 million.

Sharon Goldenberg, CEO: "At the start of 2023, the outlook was for a challenging year considering inventory levels in the distribution channel and uncertainty regarding macroeconomic impacts on consumer spending. These were joined by the effects of extreme and unstable weather. In fact, the pool season in North America and Europe opened only in late June, which is late by any standard.

"Maytronics achieved 29% growth in the second quarter and 10% growth in the first half of 2023, and excluding the effects of the ECCXI consolidation, this reflects a low single-digit decline, which is very moderate compared to a high double-digit decline in revenues among manufacturers in the industry. These results were achieved thanks to exceptional efforts, mainly by the sales and marketing teams in Israel and the subsidiaries.

"The challenges posed by demand from the distribution channel as a result of the inventory correction processes that have been typical of the industry, impacted our results for the first half-year. At the same time, it is worth emphasizing the ongoing robust demand by end-users – pool owners – for the Company's products in the online channel in North America. This demand is based on the strength of our brand and the Company's strong marketing and operational capabilities in the online channel. This is also thanks to the acquisition of ECCXI, which has continued, under Maytronics' ownership, to deliver encouraging results overall.

"The second half of the year in the Northern Hemisphere traditionally includes early-buy sales for the following season. The change in the nature of inventory buildup in the distribution channel and the very late start to the pool season have given rise to expectations that of some the buildup for the 2024 season will be shifted from the second half of 2023 to the first half of 2024, which is expected to impact business volumes in 2023 on the one hand, while creating the potential for tailwinds in 2024. In view of these trends and the results for the first half of 2023, the Company estimates revenue growth within a range of 5%-13%.

"Maytronics is a growth company with the potential for significant sustained growth for many years ahead. However, considering this year's challenges, we have made adjustments to accommodate the decline in production volumes, which, combined with increases in selling prices, procurement efficiency enhancement, lower shipping costs and favorable currency effects, have enabled us to deliver a solid gross margin improvement, coupled with a partially expected decline in operating profit in light of the acquisition of ECCXI."

Business results for the second quarter of 2023

Sales grew 28.8% and amounted to NIS 729.3 million, compared to NIS 566.3 million in the same quarter last year. Excluding the consolidation of ECCXI, sales declined by a moderate 1.2%.

The effect of changes in foreign exchange rates on sales compared to the corresponding period amounted to an increase of NIS 55 million in revenues, largely due to the strengthening of the USD by an average of 7.2%, and the EUR by an average of 11.4%, against the NIS.

The Company's revenues from sales of residential robotic pool cleaners amounted to NIS 577.9 million, up 17% compared to the corresponding period last year. The increase is due to the first-time consolidation of ECCXI.

The Company's sales in the commercial (public) robotic pool cleaner segment totaled NIS 36.2 million, up 53.1%, thanks to strong demand for public pool robotic cleaners as tourism and the hotel industry recovered from the pandemic, and to the Company's improved ability to supply demand.

Revenues from safety products and other related pool products were NIS 115.2 million, up 135.8%. Most of the increase is the result of the first-time consolidation of ECCXI and was offset by a certain decline in sales of pool covers and alarms.

North America sales were NIS 455.9 million, an increase of 73%, and 59% in local currency terms.

Europe sales were NIS 224.7 million, a decrease of 14%, and 22% in local currency terms.

Oceania sales were NIS 24 million, unchanged compared to the corresponding period last year.

RoW sales rose 26% and amounted to NIS 24.7 million.

Gross profit was NIS 307 million, up 34.4% compared to the corresponding period last year. The gross margin was 42.1% compared to 40.3% in the corresponding period last year.

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

1. An increase in the average selling price following the realization of price increases.
2. A certain decline in manufacturing costs thanks to increased procurement efficiency, and to a decline in raw material costs and shipping rates.
3. Favorable foreign currency effects – the strengthening of the EUR by an average of 11.4%, the USD by an average of 7.5% and the AUD by an average of 2% against the NIS raised gross profit by NIS 27.6 million (70 BPS).

These effects were partially offset by a decline in production volumes, which increases the direct costs of producing a robotic cleaner.

R&D expenses were NIS 13.4 million, up 16.4% and largely attributed to robot development costs, which were NIS 8.8 million. Development costs in the pool water monitoring, control and treatment segment were NIS 3.8 million, similar to the corresponding quarter last year.

The Company's development costs, which include the capitalization of development costs recorded in the cash flow from investing activities, were NIS 22.4 million, down 12.6%.

Selling and marketing expenses were NIS 124.5 million, up 137.7%. The increase is largely due to the consolidation of ECCXI, which contributed NIS 59 million, to an increase in marketing campaigns as part of marketing effort to drive sales growth, and currency effects in the period contributed another NIS 3.7 million. Excluding the ECCXI consolidation, selling and marketing expenses rose 26%.

General and administrative expenses were NIS 40.5 million, an increase of NIS 5.6 million. Most of the increase is attributed to the consolidation of ECCXI, which contributed NIS 3 million in additional expenses, and foreign currency effects, which amounted to another NIS 1.1 million.

Operating profit was NIS 128.6 million, down 0.8% compared to the corresponding period last year. The operating margin declined to 17.6% of sales, compared to 22.9% last year.

Finance expenses were NIS 17.3 million, compared to finance income of NIS 757 thousand in the corresponding period last year. The higher finance expenses were caused by a significant increase in interest expenses following the rise in interest rates. The debt level rose to NIS 794.6 million compared to NIS 588 million last year, and the higher interest rates in the past year led to interest expenses of NIS 14.2 million in the quarter, compared to NIS 3.4 million in the same period in 2022. In addition, the rise in exchange rates in the quarter led to the revaluation of foreign currency transactions. In total, net currency effects accounted for an expense of NIS 1.6 million.

Income tax expenses were NIS 18.5 million in the quarter, down 11.8% compared to the corresponding period last year. The lower tax is due to the decline in profit before tax. The effective tax rate rose slightly to 16.6% in the current quarter, mainly as a result of a change in the profit mix in the Group.

Maytronics concluded the second quarter of 2023 with **net income** of NIS 92.8 million, down 15.3% compared to the same quarter last year.

Cash flows from operating activities in the second quarter were NIS 270 million, an increase of NIS 131 million which reflects the decrease in inventory levels and accounts receivable collection.

Business results for the first half of 2023

Sales grew 10.4% and amounted to NIS 1.253 billion, compared to NIS 1.136 billion in the corresponding period last year. Excluding the consolidation of ECCXI's business, sales declined in half-year by 3.9%

The effect of changes in foreign exchange rates on sales compared to the corresponding period amounted to an increase of NIS 97.6 million, largely due to the strengthening of the USD by an average of 8.5%, and the EUR by an average of 9.4%, against the NIS.

The Company's revenues from sales of residential robotic pool cleaners were NIS 1.01 billion, essentially unchanged compared to last year, and include the effects of the first-time consolidation of ECCXI.

The Company's sales in the commercial (public) robotic pool cleaner segment totaled 69.7 million, up 60.7%. Sales growth is largely due to continuing demand in the segment, notably in the North American market, and to the Company's improved ability to supply the demand for these products, compared to the corresponding period when meeting demand was constrained by supply chain challenges.

Revenues from safety products and other related pool products were NIS 175 million, up 112.8% compared to last year. Sales growth is largely the result of the first-time consolidation of ECCXI. In parallel, sales of pool covers and alarms declined somewhat.

Europe sales were NIS 410.2 million, down 18%, and 25% in EUR terms.

North America sales were NIS 743.2 million, up 39%, and 26% in USD terms.

Oceania sales were NIS 60.1 million, unchanged compared to the corresponding period last year, and down 3% in AUD terms.

RoW sales declined by 8% and amounted to NIS 39.3 million.

Gross profit was NIS 547.8 million, up 18% compared to the corresponding period last year. The gross margin rose 280 BPS to 43.7%, compared to 40.9% in the corresponding period.

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

1. An increase in the average selling price following the realization of price increases.
2. Incremental margin following the consolidation of ECCXI.
3. A certain decline in manufacturing costs thanks to increased procurement efficiency, and to a decline in raw material costs and shipping rates.
4. Favorable foreign currency effects – the strengthening of the EUR by an average of 9.4%, the USD by an average of 8.5% and the AUD by an average of 4% against the NIS, contributed NIS 53.4 million to gross profit (90 BPS).

The above effects were partially offset by a decline in production volumes, which increases the direct costs of producing a robotic cleaner.

R&D expenses were NIS 30.2 million, up 14.5% compared to the corresponding period last year. The increase is mostly attributed to robot development costs, which were NIS 20.7 million, an increase of 28.8%. Development costs in the pool water monitoring, control and treatment segment in the reporting period were NIS 7.8 million, down 10.8%.

Selling and marketing expenses were NIS 195.1 million, up 97.4% compared to the same period last year. Most of the increase is the result of the consolidation of ECCXI, which contributed NIS 75 million. Excluding the ECCXI consolidation, growth in selling and marketing expenses was 22% and was due to an increase in marketing campaigns as part of marketing effort to drive sales growth, and currency effects in the period contributed another NIS 6.2 million. These were partially offset by a decline of 28% in ocean and sea shipping rates.

General and administrative expenses were NIS 77 million, an increase of NIS 10.5 million. Most of the increase is due to the consolidation of ECCXI, which contributed NIS 6 million, and to foreign currency effects in the period, which contributed another NIS 2.2 million.

Operating profit was NIS 245.5 million, down 10%.

EBITDA amounted to NIS 285.6 million, down 5.5%.

Finance expenses were NIS 35.7 million, compared to NIS 2.3 million in finance expenses last year. In the first half of 2023, interest expenses were NIS 25 million due to higher interest on higher credit levels. In addition, rising exchange rates in the period contributed to higher finance expenses following the revaluation of foreign currency transactions.

Income tax expenses were NIS 28.6 million in the six-month period, down 37.3% compared to the same period last year. The effective tax rate in the current period was lower at 13.6% compared to 16.9% last year, mainly due to a change in the profit mix in the Group.

Maytronics concluded the first half of 2023 with **net income** of NIS 181.2 million, reflecting a decline of 19.3%.

Cash flows from operating activities generated in the first half were NIS 84.3 million, compared to cash flows of NIS 81.9 million consumed by the Company last year.

Cash flows in the period were affected by the decline in the balance of trade receivables due to collection, and in inventory balance.

Operating working capital:

An increase of NIS 329 million in **inventory balance**, due to:

1. The contribution of the first-time consolidation of ECCXI, whose inventory on the reporting date amounted to NIS 161 million.

2. An increase in inventory value due to the increase in the USD exchange rate during the past year.

3. Raw material and work-in-process inventories declined by NIS 36.5 million compared to the corresponding period last year.

The Company continues to work on adjusting inventory volumes to the volume of demand and its production capacity, and is taking steps to reduce inventory levels. In the second quarter of 2023, the Company's inventory declined by NIS 122 million and by NIS 87.7 million, compared to March 31, 2023 and December 31, 2022, respectively.

- The **balance of trade receivables** declined by NIS 35.6 million despite revenue growth in the quarter, largely due to the mix of dates on which the sales were generated in the period and increased

collection. Average customer days in the second quarter were 63, compared to 78 days in the same quarter last year.

- The **balance of trade payables** declined by NIS 9.5 million. Average supplier days in the reporting period rose to 71, compared to 61 days in the corresponding period last year.

Cash flows from investing activities consumed by the Company were NIS 48.1 million, compared to NIS 51.7 million in the corresponding period last year. In the first six months of 2023, the Company made larger investments in fixed assets, mainly buildings at the Company's sites, whereas intangible assets decreased.

In the second quarter of 2023, the Company secured less short-term credit and also repaid larger amounts on account of long-term loans.

On June 30, 2023, **equity attributable to shareholders** of the Company amounted to NIS 826.6 million, constituting 35.3% of total assets on the statement of financial position.

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