November 28, 2022

Maytronics Announces Third Quarter 2022 Results

- **Revenues in Q3 totaled NIS 412 million, up 32%**
- **Revenues in first nine months totaled 1.548 billion, up 26%**
- **Geographical revenue breakdown - North America grew by 102%, Europe declined 20% and Oceania grew by 29%, all in local currency**
- **Residential robotic pool cleaner revenues totaled NIS 316.6 million, up 24.3%; Commercial robotic pool cleaner sales grew 92.8%; sales of safety products and related pool products grew 59.3%**
- **Operating expenses in Q3 2022 increased by 56%; and as percentage of revenues, they increased 430 BPS to 28.8%. 200 BPS are the result of the increase in shipping costs and 440 BPS is attributed to the consolidation of ECCXI sales and marketing expenses. The decrease in the share of R&D and G&A expenses offset some of these negative effects.**
- **Operating profit totaled NIS 44.1 million, a decline of 14%; excluding foreign currency effects, operating profit declined 6%**
- **Net profit totaled NIS 39.1 million, down 9%**
- **On July 28th, 2022, Maytronics completed the acquisition of ECCXI, a leader in the US eCommerce pool market.**
- **ECCXI's August and September results, consolidated for the first time, contributed NIS 54.5 million to revenue, a negative contribution of NIS 2.4 million and NIS 1.9 million to operating profit and net profit respectively.**

  The negative contribution is attributed to the relatively low volume of business that is typical of the period, amortization, and high non-recurring selling and marketing expenses
- **Excluding foreign currency effects, which better reflects the actual performance of the company in the market, Maytronics is wrapping up nine months with 29% growth in revenue to NIS 1.583 billion, 25% gross profit growth, and 16.3% operating profit growth to NIS 350 million**
- **At the Piscine Global European professional trade show in Lyon in November 2022, the Company introduced Dolphin Liberty™, an innovative cordless product line representing a new generation of battery-powered robotic pool cleaners. The launch of the Liberty line, which was received with great interest at the show, will commence in 2023**

<u>Sharon Goldenberg, CEO</u>: "Maytronics has delivered a nine-month period and third quarter of high revenue growth, despite numerous challenges: The pool season in the Northern Hemisphere got off to a late start and was relatively short; we experienced supply chain challenges and difficulties in sourcing electronic components, accompanied by a significant change in global macroeconomic conditions. Nevertheless, we have managed to establish our growth to be prominently based on volume growth that reflects the continuing penetration of the robotic technology and market share gains on the account of other pool cleaning solutions.

In July, we completed the acquisition of ECCXI, which strengthens our US e-commerce business and enables us to leverage our investments in digital transformation to elevate our interactions with the end users. ECCXI is an eCommerce leader in the important US pool market, with a significant growth potential. The timing of ECCXI's consolidation reflects the start of the relatively moderate period in its business, and consequently, does not reflect the yearly volume of activity or our plans for this strategic arm in 2023 and beyond.

A few weeks ago, at Piscine Global, the international swimming pool and wellness show in Lyon, we introduced our Dolphin Liberty™ line of cordless robots that represent a step change in technology which will enable us to offer pool owners an enhanced experience, greater efficiency, and ease of use. We believe that our Dolphin Liberty™ product line creates the potential for continued and even accelerated adoption of our robotic technology as the number one choice of pool owners."

Key highlights for Q3 2022

Revenue grew 32.4% and amounted to NIS 411.9 million, compared to NIS 311 million in the corresponding period last year.

ECCXI, the acquisition completed at the end of July 2022, was consolidated from July 28, 2022, and contributed NIS 54.5 million to sales. Excluding the acquisition, sales growth in the quarter was 15%.

The Company's revenues from sales of **residential robotic pool cleaners** amounted to NIS 316.6 million, up 24.3% compared to the corresponding period last year. Growth is the result of continuing demand for home pool cleaners, mainly in North America and Oceania, the first-time consolidation of ECCXI and an increase in sales prices in most of the territories .

The Company's sales in the **commercial (public) robotic pool cleaner** segment totaled NIS 31.9 million, an increase of 92.8%, largely due to continuing demand in the segment and an upturn in the Company's ability to supply the demand for its products.

Revenue from **safety products and related pool products** totaled NIS 63.5 million, up 59.3% compared to the corresponding period. Sales growth in the segment is largely the result of the first-time consolidation of ECCXI and growth in sales of water treatment products that were partially offset by a decline in sales of automatic pool covers.

North America sales grew by 112% (102% in local currency terms) to NIS 238.4 million, accounting for 58% of sales. Growth excluding the acquisition was 56%. North America continues to be a key growth market for us, excluding a shift in revenues from Q2 to Q3, growth was above 35%.

Europe sales dropped 28% (20% in local currency terms) to NIS 99.6 million, accounting for 24% of sales.

Oceania sales grew by 26% (29% in local currency terms) to NIS 54.8 million, accounting for 13% of sales.

RoW sales grew by 15% to NIS 19.1 million, accounting for 5% of sales.

Gross profit was NIS 162.8 million, up 27.8% compared to the corresponding period last year. The gross margin was 39.5% compared to 41% last year.
The gross margin was positively affected by price increases in most key regions, improved manufacturing efficiency and a higher sales volume. The main negative impacts are foreign currency

effects, which lowered gross profit by NIS 5.2 million, higher product component prices and the effect of consolidating the business of ECCXI, whose gross margin in the two months consolidated contributed a gross margin of 34.2%, lower than the average for the Company.

R&D expenses were NIS 12.7 million, an increase of 9.8% compared to the corresponding period last year. The increase is largely the result of an increase in workforce necessary for the ongoing development of the robot segment and the pool water monitoring, control and treatment segment. In the pool water segment, development costs amounted to NIS 4.5 million.

Selling and marketing expenses were NIS 73 million, up 90.3% compared to the corresponding period last year. The increase is largely due to the first-time consolidation of ECCXI, which contributed NIS 19.1 million to this item. The rest of the increase is primarily the result of an NIS 11 million rise in shipping costs following a hike in shipping rates and an increase in freight volumes, as well as higher advertising and promotional costs. Together, the incremental selling and marketing expenses arising from the consolidation of ECCXI and the increase in shipping costs amounted to NIS 29 million, which account for 84% of the total increase in consolidated selling and marketing expenses.

General and administrative expenses were NIS 33.1 million, an increase of NIS 6.8 million. The increase in Q3 2022 is due to the first-time consolidation of ECCXI which contributed NIS 1.9 million to this item, an increase in workforce in HQ departments and mainly in IT, as well as general expenses affected by business growth (such as local taxes and depreciation).

Operating expenses in the quarter rose to 28.8% compared to 24.5% of revenues last year. Of an increase of 430 basis points, 200 BPS are the result of the increase in shipping costs, and 440 BPS is attributed to the consolidation of ECCXI sales and marketing expenses. The decrease in the share of R&D and G&A expenses offset some of these negative effects.

Operating profit amounted to NIS 44.1 million, down 14% compared to the corresponding period last year. The operating margin dropped to 10.7%, compared to 16.5% of sales in the corresponding period.

Excluding foreign currency effects, operating profit dropped by 6%.

Finance expenses were NIS 0.6 million, compared to finance income of NIS 2.4 million in the corresponding period last year. In Q3 2022, net finance expenses were recorded due to an increase in interest rate cost on the Group's lines of credit, which were offset by finance income arising from foreign currency effects in the period. In the corresponding period, the Company recorded mostly net finance income due to forex effects.

Income tax expenses were NIS 4.3 million, a drop of 59.1% compared to last year. The drop in tax expenses is due to the lower profit for tax purposes, a change in the profit mix in the Group, and recognition of Yizre'el Industrial Park as Development Zone A.

Net profit amounted to NIS 39.1 million, down 8.7%.

Cash flows from operating activities consumed by the Company amounted to NIS 15.3 million compared to NIS 99.1 million generated last year. The decrease in operating cash flow in Q3 2022 is largely due to a higher inventory balance and a sharp drop in ECCXI's balance of trade payables (first-time consolidation) due to seasonality.

Cash flows used in investing activities were NIS 29.5 million in the quarter compared to NIS 18.7 million in the corresponding period last year following growth in the acquisition and capitalization of intangible assets and the ECCXI acquisition.

Key highlights results for the first nine months of 2022

Revenues grew 26% and amounted to NIS 1,547.9 million.

As mentioned, ECCXI, the acquisition of which was completed at the end of July, was consolidated from July 28, 2022, and contributed NIS 54.5 million to sales. Excluding the acquisition, sales growth in the nine-month period was 21.5%.

The effect of changes in exchange rates on sales compared to the corresponding nine-month period last year amounted to a decrease of NIS 35.7 million, largely due to the weakening of the Euro by an average of 7.8% against the Shekel. **Excluding foreign currency effects, revenue grew by 28.9%**.

The Company's revenues from sales of **residential robotic pool cleaners** amounted to NIS 1,327 million, up 26% compared to the corresponding period last year. The increase is due to continuing elevated demand for robotic cleaners in all key regions, as well as an increase in sales prices in the various regions. In local currency, sales growth was 29%.

The Company's sales in the **public robotic pool cleaner** segment totaled NIS 75.3 million, up 26.1%, largely due to continuing demand in the segment and an upturn in the Company's ability to supply the demand for these products, despite constraints in the availability of electronic components.

Revenue from **safety products and related pool products** totaled NIS 145.7 million, up 26.1% compared to the corresponding period. Sales growth in the segment is primarily the result of the first-time consolidation of ECCXI and an increase in sales of water treatment products.

North America sales grew by 45% (43% in local currency terms) to NIS 771.3 million, accounting for 50% of sales.

Europe sales grew by 8% (18% in local currency terms) to NIS 599.2 million, accounting for 39% of sales.

Oceania sales grew by 21% (28% in local currency terms) to NIS 115.6 million, accounting for 7% of sales.

RoW sales grew by 36% to NIS 61.8 million, accounting for 4% of sales.

Gross profit was NIS 627.2 million, up 18.8% compared to the corresponding nine months last year. The gross margin dropped to 40.5% compared to 43% in the corresponding period. The gross margin was positively affected by price increases in most key regions, improved manufacturing efficiency and a higher sales volume. The main negative impacts are higher product component prices, foreign currency effects, which lowered gross profit by NIS 34.7 million, and the effect of consolidating the business of ECCXI, whose gross margin in the two months consolidated contributed a gross margin of 34.2%, lower than the average for the Company.

R&D expenses totaled NIS 39.1 million, an increase of 20.1% compared to the corresponding period last year. The increase is largely the result of an increase in workforce necessary for the ongoing development of the robot segment and the pool water monitoring, control, and treatment segment. The Company continues to implement its development plan, which centers on translating the vision to lead the sector, while pursuing the development of new generations of robots such as the new cordless line, Dolphin Liberty™, which was launched in November, at the international swimming pool and wellness show in Lyon, and the development of new water technology products. Development costs in the pool water monitoring, control and treatment system amounted to NIS 13.2 million in the period, a 63% increase compared to the corresponding period last year.

Selling and marketing expenses were NIS 171.8 million, an increase of 51.9% compared to the corresponding period last year. The increase is primarily due to the first-time consolidation of ECCXI, which contributed NIS 19.1 million to this item, and a significant hike in the costs of shipping to customers, which accounted for 47% of the total increase in selling and marketing expenses in the period. Together, the incremental selling and marketing expenses arising from the consolidation of ECCXI and the increase in freight costs were NIS 45.3 million, which account for 77% of the total increase.

General and administrative expenses were NIS 99.6 million, an increase of 22.5%. Most of the increase is attributed to IT due to the accelerated growth of the Company's business, workforce growth in management departments, non recuring consultancy fees associated with the ECCXI transaction, and general expenses affected by business growth (such as local taxes and depreciation).

Operating expenses in the period rose to 20% of sales compared to 18.4% last year, an increase of 160 basis points, of which 140 basis points are the result of the increase in shipping costs (90%).

Operating profit amounted to NIS 316.6 million, up 5.2% compared to the corresponding period last year. The operating margin dropped to 20.5% compared to 24.5% of sales in the corresponding period.

Excluding foreign currency effects and a one-time expense, which reflect the actual volume of market activity, operating profit rose 16.3% (22.1% of sales).

Finance expenses were NIS 2.9 million, compared to finance expenses of NIS 2 million in the corresponding period last year. In the nine-month period, net finance expenses were recorded due to an increase in interest on larger lines of credit, which were offset by finance income arising from foreign currency effects in the period. In the corresponding period, a similar trend prevailed.

Income tax expenses were NIS 49.9 million, a drop of 8.5% compared to last year. The decrease in tax expenses is mainly due to the recognition of Yizre'el Industrial Park as Development Zone A and a change in the profit mix in the Group. The effective tax rate is 15.9% compared to 18.3% in the corresponding period.

Net profit amounted to NIS 263.8 million, an increase of 8%.

Cash flows from operating activities consumed by the Company were NIS 97.2 million compared to NIS 221.1 million generated last year. The increase in cash consumed in the period is largely due to a an increase of NIS 485.1 million in **inventory balance**, largely due to:

1. The first-time consolidation of ECCXI, which held inventory amounting to NIS 82 million on the reporting date.

2. Last year, supply chain constraints led the Company to the decision 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. This led to a considerable increase in the value of raw material inventory. In addition, the price of raw materials increased in the past year. In view of the expected trend of improvement in the supply chain and in the availability of some raw materials and the return of demand in the pool industry to typical pre-COVID levels, the Company is working, and will continue to work, on reducing raw material inventory in the upcoming quarters.
3. The company's ongoing revenue growth necessitates an increase in production of robotic pool cleaners in the second half of the year intended for sale in the following sales season in the Northern Hemisphere. This trend is reflected in higher finished goods inventory due to products that were shipped to the subsidiaries and finished goods inventory that was en route to the Company's customers on September 30.

Inventory Days increased to an average of 185 days in the period, compared to 123 days in the corresponding period last year.

- The balance of **Trade Receivables** increased by NIS 122.7 million, largely due to sales growth, the mix of dates on which they were created, and the first-time consolidation of ECCXI. Average customer days rose to 71 compared to 61 days last year.
- **Other receivables** increased by NIS 6.8 million, largely due to a grant receivable in respect of the Ministry of Economy's Grants Program/Employment Track, as well as an increase in VAT balances receivable and prepaid expenses.
- The balance of **Trade payables** increased by NIS 128 million due to business growth and higher inventory in the reporting period as well as the first-time consolidation of ECCXI's trade payables, which amounted to NIS 47 million on the reporting date.
  Average supplier days rose to 73 compared to 61 days in the corresponding period.
- **Other payables** increased by NIS 28 million, primarily due to an increase in liabilities to employees and institutions and an increase in accrued expenses following business growth.

Cash flows used in Investing activities were NIS 81.2 million compared to NIS 61.3 million in the corresponding period last year following growth in the acquisition and capitalization of intangible assets and the ECCXI acquisition.

Capitalization of intangible assets amounted to NIS 34 million (robots – NIS 22.7 million, water technologies – NIS 11.3 million), compared to NIS 22.9 million (robots – NIS 11.2 million, water technologies – NIS 11.7 million) last year.

On September 30, 2022, **equity** attributable to shareholders of the Company totaled NIS 697.6 million, constituting 34.2% of total assets on the statement of financial position.

Amiram Bracha
Investor Relations
Mobile: + 972-52-302-7069
AmiramBr@maytronics.com