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Maytronics Reports Fourth Quarter and Full Year 2023 Results

- Fourth quarter results reflect strong revenue growth with revenues of NIS 303.7 million, up 27.1%, leading to the first-time achievement of operating breakeven and a significant improvement compared to an operating loss of NIS 24 million in the fourth quarter last year. Net loss declined by a significant 43.6% in the quarter.
- Revenues in the full year of 2023 were NIS 1.89 billion, up 5.7%.
- Revenue growth according to a geographical split: North America +23%, Europe -16%, Oceania 0%, RoW -2%.
- Revenues from sales of residential robotic pool cleaners were NIS 1.47 million, down 2.2%.
- Revenues from sales of commercial robotic pool cleaners were NIS 110.8 million, up 14.7%.
- Revenues from sales of safety products and related pool products were NIS 310.1 million, up 63.8%.
- ECCXI's revenues, which represent online sales to end users in North America, reflected 10.7% growth in the fourth quarter and 6% in the full year of 2023, thanks to strong growth in robotic cleaner sales following ongoing demand for the Dolphin brand by pool owners. These results emphasize the disparity this year between sales to the distribution channel and online sales to end users, which reflect ongoing growth.
- **Gross profit** in the full year of 2023 was NIS 790 million, up 10%, with a solid improvement of 160 BPS in the gross margin, which rose to 41.8%.
- **Operating profit** in the fourth quarter was NIS 105 million compared to an operating loss of NIS 24 million in the corresponding period last year. The significant improvement in EBIT is the result of strong revenue growth which generated an operating lever, and a decline in shipping costs. In the full year of 2023, operating profit was NIS 258.2 million, down 11.8%, and the EBIT margin was 13.7% compared to 16.4% of sales last year.
- **Finance expenses** in the full year were NIS 66.3 million compared to NIS 29 million last year, largely as a result of an increase in interest expenses on lines of credit, which rose to NIS 48.7 million compared to NIS 15.6 million in 2022 following an increase of 38% in average credit levels during the year and higher interest rates. In the fourth quarter, finance expenses were NIS 16 million, of which interest expenses accounted for NIS 12.2 million.
- **Net income** in the full year was NIS 163.6 million, down 28.2%. Net loss in the fourth quarter was NIS 20.3 million compared to a net loss of NIS 36 million in the same quarter last year, representing an improvement of 43.6%.
- **Cash flows provided by operating activities** improved by NIS 381.1 million and amounted to NIS 164.4 million in the full year of 2023, compared to a negative operating cash flow of NIS 216.7 million in 202.
- The **volume of the robot finished goods inventory balance** declined by 33% in the full year of 2023.

- Mr. Yonatan Bassi, Chairman of the Board of Directors for the past 14 years, announced his wish to step down from his position, and at the request of the Company, which greatly appreciates his experience and contribution, will continue at this time to serve as an active director of the Company.
- The board of directors has decided to recommend on the appointment of Mr. Ron Cohen, who currently serves as a director of the Company on behalf of Kibbutz Yizre'el, as the next Company Chairman. The recommendation will be brought to the decision of the next general assembly.
- The board of directors approved a **dividend distribution** of NIS 25 million, and together with the dividend of NIS 50 million paid in September 2023, the Company distributed an amount of 75 in respect of the profit for 2023.
- The Company is to publish, for the first time, a detailed ESG report that will cover all of Maytronics' activity and its perspective in this sphere.

Yonatan Bassi, Chairman of the Board: "We are summing up another year of results that reflect solid performance in the face of highly challenging global market conditions, as well as difficult times in Israel, which has been at war for the past five months.

"Company management has presented the board with a budget that reflects an outlook for sustained growth in 2024 and the following years, based on a revised strategic plan. These goals are a testimony to the Company's unique business base, which is supported by management's uncompromising performance skills and the commitment of all our people.

"Regarding my announcement that I will be stepping down as Company Chairman - I assumed the role 14 years ago, in 2010, and I feel that now is the right time to step down. Heading the board of an industrial technological kibbutz company like Maytronics has been a privilege, and I am summing up my time with a sense of great gratitude and pride. Sales in 2010, when I assumed the role of chairman, were NIS 200 million. In 2020, they passed the NIS 1 billion mark, and in 2024, we are aspiring to pass the NIS 2 billion mark. Over the years, Maytronics' board of directors has worked in productive, open collaboration with the CEO and members of management in leading the Company's unique culture, vision, strategy and business decisions, which have contributed to outstanding business and technological achievements.

"My recommended replacement, Ron Cohen, CEO of Kibbutz Yizre'el's holding company and a director of Maytronics for the past three years, is an excellent choice with the right experience to lead the board. I want to thank Kibbutz Yizre'el, the Company's controlling shareholder, and the members of the board for their collaborative work, and the management team for withstanding such challenging market conditions."

Sharon Goldenberg, CEO: "2023 in the pool industry was a highly challenging year owing to inventory levels in the distribution channel, the macroeconomic environment and the short season in key territories in the Northern Hemisphere, which impacted the conduct of the competition and consumption by both the distribution channel and end users. Nevertheless, we are wrapping up 2023 with high revenue growth in the fourth quarter, which enabled operating breakeven in a quarter that is traditionally "red".

"We are encouraged by the successful reduction in the volume of finished goods inventory – 33% since the beginning of the year, which supports a gradual return to growth in the scale of production. We are also encouraged by ongoing demand by end users – pool owners – for the Company's products in the North American online channel, including through ECCXI, which continues to deliver excellent results in robot sales and in leveraging the online platform for sales of related pool equipment.

“The Company succeeded in delivering a solid improvement in the gross margin, despite the negative effect of lower production quantities. Efficiency enhancement measures that were applied and continue to be applied, and a process of returning to growth that will lead to higher production volumes, are expected to contribute the Company’s future profitability.

“In 2023, the Company undertook a long-term strategic planning process designed to craft the courses of action to address market conditions, with the goal of sustaining the Company’s growth and leadership in the coming years. The strategy is to strengthen the Company’s position as the preferred robotic pool cleaner, to position it as a group of recognized and respected brands operating in several channels, with emphasis on strengthening direct engagement with the end user. In this context, we have already launched two significant initiatives: one is to leverage ECCXI , which was acquired in 2022 and has so far focused on the North American market, but beginning in 2024 will expand its platform into the European market. Also, several weeks ago we announced the launch of a new product line of battery-powered robots for the mid to low price range under a new brand, Niya, which will deliver a unique value proposition to the end user that differs from the Company’s veteran respected Dolphin brand.

“The long-term business goals derived from the strategic plan are revenues of NIS 3.2 billion to NIS 3.6 billion in 2028, including an estimate of about NIS 400 million from M&A’s, and an EBIT margin of 14% to 18%.

“The Company foresees revenue growth of 4%-8% in 2024, while maintaining, or improving the gross margin in up to 100 BPS, and an improvement in EBIT over the improvement in the revenue growth.

“I thank Maytronics’ Chairman Yonatan Bassi for his guidance and fruitful cooperation for more than eight years, two of which as CEO, , and thank all our people for their tireless commitment to the Company’s success and for stepping up so remarkably in the past few months during the fighting, as civilians as well as for the Company’s needs.”

Business results for the fourth quarter of 2023

Sales grew 27.1% and amounted to NIS 303.7 million.

The Company’s revenues from sales of residential robotic pool cleaners were NIS 231.4 million, up 33% compared to the corresponding period last year. Revenue growth is due to an increase in early-buy deliveries in North America and Europe, growth in demand in Australia, and revenue growth in ECCXI.

The Company’s sales in the public pool segment totaled NIS 21 million, down 1.3%.

Revenues from sales of safety products and other related pool products were NIS 51.2 million, up 17.5% compared to the corresponding period last year. Sales growth is the result of increased sales of related pool products by ECCXI, covers, and water treatment products by the subsidiary in Australia.

North America sales grew 36% and amounted to NIS 174.9 million, accounting for 58% of sales.

Europe sales grew 18% and amounted to NIS 46.2 million, accounting for 15% of sales.

Oceania sales grew 22% and amounted to NIS 74.4 million, accounting for 24% of sales.

RoW sales declined 16% and amounted to NIS 8.2 million, accounting for 3% of sales.

The effect of changes in foreign exchange rates on sales compared to the corresponding period amounted to an increase of NIS 24.7 million in revenues due to the strengthening of the USD against the NIS by an average of 7.9%, the strengthening of the EUR by an average of 14.3% and the strengthening of the AUD by an average of 8.6%.

Gross profit was NIS 108.2 million, up 18.7% compared to the corresponding period last year. The gross margin declined 250 BPS to 35.6%. The gross margin in the quarter was affected by the decline in production volumes, which was offset by the positive contribution of reduced manufacturing costs, among other things due to lower shipping rates and positive currency effects, which contributed 140 BPS.

R&D expenses were NIS 12.4 million, down 8.4% compared to the same quarter last year. The moderate decline in development costs is largely attributed to the water segment. Development costs in the pool water monitoring, control and treatment segment in the period were NIS 3 million, compared to NIS 4.1 million last year.

Selling and marketing expenses were NIS 57.2 million, down 13.7% compared to the corresponding period. The decline is largely due to lower marketing and advertising expenses and shipping costs, which were partially offset by a rise of NIS 3.9 million in exchange rates.

General and administrative expenses were NIS 38.7 million, an increase of NIS 3.4 million, mainly due to rising exchange rates in the period, which contributed an additional NIS 1.5 million.

Operating expenses in the quarter were NIS 108.1 million, down 6.1% and 35.6% of sales compared to 48.2% last year, an improvement of 1,260 BPS.

In the quarter, the Company recorded **other expenses** of NIS 250 thousand, mainly comprising grants receivable in respect of the Swords of Iron War (NIS 10 million), offset by impairment of an intangible asset (NIS 10.6 million) arising from a component of the intangible asset in the water monitoring and control segment in light of development focus in the segment.

The quarter closed with operating breakeven, compared to an operating loss of NIS 24 million in the same quarter last year.

Finance expenses were NIS 16 million, compared to finance expenses of NIS 26 million in the corresponding period last year. Net finance expenses in the quarter were mainly impacted by interest expenses, which amounted to NIS 12.2 million.

Tax expenses were NIS 4.5 million, compared to a tax benefit of NIS 13.9 million in the corresponding quarter due to the improvement in profit/(loss) before tax and a different profit mix in the subsidiaries.

The **net loss** was NIS 20.4 million compared to a net loss of NIS 36.1 in the corresponding period last year, an improvement of 43.6%.

Business results for the full year of 2023

Sales grew 5.7% and amounted to NIS 1.89 billion.

The Company's revenues from sales of residential robotic pool cleaners amounted to NIS 1.47 billion, a slight decline of 2.2% compared to last year. The decline is reflected across all major territories and is the result of inventory correction in the distribution channel, the inflationary macro environment and high interest rates, which impacted consumer spending, and extreme weather effects, mainly in North America and Europe, which led to a late-starting and very short pool season.

The Company's sales in the public pool segment totaled NIS 110.8 million, up 14.7%. The increase is largely attributed to ongoing demand in the segment, particularly in the North American market, as well as the Company's improved ability to supply the demand for these products.

Revenues from sales of safety products and other related pool products were NIS 310.1 million, up 63.8% compared to last year. Most of the increase is the result of the consolidation of ECCXI for the first time over a full year, compared to five months last year, as well as growth in sales of water treatment products by the subsidiary in Australia.

North America sales grew 23% and amounted to NIS 1.1 billion, accounting for 59% of sales.

Europe sales declined 16% and amounted to NIS 533.3 million, accounting for 28% of sales.

Oceania sales remained unchanged and amounted to NIS 177.3 million, accounting for 9% of sales.

RoW sales declined 2% and amounted to NIS 70.4 million, accounting for 4% of sales.

The effect of changes in foreign exchange rates on sales compared to 2022 amounted to an increase of NIS 152.3 million in revenues due to the strengthening of the USD against the NIS by an average of 8.5%, the strengthening of the EUR by an average of 10.8% and the strengthening of the AUD by an average of 6.2%.

Gross profit was NIS 789.9 million, up 10% compared to last year. The gross margin improved and reached 41.8% compared to 40.2% last year, an increase of 160 BPS. The gross margin was positively affected by four main factors: price increases, the contribution of the ECCXI consolidation, lower manufacturing costs and favorable currency effects. These favorable effects were partially offset mainly by the decline in production volumes and by relatively low margins in the launch year of the Liberty product family.

R&D expenses were NIS 55 million, up 4.6%. The increase is largely attributed to the new robot lines currently in development by the Company. Development costs in the pool water monitoring, control and treatment segment in the period were NIS 13.6 million compared to NIS 17.4 million last year.

In addition to R&D expenses, the Company records the capitalization of development costs within the cash flow from investing activities. In 2023, this item declined to NIS 29.4 million as a result of lower capitalization of development costs in the robot segment, as well as lower capitalization of development costs in the water technologies segment. Consequently, the R&D expense (before capitalization) to revenue ratio declined to 4.6% compared to 5.4% last year.

Selling and marketing expenses were NIS 332.6 million, up NIS 94.5 million. The increase is largely due to the consolidation of ECCXI, which contributed an additional NIS 93 million following sales growth and the full consolidation for one year, compared to five months last year. Furthermore, marketing campaign expenses increased, mostly in the first half of the year as part of marketing effort to drive sales growth, and rising exchange rates contributed a further NIS 15 million. These effects were partially offset by a decline of 35.7% in shipping costs.

General and administrative expenses were NIS 144.3 million, up NIS 9.4 million, reflecting an increase of 7%. Most of the increase is attributed to the consolidation of ECCXI for the full year of 2023 compared to five months in 2022, which contributed an additional NIS 7.7 million, an increase in IT expenses, and rising exchange rates in the period, which contributed a further NIS 4.8 million, and was offset by a decline in labor costs in management departments and other general expenses.

Total **operating expenses** excluding the incremental expenses arising from the ECCXI consolidation and currency effects amounted to NIS 397.4, representing a very modest increase of 1.9% and reflecting efficiency enhancement measures and lower expenses in the desire to tailor the cost structure to the challenges experienced by the Company in the reporting year.

Other expenses of NIS 250 thousand were recorded in the fourth quarter, mainly comprising grants receivable in respect of the Swords of Iron War (NIS 10 million), offset by impairment of an intangible asset (NIS 10.6 million) arising from a component of the intangible asset in the water monitoring and control segment in light of development focus in the segment.

Operating profit was NIS 258.2 million, down 11.8%. The operating margin declined to 13.7% compared to 16.4% of sales last year, and largely reflects the effects of the ECCXI consolidation on the consolidated expenses structure.

EBITDA amounted to NIS 346.6 million, down 4% compared to last year.

Finance expenses were NIS 66.3 million, compared to finance expenses of NIS 29 million in 2022. The increase is the result of higher interest rates on bank credit in the Group, which amounted to NIS 49.5 million, compared to NIS 16.5 million in interest expenses on credit last year. Average credit levels throughout 2023 were NIS 832.6 million, representing an increase of 38% compared to average credit of NIS 603.6 million in 2022. It is noted that as of December 31, 2023, the credit level has declined by NIS 113 million compared to the high level at the end of the first quarter of 2023.

Tax expenses were NIS 28.3 million, down 21.3%. The lower tax expense is the result of the decline in pretax earnings. The effective tax rate was 14.8% compared to 13.6% last year due to a different profit mix in the Group subsidiaries.

Net income was NIS 163.5 million, down 28.2% and impacted by the decline in operating income and higher finance expenses.

Cash flows from operating activities in the full year amounted to NIS 164.4 million, compared to a negative cash flow of NIS 216.7 million last year. The improvement in operating cash flow is largely the result of a decrease of NIS 67 million in inventory compared to an increase of NIS 360 million in inventory last year.

Balance sheet highlights:

- The **inventory balance** reflects a moderate decline of NIS 44.4 million, but in fact, inventory correction efforts led to a decline of 30% in the volume of finished goods (robots) inventory compared to December 31, 2022. The decline in inventory balance was offset by stronger currencies against the NIS and the resulting impact on inventory value in the subsidiaries, as well as an increase of NIS 26 million in inventories of related pool products at ECCXI, which is attributed to business growth and an increase in early-buy sales qualifying for discounts. The Company achieved a reduction of NIS 67 in the cost of carrying inventory compared to December 31, 2022.

- It is noted that the robot raw material and in-process inventory is NIS 28 million lower compared to 2022, despite the negative effects of the stronger dollar on the value of inventory.

- The Company continues to work on reducing its inventory levels.

- An increase of NIS 46.6 million in the **balance of trade receivables**, largely as a result of sales growth in the fourth quarter and the sales mix. Average customer days in 2023 were 68 compared to 77 days last year.

- The outstanding **credit balance** was NIS 835.1 million, compared to NIS 725.6 million on December 31, 2022 and NIS 948 million on March 31, 2023.

- A decline of NIS 57.4 million in the **balance of trade payables**, largely the result of a decline in inventory purchases compared to last year.

- **Cash flows from investing activities** consumed by the Company were NIS 133.9 million, compared to NIS 130.6 million last year. During the period, the Company settled a deferred liability of NIS 27 million related to the acquisition of ECCXI stock and made a slightly larger investment in the acquisition of fixed assets, mainly buildings at the Company's sites. By contrast, the Company invested less in intangible assets.

Equity attributable to shareholders of the Company as of December 31, 2023, amounted to NIS 758.2 million, constituting 34.8% of total assets on the statement of financial position.

For further information:

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