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November 27, 2023

Maytronics Reports Third Quarter and First Nine Months 2023 Results

- Revenues in the first nine months of 2023 were NIS 1.585 billion, up 2.5%. In the third quarter, revenues were NIS 332.1, down 19.4%.
- ECCXI's solo revenues, which represent online sales to consumers in North America, were up 6% in both the quarter and the nine-month period, thanks to significant growth in robotic cleaner sales following ongoing demand for the Dolphin brand by pool owners. These results emphasize the unusual disparity this year between sales to the distribution channels and online sales to end users, which demonstrate ongoing growth.
- Residential robotic pool cleaner sales in the first nine months amounted to NIS 1.237 million, down 6.8%, and in the third quarter, to NIS 228.2 million, down 27.9%.
- Commercial robotic pool cleaner sales in the nine months amounted to NIS 89.7 million, up 19.2%, and in the third quarter, to NIS 20 million, down 37.3% versus 93% growth in the third quarter of 2022, reflecting anomalous supplies in that quarter that compensated for supply difficulties in the first half of last year.
- Revenues from sales of safety products and related pool products in the nine months amounted to NIS 258.9 million, up 77.7%, and in the third quarter, to NIS 83.9 million, up 32.2%.
- **Gross profit** in the first nine months of 2023 was NIS 681.7 million, up 8.7%, with a solid improvement of 250 BPS in the gross margin, which rose to 43%. Gross profit in the third quarter was NIS 133.9 million, down 17.8% but margin increased to 40.3% of sales, an improvement of 78 BPS compared to the same quarter last year.

  Margin improvement is the result of the successful implementation of price increases, the positive contribution of the consolidation of ECCXI, favorable currency effects and a reduction in raw material costs. These positive effects were partially offset by the decline in production volumes.
- **Operating profit** in the first nine months was NIS 258.1 million, down 18.5%, and the operating margin was 16.3% compared to 20.5% of sales in the corresponding period last year. In the third quarter, operating profit was NIS 12.6 million, down 71.3%.
- **Finance expenses** in the nine-month period were NIS 50.4 million compared to NIS 2.9 million, largely as a result of an increase in interest rates expenses and in expenses related to exchange differences, revaluations and currency hedges. In the third quarter, finance expenses amounted to NIS 14.7 million, of which interest expenses accounted for NIS 12 million. Interest expenses declined in the quarter in relation to expenses of NIS 14.2 million in the prior quarter due to a decline in debt levels.
- **Net income** in the first nine months was NIS 183.9 million, down 30.3%. In the third quarter, net income amounted to NIS 2.7 million, compared to NIS 39 million in the third quarter last year.
- **Cash flows generated from operating activities** in the third quarter were NIS 126.4 million, compared to a negative operating cash flow of NIS 15.3 million in the corresponding quarter in 2022. In the nine-month period the Company generated operating cash flow of NIS 210.7 million, compared to a negative operating cash flow of NIS 97.2 million in the first nine months last year.
- The **finished goods inventory volume** declined by 25% in the first nine months of 2023.

Sharon Goldenberg, CEO: "2023 in the pool industry has evolved as challenging year as a result of inventory levels in the distribution channel and macroeconomic backdrop affecting consumer spending. These two factors, which affected demand by the distribution channel, were joined by the effects of extreme and unstable weather, which were reflected in a delayed and very short pool season in Europe and North America.

"Despite the challenges, we succeeded in optimally managing sales to the distribution channel in the first half of the year and – excluding the ECCXI acquisition – in recording a very moderate decline in sales in general, and in relation to industry trends in particular. And still, sales in the third quarter are reflecting a significant decline, which is the outcome of four key factors. We experienced for the first time the effects of inventory correction with extreme intensity, as expressed in a considerable decline in sales to distributors in Europe and the US. The volume of orders in the third quarter was substantially affected by the late start to the season, strongly reducing the traditional replenishment orders. Secondly, macroeconomic backdrop and current high interest rates led to a cutback in the buildup volumes that are typical of the late season before winter. Also, the quarter was characterized by relatively weak early buys prior to the season in the Southern Hemisphere because of a conservative approach that is now being applied in the distribution channel in terms of inventory buildup. And finally, third-quarter sales last year were exceptional and included revenues of tens of millions of NIS that were shifted forward from the second quarter.

"That said, we are encouraged by several positive trends. The first is an improvement of more than NIS 300 million in operating cash flow, among other things thanks to successfully lowering the volume of finished goods inventory by 25% since the beginning of the year. The second is the ongoing robust demand by end users – pool owners – for our products in the online channel in North America, including through ECCXI, which has continued to deliver excellent results overall, and specifically in robot sales. And finally, looking ahead, the weather at the beginning of the fourth quarter indicates an early start to the season in Australia.

"Considering this year's challenges, and especially considering current inventory levels, production volumes at the Company's plants have declined significantly. Despite this trend, which took its toll, we successfully delivered a solid improvement in the gross margin. We expect that during 2024 season we will be back on track with gradual growth in production volumes, which will contribute to the gross margin. Over the year we have made significant improvements to our cost structure and implemented efficiency enhancement processes that have delivered a solid reduction in operating expenses. We expect these initiatives to contribute to an improvement in the operating margin once we are back on our growth track.

"As we said in August, we expect some of the buildup for the 2024 season to shift from the second half of 2023 to the first half of 2024. In view of the realization of this trend and the results for the first nine months of 2023, the Company believes that it will meet the lower end of the range of its revenue growth outlook."

Business results for the first nine months of 2023

Sales grew 2.5% and amounted to NIS 1,585 million.

The effect of changes in foreign exchange rates on sales compared to the corresponding period amounted to an increase of NIS 127.5 million in revenues due to the strengthening of the USD against the NIS by an average of 8.6%, the strengthening of the EUR by an average of 10.5% and the strengthening of the AUD by an average of 4.6%. **Excluding foreign currency effects, sales declined by 5.8%.**

The Company's revenues from sales of residential robotic pool cleaners amounted to NIS 1,237.2 million, down 6.8% compared to the corresponding period last year. The decline is reflected across all major regions 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 the US and Europe, which led to a late-starting and very short pool season.

The Company's sales of commercial (public) robotic pool cleaners totaled NIS 89.7 million, up 19.2%. The increase is largely attributed to ongoing demand in the segment, 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 258.9 million, up 77.7% compared to the first nine months last year. Most of the increase is the result of the consolidation of ECCXI as well as growth in sales of water treatment products by the subsidiary in Australia.

North America sales grew by 21% and amounted to NIS 933.3 million, accounting for 59% of sales.

Europe sales declined by 19% and amounted to NIS 487.4 million, accounting for 31% of sales.

Oceania sales declined by 11% and amounted to NIS 103 million, accounting for 6% of sales.

RoW sales grew by 1% and amounted to NIS 62.1 million, accounting for 4% of sales.

Gross profit was NIS 681.7 million, up 8.7% compared to the corresponding period last year. The gross margin improved and reached 43% compared to 40.5% in the corresponding period last year, an increase of 250 BPS. The gross margin was positively affected by four main factors: price increases, the contribution of the ECCXI consolidation, lower manufacturing costs and currency effects. These were partially offset by a decline in production volumes, which increases the direct costs of producing a robotic cleaner, and relatively low margins in the new cordless Liberty product family, as it's a launch year.

R&D expenses were NIS 42.6 million, an increase of NIS 3.5 million, i.e., up 9.1%. The increase is largely attributed to robot development costs recorded on the income statement (a decline in the capitalization of robotic cleaners' development costs), mainly as a result of the launch of the Liberty product family. Development costs in the pool water monitoring, control and treatment segment in the period were NIS 10.6 million.

Following a decrease of NIS 12.4 million in the capitalization of R&D costs, the R&D expense (before capitalization) to revenue ratio declined to 4.1% compared to 4.8% in the corresponding period last year.

Selling and marketing expenses were NIS 275.3 million, up NIS 103.5 million, reflecting an increase of 60.3% compared to the corresponding period. The increase is largely due to the consolidation of ECCXI, which contributed an additional NIS 90 million versus last year following its sales growth and the full consolidation of nine months in comparison to a consolidation of two month in the corresponding period. Furthermore, marketing campaign expenses increased, mostly in the first half of the year as part of marketing effort to drive sales growth, and the rise in exchange rates in the period contributed another NIS 9.6 million. These effects were partially offset by a decline of 31.5% in shipping costs.

General and administrative expenses were NIS 105.6 million, up NIS 6 million, reflecting an increase of 6%. Most of the increase is attributed to the consolidation of ECCXI, which contributed an additional NIS 7.6 million versus the corresponding period, and the rise in exchange rates, which contributed another NIS 3.3 million and were offset by a decline in labor costs in management departments and in other general expenses.

Operating expenses excluding expenses arising from the ECCXI acquisition and currency effects amounted to NIS 312 million compared to NIS 310.4 million last year.

Operating profit was NIS 258.1 million, down 18.5%. The operating margin declined to 16.3% compared to 20.5% of sales last year.

EBITDA amounted to NIS 321 million, down 12% compared to the corresponding period last year.

Finance expenses were NIS 50.4 million, compared to finance expenses of NIS 2.9 million in the same period last year. The increase is largely the result of interest expenses, which amounted to NIS 37 million payable on NIS 752.5 million in bank credit.

Tax expenses were NIS 23.8 million, down 52.2%. The effective tax rate was 11.5% compared to 15.9% in the corresponding period. The lower tax expenses and tax rate are the result of the decline in pretax earnings and a change in the profit mix in the Group.

Net income was NIS 183.9 million, down 30.3%.

Cash flows from operating activities in the first nine months amounted to NIS 210.7 million, compared to a negative cash flow of NIS 97.2 million in the corresponding period last year. The improvement in operating cash flow is largely the result of the decrease in inventory and an improvement in accounts receivable collection.

Balance sheet highlights:

- The **inventory** balance reflects a moderate decline of NIS 43.4 million compared to December 31, 2022, but in fact, efforts to reduce inventory led to a decline of 25% in the volume of finished goods inventory (robots) compared to December 31, 2022. The decline was largely offset by the strengthening of the USD and EUR. Furthermore, raw material and in-process inventory is NIS 27 million lower compared to the corresponding period last year, despite the negative impacts of rising exchange rates. These initiatives led to a decline of NIS 100.5 million in inventory, which contributed materially to an improvement in operating cash flow.

- A decline of NIS 143.7 million in the **balance of trade receivables**, largely as a result of the decline in sales in the third quarter, stronger collection in light of the date on which the sales were generated, and a change in the customer mix following growth in sales by ECCXI, which sells D2C (i.e., there is no customer credit).

- The outstanding **credit balance** was NIS 752.5 million, compared to NIS 600.3 million on September 30, 2022 and NIS 948 million on March 31, 2023.

- A decline of NIS 146.6 million in the **balance of trade payables**, largely the result of a decline in inventory purchases in the third quarter compared to the same quarter last year.

Cash flows from investing activities consumed by the Company were NIS 106 million, compared to NIS 81.2 million in the corresponding period last year.

- **Capitalization of intangible assets** amounted to NIS 21.5 million (robots – NIS 15.3 million; water technologies – NIS 6.2 million), compared to NIS 34 million last year (robots – NIS 22.6 million; water technologies (NIS 11.3 million).

- Acquisition of **fixed assets** amounted to NIS 47.5 million, compared to NIS 38.3 million last year. The increase is largely the result of investments in the Company's sites in Dalton and Kibbutz Yizre'el, including investments in the enlargement of manufacturing and operational spaces and office buildings.

- Settlement of a deferred liability of NIS 26.8 million in respect of the acquisition of ECCXI stock.

On September 30, 2023, **equity attributable to shareholders** of the Company amounted to NIS 788 million, constituting 37.8% of total assets on the statement of financial position.

Business results for the third quarter of 2023

Sales declined by 19.4% and amounted to NIS 332.1 million.

The effect of changes in foreign exchange rates on sales compared to the corresponding quarter last year was an increase of NIS 29 million, the result of the strengthening of the USD by an average of 8.9%, the strengthening of the EUR by an average of 16.8%, and the strengthening of the AUD by an average of 5.5%. Excluding foreign currency effects, sales declined by 26.6%.

The Company's revenues from sales of residential robotic pool cleaners amounted to NIS 228.2 million, down 27.9% compared to the corresponding period. The decline in segment revenues is mainly attributed to the relatively early close of the pool season compared to last year and to the ongoing process of inventory correction in the distribution channel. Furthermore, the third quarter of 2022 reflected relatively high revenues as revenues were shifted forward from the second quarter.

The Company's sales in the commercial (public) robotic pool cleaner segment totaled NIS 20 million, a decline of 37.3%, largely attributed to exceptionally strong sales in the corresponding period, which reflected the fulfillment of demand generated in the first half of 2022, when the Company's ability to meet demand was constrained by challenges in the availability of part of the components.

Revenues from safety products and other related pool products were NIS 83.9 million, up 32.2% compared to the corresponding period last year. Sales growth was reflected in all products in the segment, largely as a result of sales of these products by ECCXI.

North America sales declined by 20% and amounted to NIS 190.1 million, accounting for 57% of sales.

Europe sales declined by 23% and amounted to NIS 77.1 million, accounting for 23% of sales.

Oceania sales declined by 23% and amounted to NIS 42 million, accounting for 13% of sales.

RoW sales grew by 7% and amounted to NIS 22.8 million, accounting for 7% of sales.

Gross profit was NIS 133.9 million, down 17.8% compared to the same quarter last year. The gross margin improved slightly and reached 40.3% compared to 39.5% in the corresponding period. Margin growth is largely due to an increase in sell-in prices, the contribution of the ECCXI consolidation, favorable foreign currency effects and a certain decline in BOM costs and shipping costs, which were mostly offset by the decline in production volumes and relatively low margins in the launch year of the Liberty product family.

R&D expenses were NIS 12.4 million, down 2.1% compared to the corresponding period last year. The slight decline in development costs is mostly attributed to the water technology segment. Development costs in the pool water monitoring, control and treatment segment in the period were NIS 2.8 million.

Selling and marketing expenses were NIS 80.2 million, up NIS 7.3 million, reflecting an increase of 10% compared to the corresponding period last year. The increase is largely due to the consolidation of ECCXI, which contributed an additional NIS 15.2 million quarter-on-quarter following sales growth and the full consolidation of July 2023. Additionally, the rise in exchange rates in the period contributed another NIS 4.4 million, which were mostly offset by a decline of 65% in shipping costs.

General and administrative expenses were NIS 28.6 million, down NIS 4.5 million, reflecting a decline of 13.6% compared to the corresponding period last year. The consolidation of ECCXI contributed an additional NIS 1.5 million quarter-on-quarter, and the rise in exchange rates contributed a further NIS 1.3 million. Conversely, the Company recorded a decline in labor costs in management departments and in other general expenses.

Total operating expenses in the quarter were NIS 121.3 million, reflecting a moderate increase of 2.1%, and excluding foreign currency effects and the consolidation of ECCXI, a **decline of 17.4%**.

Operating profit was NIS 12.6 million, down 71.3% compared to the corresponding period.

Finance expenses were NIS 14.7 million, compared to finance expenses of NIS 0.6 million in the corresponding period last year. The increase is largely the result of interest expenses, which amounted to NIS 12 million. It is noted that this figure represents a decline compared to expenses of NIS 14.2 million in the prior quarter following a decline of NIS 42 million in credit levels in the past three months and of NIS 197.5 million in the past six months.

Tax income in the quarter amounted to NIS 4.7 million compared to tax expenses of NIS 4.3 million last year. The decline in income tax expenses is the result of a loss for tax purposes versus taxable income in the corresponding period last year and a change in the profit mix in the Group.

Net income amounted to NIS 2.7 million, compared to NIS 39.1 million last year.

Cash flows from operating activities generated in the period were NIS 126.4 million, compared to a negative cash flow of NIS 15.3 million in the same quarter last year.

Cash flows from investing activities consumed by the Company were NIS 57.9 million, compared to NIS 29.5 million in the corresponding period last year. The increase is the result of the settlement of a deferred liability in respect of the acquisition of ECCXI stock at an amount of NIS 26.8 million.

For further information:

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