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PRESENTATION

Luis Boada - *Fluidra, S.A. - IR, Corporate Communications & Business Development Director*

Good morning and welcome to Fluidra's 2020 Q1 results presentation. I am Luis Boada, Investor Relations, Corporate Communications and Business Development Director at Fluidra. It is a pleasure to be presenting our results to you today.

Today's presenters will be Mr. Eloy Planes, our Executive Chairman; Mr. Bruce Brooks, our COO; and Mr. Xavier Tintoré, our CFO. Due to the unprecedented circumstances, the team is doing this presentation remotely. We therefore ask you to be patient when we assemble questions for our Q&A and if we were to experience any technical difficulty.

You can follow this presentation in its original English version or in its entirety in Spanish. You can select your preferred option in the drop-down menu at the bottom right of your screen. You will notice that we have done changes to the presentation based on feedback received from investors and analysts, some of you in the call. We want to provide you with the most meaningful information and highly value your feedback for our continuous learning.

In case you're interested in addressing questions to management, please feel free to do so through the Ask a Question tab on the bottom left of your screen. Today's presentation is accessible through our website, fluidra.com, and was also sent a few hours earlier to the CNMV. A replay of today's presentation will be made available on our website shortly after we finish. Let's start with the presentation by opening the floor to Mr. Eloy Planes.

Eloy Planes Cortes - *Fluidra, S.A. - Executive Chairman & CEO*

Thank you, Luis. Good morning and welcome to our first quarter 2020 earnings presentation. This presentation is clearly different. As you know, we are facing an extraordinary pandemic. This situation has deeply affected, to some extent, all of our geographies starting mid-March, when the virus started to profoundly harm the global economy.

My first words are for our people, our employees, all of whom have demonstrated a total commitment to Fluidra and all around us. Our teams have proactively responded to the challenges with extra effort and speed with the clear aim of protecting the health of our employees and minimizing customer and other stakeholders' disruption.

Thank you very much to all the Fluidra's team for adapting quickly and in an exemplary fashion. In addition, thanks to all the health care professionals and all the essential workers working to guarantee our safety. To all of you, my sincere thanks. I would like also to extend my deepest sympathies to all of you who have lost relatives and colleagues due to this terrible pandemic.

As I said, Fluidra has been making extraordinary efforts to better adapt to this new environment, undertaking some contingency measures while maintaining the health of our employees and collaboration with customers as our top priorities. I'm also proud to let you know that our company actioned a plan to make use of our technology to help the medical community. We have manufactured to date over 90,000 medical parts to be used in intensive care units.



The purpose of today's call is to update you on how Fluidra's business is performing in this unusual environment. We started 2020 in a strong financial position. We have a solid balance sheet with ample liquidity and with the majority of the maturities in 2025. This puts us in a privileged position, which provides a solid cushion in a recessional environment like this. You all know I'm part of Fluidra's founding families, and as a long-term investor, I believe this financial position will allow us to emerge out of this crisis being a better and a stronger company.

After a solid 2019, the debt repricing in January and resuming our M&A activity with the small add of Fabtronics, we felt it was time to also return to paying a dividend. We could have opted to still pursue a distribution to shareholders based on our 2019 results but decided it was in the company's best interest to put the dividend payment on hold while we are experiencing this terrible situation. By taking a conscious long-term approach, aware also of likely consolidation opportunities that may lay ahead of us, we will manage capital allocation quickly, aiming to return to normal as soon as we find ourselves in a more stable environment.

Fluidra recorded a solid performance in the first quarter despite the impact of COVID-19 in mid-March with double-digit growth and stellar margin leverage through February. It is important to remind you that Fluidra has presence in 46 countries, and the impact of the pandemic varied on a country-by-country basis based on the level of lockdown.

China was the first country impacted. However, full commercial activity in China is very small. We did experience some manufacturing and supply chain impacts due to the situation in China, but things improved rapidly during March.

The coronavirus wave then jumped to Europe during the second part of March, where our activity has been deeply impacted with countries like Italy, France or Spain almost fully shut down for at least 2 weeks. Despite COVID-19 impact, the gradual recovery of the different activities in all countries may lead to a strong season, shorter due to the weeks lost in March and especially in April but a strong one nevertheless.

Thus, we are now really focused on the season, delivering shipments through our distribution network and feeling prepared to efficiently supply our customers worldwide. We have information on April's performance, which although heavily impacted by COVID-19, with several countries experience full to high lockdowns, is stronger than we expected.

We believe based on our model and seasonality, April will be the most impacted month from the pandemic. We are seeing the situation improving as long as lockdowns ease in many countries with the strong last days in April and early May performance.

In fact, more than ever, we are experiencing that in many countries, cocooning effect is taking place. One thing you can count on is in our constant pursuit of the strategic planned pillars. We have kept on working and delivering on cost synergies and other margin improvement initiatives that started with the merger. Those initiatives remained the same, even in a top line challenged environment, making our equity story intrinsically robust.

At this point, I give the floor to Bruce, Fluidra's COO, who along with our CFO, Xavier, will provide a deeper look at the 2020 first quarter figures and outlook.

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

Thanks, Eloy. It's a pleasure, even in these unusual times, to discuss our performance during the first quarter of 2020. I will start with comments on our overall performance and key developments related to COVID-19, and then turn it over to Xavier, our CFO, to provide more details on the financial results. I will then return to talk a bit more regarding Q2 and our longer-term prospects.

The numbers you see on Slide 5 are the 2019 and 2020 financial highlights for January through March. The strength and importance of our global platform demonstrated its value once again as North America and parts of Europe displayed strong growth, which helped compensate for a slower Southern Europe already impacted by the coronavirus lockdown.

In the first quarter of 2020, sales grew 1.3% adjusted for currency and perimeter to EUR 315.8 million compared to the same period in 2019. Sales globally were on a double-digit growth pace through February but were negatively impacted by COVID-19 in March.

Adjusted for currency and perimeter, EBITDA and EBITA growth clocked in at 1% and 1.4% to EUR 51.4 million and EUR 35.9 million, respectively. We overcame the challenges of the quarter, thanks to the excellent read-through pre COVID-19, when we were seeing superb margin leverage boosted by the continued progress of cost synergies and value initiatives. This continued success positions us strongly for the future.

Cash earnings per share grew 27.9% based on positive EBITDA growth and the difference between net financial result in the P&L and net interest paid. As for operating net working capital, we ended the period 2.4% lower from the same period last year at approximately EUR 448 million, improving the ratio to sales by 230 basis points.

Our net debt and net financial debt stood at approximately EUR 925 million and EUR 804 million, having decreased 3.6% and 6.2%, respectively. We're glad to point out here that this decrease was despite material investments related to M&A and higher capitalization of leases.

We also achieved full year run rate synergies of EUR 32.1 million, up more than 92%. Continued momentum on cost synergies clearly positions us well to achieve the EUR 36 million full year guidance despite the demand-challenged environment.

Moving to Page 6. Given all that has happened over the last quarter, I would be remiss if I did not dedicate a few minutes to talk about the impact the virus has had on Fluidra and the measures we have taken to shield ourselves from it. We take the safety of our employees and partners with the highest priority.

As soon as we perceived the first signals of pandemic beyond Asia, we were quick to set up daily COVID-19 response teams on a global and regional basis. These committees were able to channel best health and business practices to the different geographies with the aim of protecting our employees and business and providing coherence for our business partners.

One of the first actions that we put in place was for a significant part of our staff to work remotely from home. I'm proud of how our managers and teams have adapted to this new environment. It is in difficult circumstances where companies are really tested. And in our case, I've seen each of our teams respond in the spirit of our values. And frankly, it's inspiring.

Our senior management team, which forms part of what we call the Management Advisory Committee, and our Board have all increased the frequency of meetings virtually, of course, to make sure we are aligned and communicating to our entire team. We have in no way adapted to this blow with resignation. At Fluidra, we are all committed to emerge from this situation as a better company for all our stakeholders.

Once ensuring our team's health and working with local guidelines, we quickly deployed new measures such as call and collect, click and collect, direct deliveries and different operating hours to ensure business continuity for our customers. As Eloy already mentioned, we've also been supporting our communities through the manufacturing of much needed materials for hospitals such as components for ventilators and personal protection equipment.

In addition, we're running a campaign entitled A Pool is a Safe Place to raise awareness about the fact that properly treated pool water kills viruses. This includes a white paper shared with the relevant industry bodies, a video addressed to the general public that you can access by clicking on a link in our presentation as well as point-of-sale materials and other information on disinfection of the general pool area. We are fortunate to find ourselves in a company that can still deliver its mission despite this terrible virus to create the perfect pool and wellness experience. In fact, many people sheltering at home find our mission more relevant than ever.

Moving to Page 7. In terms of the balance sheet and cash management, we have a strong capital structure. We repriced our Term Loan B in January and have ample liquidity through cash on hand, our ABL revolver and other bilateral credit facilities. At the end of Q1, we had total available credit lines of EUR 454 million, of which 45% was drawn.

As an additional precautionary measure, we recently expanded in April credit lines by more than EUR 100 million. As you can see in the graphs on this page, we have no major maturities until 2023, and the most significant, that of the Term Loan B, only in 2025. This capital structure is a safe haven that will allow us to weather the crisis even, and let's hope not, there was a global resurgence of the virus later on this year.

Our net working capital stands prepared for the season with Q1 being our peak quarter. We have taken the conscious decision to collaborate with our customers by having appropriate inventory levels to service them at the highest standards as the lockdown ease. These levels can be adjusted later in the year as we have limited stock obsolescence risk.

Even though we are determined to maintain our focus on strategic business initiatives as well as potential opportunistic acquisition, we have also heightened our capital expenditure approval thresholds. As Eloy shared with you, we decided to put a temporary hold on dividend distribution to cement further our liquidity position while we await a more stable lockdown-free working environment.

Now let's move to Page 8 and take a look at the impact on sales. As can be expected, there was a dramatic slowdown in confinement-hit areas. However, we have not experienced significant softening in demand in markets that were allowed to work in some form or fashion. So the impact varies dramatically depending on the level of the lockdown in each country.

Southern Europe was the most exposed in Q1 and in the immediate weeks after. Market access was dramatically reduced in Italy for more than 2 weeks and in Spain and France for more than a week. All in all, this unprecedented standby meant low double-digit decrease for the quarter in that region after a strong start to the year.

Lockdowns were still predominant for April, which we predict is the most challenging month for this year. April sales were down about 20% year-on-year. So still relatively high levels of activity, thanks to our geographically diversified and leading platform. I'm very happy to report that as confinement measures are being eased and activity is resumed, we're still seeing very strong levels of demand, which I will speak to further later in the presentation.

We've also taken concrete measures to reduce operating expenses. In addition to a general reduction of discretionary spending, we implemented hiring and merit increase freezes as well as temporary and permanent layoffs factoring in each country's unique programs and situation. Some of these are tough but needed measures on decreased activity levels. Senior management and Board members led by example with voluntary reductions in remuneration.

In the supply chain, we saw only marginal impacts in Q1 mostly coming from Asia. There are some ongoing confinement-related impacts as different facilities have been sporadically closed. But inventory is within our target parameters, as mentioned, with regards to net working capital levels.

Turning now to Page 9. You see the sales evolution by geography. During this 3-month period, global sales grew 1.3% compared with the same period of 2019. Our global footprint helped us compensate the abnormal sales decrease related to the coronavirus we saw in certain areas.

Southern Europe experienced negative currency and perimeter adjusted volume of 13.2% due to the impact of COVID-19 in March. The rest of Europe showed exemplary growth of 10.6% driven by outstanding performance in Germany and Eastern Europe.

North America came through with excellent double-digit constant currency and perimeter growth of approximately 13% on more normal weather patterns. Growth was partially offset by Canada and some marginal COVID-19 availability impact. As you may recall, last year was an easy comparable because of weather, the gas heater manufacturing plant move and distribution ordering patterns.

The rest of the world grew 2.1% on a currency and perimeter adjusted basis. This was driven by a good performance in Asia and Latin America, which was offset by a weaker performance in Australia and South Africa, the latter materially affected by COVID-19. This performance demonstrates, even in these unprecedented times, the resiliency of our business and our belief in the continued strength of our market's fundamentals.

Next, on Page 10, we see the evolution by business unit. Residential Pools, which is our largest segment and accounts for close to 70% of Q1 sales, grew 1.4% driven by an excellent performance in gas heaters and lighting equipment. Commercial Pool accelerated its growth to 11.5% driven by Eastern Europe, Middle East and Asia. This again confirms the positive trend we saw last year.

The Pool Water Treatment and Fluid Handling units shrank 2.6% and 1.5%, respectively. Pool Water Treatment was impacted by a flat performance of water care equipment and a weaker evolution of chemicals due to the lockdown in Southern Europe. This business unit has recovered quickly

after the confinement and sanitized pools neutralized the virus. Pool & Wellness Fluid Handling was almost flat despite being impacted by Southern Europe's COVID-19 related lower activity levels.

In summary, our global footprint helped us deliver positive growth despite a challenging environment. We have a strong and reinforced liquidity position, have been and remain very active on managing the unprecedented situation from every angle and are poised for the upcoming season in the Northern Hemisphere, which is already showing some positive signs. We also are well ahead on synergy targets and other margin improvement initiatives.

I want to thank our talented team of more than 5,300 employees and business partners for their agility, positivity and sacrifices during this challenging time. With that, I'll turn it over to Xavier to explain the financial results in more detail before I come back to you on our outlook.

Xavier Tintoré Segura - Fluidra, S.A. - CFO

Thank you, Bruce. Let's turn to Page 11 now. In order to provide you with a consistent view of the performance of the business, the profit and loss account in this page excludes nonrecurring expense in the cost of goods sold and OpEx lines. Below EBITDA, you have the nonrecurring expense charges identified in one caption. In addition, in the appendix, you have the reported P&L with all nonrecurring expense properly classified by nature.

Let's now comment on the profit and loss account for Q1. Sales growth of 0.9%, that is 1.2% adjusted for currency and 1.3% adjusted for currency and perimeter, impacted in the second half of March by the COVID-19 pandemic, as Bruce has claimed. Gross margin reaches 53.8%, 10 basis points higher than prior year, driven by price increases and positive impact of cost synergies, partially offset by mix as Q1 sales included much more gas heater sales than 2019.

Operating expenses of EUR 116.6 million with a decrease of 0.9%, which show the impact of our cost synergies and the measures implemented to cut down fixed OpEx ahead of the pandemic slowdown. Provision for bad debt is EUR 2.2 million or 0.7% of sales with an increase of EUR 1 million over last year driven by some collection issues in Australia, Middle East and Spain.

EBITDA reached EUR 51.4 million with an increase of 2.9%, driven by the slightly higher volume and margin and lower OpEx. EBITDA increases by almost 2.5%.

Below the EBITDA line, the decrease of amortization is driven by the natural evolution of the intangible amortization associated to the Zodiac merger. Nonrecurring expense shows a very significant decrease from EUR 9.9 million to EUR 3.6 million as we complete the last steps of the integration process. The most significant item reported under this caption now is the stock-based compensation with EUR 2.3 million.

Net financial result is EUR 14.8 million versus EUR 10.6 million in 2019. The increase versus prior year is explained by currency as the COVID-19 has impacted developing countries' currencies versus the euro. In this quarter, there is an EUR 8.8 million negative impact versus a EUR 2 million favorable impact in 2019. We expect part of this impact to be reversed in the second quarter. Net income is EUR 1.6 million profit in the quarter compared to a loss of EUR 2.6 million last year.

As Luis has indicated before, we revised our disclosure materials in line with your suggestion. And as such, we have fine-tuned the calculation of cash net profit and cash EPS. It is a good indicator for Fluidra as we have a very significant amortization of PPA and other noncash impacts that penalize our net profit and EPS calculation. We have also included a cash EPS reconciliation for the last 5 quarters in the appendix of this presentation.

Cash net income reached EUR 17.8 million with a 31% increase driven by the higher net income and the difference between net financial results in the P&L and the cash interest paid.

Page 12 shows the evolution of net working capital for the group. We have split operating net working capital from total net working capital in order to give you a view to business performance where we still reconcile to the total net working capital, showing other items that are related to



M&A activities operating net working capital reaches EUR 448.2 million or 32.7% of sales, an improvement of 230 basis points to prior year, driven by good inventory management in all regions, which at the same time, impacts accounts payable as well.

Account receivable shows also an improvement, but it is impacted by the lesser sales of the last couple of weeks of March due to COVID-19. On the earnout front, there's a significant reduction as we have paid some of our historical earnouts with Waterlinx in South Africa or Idegis in Spain. The most material earnout left is now the Fabtronics one.

The following page shows the free cash flow statement for the quarter as well as the net debt evolution. Now that we are over with the pro formas and the accounting for the integration, we have been able to return to a more traditional cash flow statement. Q1 is always an investment quota for Fluidra as we prepare for the season in the Northern Hemisphere.

From an operating cash flow perspective, the company has used EUR 130 million, EUR 10 million more than last year. The increase of net working capital in the quarter and timing on tax return more than offset the increase of reported EBITDA. On the investment section, there is a significant swing as during 2019, we cashed in the acquisition of Aquatron and in 2020, we have completed the acquisition of Optronics and paid out some earnouts.

CapEx shows a decrease from EUR 12.9 million to EUR 9.4 million, showing the initial impacts of the measures to react to COVID-19. Despite this higher use of cash in Q1, net financial debt reached EUR 804 million, showing a decrease of EUR 53.1 million to prior year. This is a EUR 7.5 million decrease if we adjust for currency.

Regarding net leases, it is worth mentioning that the last year, the company reached an agreement to extend the leases of its key manufacturing plants in Spain which were about to expire. This extension for 10 years explains the increase in net leases and why the decrease in total net debt is only EUR 35 million lower than last year.

And with that, I will turn the call over to Bruce and Eloy to close the quarterly call.

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

Thank you, Xavier. Let's now move to Page 14 and talk about our short-term outlook. We withdrew our 2020 guidance due to COVID-19 uncertainties. As discussed, we actively managed the current situation, and we'll provide an update during our next earnings call for the first half of 2020 due on the 31st of July.

It is worth highlighting some themes and encouraging early signs. As I shared with you, the most significant impacts were felt in late March and April. Southern Europe was the worst hit region on confinement, mostly closed for business for several weeks during those months. Still, despite the circumstances, our activity levels were quite good. Global April sales were down just about 20% year-on-year. Late April readings and May's early data signal that demand has remained strong as lockdown measures are eased and activity is resumed.

For example, Germany, which lockdown measures were not as challenging as France or Italy, has maintained double-digit growth as cocooning has already taken hold and above-ground pools are in high demand. France, which partially operated in April, retail was still limited to online and curbside pickup, saw a quick bounce back, almost getting flat with just 3 weeks of activity. However, some countries like Italy and South Africa remained almost 100% inactive.

It is truly an extreme environment that has to be managed country by country and even municipality by municipality. For a deeper understanding of our business, so as to be able to model our cash generation profile, please bear in mind that our gross margin is fully variable. This is because cost of goods sold includes only raw materials and components. Moving lower on our P&L some 35% to 40% of our operating expenditures are variable in nature as they refer to concepts such as sales transportation, commissions and temporary stack.

For the remaining fixed component, we have already secured to discuss cost-out initiatives, temporary adjustments, which moderate short-term impact on EBITDA. Meanwhile, we have also successfully put in place a process to delay lower priority CapEx investment.

Talking beyond the short term as we move to Page 15. Despite the recessionary environment, our structural dynamics and investment thesis remains unchanged. We feel our double engine growth model, shown in the graph and that we have discussed many times, may be impacted by contrasting dynamics.

On one end, a solid residential aftermarket business, which, on a COVID-19 environment, is supported by a concluding effect of users spending more time at home. Our pool pros reacted swiftly to open pools earlier in markets where they were allowed, experiencing exceptional demand. What we are seeing and expect to keep on seeing for the coming months is a strong comeback of the residential pool professional channel as the lockdown eases and as mentioned earlier, an excellent performance of above-ground pools. This type of product category offers a quick opportunity to enjoy a pool in the backyard. In parallel, we see strong performance of pool water treatment products to sanitize residential pools in general and specifically against COVID-19.

As a potential threat, new build and refurbishments might soften in a recessionary environment. However, lead generation and backlog remains strong based on early signs of people wanting to improve their travel-restricted lives, supporting our belief in a compressed but strong season. The question will be, how does new construction perform in the back half of this year when the new pool will have limited benefit before 2021? I would also remind everyone that current new build levels remain far from the pre global financial crisis peaks and also below the long-term average.

In Commercial Pools, we have a weaker perspective due to the impact of social distancing and travel bans is having on the hospitality sector. This business unit was having a very positive trajectory, but it's likely to be the most challenged in the longer term. Nevertheless, it represents about 8% of our sales so we have relatively limited exposure.

Our intrinsic equity story pillars remain unaltered. We continue with the strong delivery of synergies and lean value initiatives to drive margin improvement. The new environment only provides more opportunities to further accelerate initiatives that we would have gotten to outside of our current strategic plan.

We have an excellent cash generation profile set for positive generation even in a top line challenged environment. This, combined with margin improvement, yields an increasing return on capital story that could be accelerated by a consolidation opportunity.

I will now turn it over to Eloy to deliver the conclusion and wrap up the presentation before Q&A.

Eloy Planes Cortes - Fluidra, S.A. - Executive Chairman & CEO

(foreign language), Bruce. Thank you, Xavier. Despite the COVID-19's impact in mid-March, the 2020 first quarter results have been solid. We were able to navigate through a challenging April with good levels of activity at roughly 20% decrease in sales, and this is a very positive sign, bearing in mind that many of our markets were being affected by heavy lockdown measures and speaks to our geographically diversified platform. As these confinement measures progressively ease, we still see the unique fundamentals of our business shine with continued strong demand that finds us ready for a shorter but a strong campaign.

Nevertheless, the situation is very dynamic, and we cannot predict how the broad pandemic confinement measures deployed by authorities will evolve during the rest of the year. We certainly hope for continued improved health and not to see a resurgence of the virus. At the same time, medium and long-term macro forecasts are also at maximum disparity levels.

Our experienced team will continue to monitor the situation closely to navigate to this dynamic situation to our best advantage. We will maintain and adjust contingency measures implemented on the different geographies depending on when things turn and on the level of the activity. During the first half results presentation, when the season has already peaked, we will provide more information to the market on our outlook.

We are fortunate to participate in an attractive and resilient market that has a new construction component that fits the much larger, approximately 75%, after market. New construction could be affected by the recessionary environment. The question is to what extent will a world with less travel favor investments in homes. It seems plausible that the pool asset will be even more valued after the coronavirus.



Our teams have maintained their efforts in order to continue the strong delivery of cost synergies and to maintain the margin-improving initiatives. As Bruce has shared with you, this new environment provides more opportunities. We will take this uncertain environment to accelerate these initiatives and launch items which will have otherwise been in our to-dos post 2022.

Our intrinsic equity story remained the same: attractive double engine market combined with our leading platform, enabling growth through customer collaboration; significant margin expansion combined with a strong cash conversion, which drive excellent return on capital. In addition, we are well positioned in our fragmented market to seize opportunities for further consolidation in this challenging environment.

To conclude, I'm speaking on behalf of whole team when I say we are optimistic about our future even in this situation. It is our conviction that we are in a strong position to face this challenging environment. Please stay safe. Thank you for joining us today and for your continued interest. And with that, I would turn to the call back over to Luis to begin our Q&A session.

QUESTIONS AND ANSWERS

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Many thanks, Eloy, Bruce and Xavier, for your presentation. We will now begin the Q&A session. Let me remind you that you can send questions through the Ask a Question tab on the bottom left of your screen.

Our first question relates to COVID-19. Does the COVID-19 crisis mean M&A is now less likely? Or will it perhaps make valuations even more attractive?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

As we've spoken many times, M&A is certainly part of our strategy. It's not something that we factored into the numbers of our strategic plan, but we certainly feel like it is upside or a nice protection against it.

You saw that we get started again in Q1 with the acquisition of Fabtronics in Australia. We frankly think that this environment is an opportunity where we'll see some more attractive companies possibly pop up so that we can continue down this path. So I think it's probably too early to say anything in specific, but we would think that this environment will actually open up some opportunities.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Do you expect slower economic growth in Europe and the U.S. to impact growth rates over the next few years?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

As I mentioned in the prepared remarks, we're positive about our prospects. Having said that, current situation is extremely dynamic. And it's, I think, too early to call for the future year's outlook. I think there's going to be a couple of different things going on that are potentially contrasting dynamics. The aftermarket business, the residential aftermarket business looks very attractive, is coming back online very, very quickly.

Typically, in a recessionary environment, you'd see new builds and refurbishments soften. With saying that, though, demand has been -- new construction leads have been strong because people are stuck at home and in a stuck-at-home environment because that kind of offset the typical recessionary. So I think from a new construction, it's a little bit too early to say.

And again, I'd just remind everybody that we're still below the kind of run rate that we all -- historically and certainly, the peak of what we saw before the financial crisis. No doubt commercial will be impacted. We haven't seen dramatic impact yet, but we're starting to see the signs of commercial slowdown.



The commercial maintenance side of the business will continue. It doesn't make economic sense really to drain pools, but bathing load certainly goes down. Wear and tear on the equipment certainly goes down, a lot of places would turn off their heaters, for example. So we'll see maintenance continue but maybe at a slower rate. I think the bigger issue is that we'll see new larger projects slow.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question is on operating margins. How did your operating margins hold up during April, especially in Southern Europe?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

No, we basically don't comment on operating margins on a specific month. Now I would just point out to some of the things that we shared with you during the call. No, we have implemented several measures to really curve down OpEx, the fixed part of OpEx, as we've mentioned, temporary layoffs, hiring freeze, salary reductions and some discretionary expense programs that we are cutting. And then the other thing I would point you out is that we are not seeing any gross margin pressure, any pricing pressure really in this environment.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Moving on to the next question. Q2 normally has strong working capital inflow. Do you envisage any change to that this year?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

No, we don't expect any material changes to the pattern. I mean collections for the early buy in the States are moving as expected. And really, the only potential impact here is that there's a little bit of a delay of the demand into -- from April into May and June that may increase a little bit the receivables on this later part of the quarter. But the profile that we are expecting is very similar to a normal year.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question. I was wondering if you are seeing any noticeable market share gains in Europe given any potentially strong competitors.

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

Good question. We're happy with our performance to date. But I would certainly say that it's too early to draw any conclusions as to competitive dynamics.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Can you elaborate and quantify on the recent involvement since several countries unlocked? Any product mix evolution to expect in the context compared with last year? Any effect as a consequence on 2020 gross margin?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I think maybe you can tell by our remarks, in one sense, 20% down in April is kind of shocking. But I must admit, our expectations were that the fall would be more significant. And the reason we don't see it is more significant as countries came back online.



For example, France, the pickup was really dramatic or the recovery was dramatic. France, with a little bit less work and still retail not at full steam, got almost flat to prior year. So the bounce back in these markets, especially in the residential segment, has been a bit quicker and stronger than we would have predicted.

And as far as particular product categories, as I mentioned in the remarks, I mean, and I think this is a dynamic not just for Fluidra. It's a tough environment to get an in-ground pool. Demand is really high. And so I think all the manufacturers right now are fighting to service that demand. We're fortunate to have all different price points of in-ground pools from entry level to our Gre brand to Laghetto, which is the best of the best in above-ground pools designed out of Italy.

So we're certainly seeing a strong pickup there. We've seen a strong push on heating products, both gas heaters and heat pumps, as people are trying to turn on their pools earlier in the season. And then in addition, we're seeing a push on sanitation type products, whether it's things like saltwater chlorinators or actually, the chemicals themselves as people want to make sure that as they turn on that pool, that they've got the safe environment for the kids to play in.

From a gross margin impact, I'd say too early to tell, but no specific impact is really expected at this point in time.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question is asking shall we expect further price increases over the season given attractive summer prospects?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I think in the pool industry, it's very difficult to take price inside the season. It's an industry that takes price annually, and we certainly will continue to look at that. But inside the season, it's very difficult.

I would say there's a couple of markets, thinking of South Africa, Australia that have been significantly impacted by FX. Of course, they're in their off season as well. But certainly, in those markets, we're working on taking price.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

On commercial and hospitality pool exposure, did you witness any surprisingly positive maintenance given they are closed or empty?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

Not that we have seen yet. I mean you saw the results for the first quarter were very strong, really driven by some new projects that had taken place in certain geographies.

There -- as I've mentioned earlier, I think the long-term prospects for commercial are more muted with aftermarket-driven portion of commercial coming down a little bit as bathing load and usage is down. And then, certainly, I think it will see a reduction on the implementation of new projects.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Is U.S. Commercial Pool open as of today, impacts from social distance?



Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I would put a couple of comments here. Yes, our U.S. Commercial Pool business is open. As you may recall, we had a business, Fluidra USA or FUSA, that has been in the filter business for some time, and that continues to run.

In addition, we launched in the fourth quarter of '19 our initiative into commercial products. I would say, frankly, it's probably started a little slower than we would have hoped as it's not the ideal time to launch into a new business space. I think in a challenged environment like this, people will be slow to make a dramatic shift.

The majority of the business is aftermarket, and so we're starting to get a little bit of traction in the HMAC or hotels, motels, apartments and condos segment of the aftermarket in commercial. But at this point, I'd still say it's pretty limited.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Does this context create attractive M&A opportunities within the U.S. Commercial Pool segment?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

That would be great. We would certainly welcome an opportunity to invest in a bolt-on in the commercial space in the U.S. as we've mentioned very many times before. We're certainly going to stay vigilant on it and look for those opportunities and hope that they will arise.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question is on dividends. When could we expect you to resume dividends?

Eloy Planes Corts - Fluidra, S.A. - Executive Chairman & CEO

Financial policy, we were able to resume shareholders' distribution based in our 2019 results. But when we saw the uncertainty of this situation, we decided that it was in the company's best interest to put the dividend on hold while we experience this dynamic environment. We aim to return to it as soon as we find ourselves in a more stable environment.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Can you say what the January and February like-for-like performance was in Southern Europe?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

We generally don't speak to specific monthly data in a particular region. But let's just say that our growth was strong and in line with what our yearly guidance would be.

I think clearly, the world's got a bigger challenge with the pandemic. But we were positioned after 3 nice progressing quarters, and the run rate that we had in January and February universally with double-digit sales growth and excellent leverage to prove -- to show a stellar quarter. So Southern Europe was a piece of that, and we had seen nothing but good progress in that region prior to the pandemic.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question. Are you experiencing any deflation in raw materials? Could this imply some price decrease?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

We saw some minor deflation on first quarter on some of our raw materials, and we expect that to continue into the year due to the environment. But clearly, we have no plans of doing any sort of price decreases.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Could you be more precise on the 20% drop in April by geographical areas?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I'll give you a little bit more flavor. But again, we don't provide specific monthly data by country. As I mentioned in the results, prepared remarks, we saw continued strength in countries like Germany, the lockdown measures were less. As France came out of lockdown measures earlier, let's say, Spain, we saw a quicker bounce back. Spain lockdown persisted for most of the month of April with some gradual easing in the last couple of weeks. But Italy, for example, was still almost 100% closed as well as South Africa.

In other markets that, again, the lockdown wasn't quite as strong, let's say, places like the States or Australia, in the States, we didn't see as severe a fall as we did in other markets, but we still had a number of states, New York, New Jersey, Michigan, Pennsylvania, where building was not allowed and so had impact on demand.

Australia also was a market that, frankly, it's had a little bit weaker evolution, let's call it, pre COVID as the market in general has kind of been flat to slightly negative, where some restrictions probably put them more on the overall fleet average. So hopefully, that gives you some color.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question follows same tune as to May. Can you give more information about the recovery in demand in May?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

Well, it's pretty early, I think, to give full color for May. But again, as we keep mentioning on the residential segment in particular, it's not like the restaurant industry or things like that, that come back at partial capacity. As we see the business come back, it's coming back with strong demand.

So I think the question is more about how long will the lockdowns take place, then the demand. The demand seems strong for certainly Q2, let's call it, a compressed season, but a strong season with lots of people forced to be sheltering in place and therefore, taking advantage of their gardens and their pools. Q3 and Q4 is probably more a question mark in our mind.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Next question is about synergies. You have almost achieved 50% of the target for the year with less than EUR 1 million in costs. Any change versus your guidance in the strategic plan?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I feel like it's a little early to change any guidance. Certainly, we're feeling optimistic about where we are. And remember, a good bit of the synergies that we're now generating at this point are based on our manufacturing costs and supply chain, and so those will be volume impacted. So we're



very comfortable with the number that we've shared with the market despite the fact that some of the volume may be a little less than we were counting on at the beginning of the year.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

On to the next question. What is the impact of leasings in EBITDA? Your IFRS 16 debt increased but does not seem to be the case in P&L impact, looking at the cash flow you provided.

Xavier Tintoré Segura - Fluidra, S.A. - CFO

Yes. Basically, the IFRS 16 impact for leases is roughly around EUR 6 million in the quarter. Not materially different as you point out in the question, not materially different to prior year, even though net leased debt -- the lease -- capitalized lease in the balance sheet is higher. This was due, as I have mentioned in my speech, due to the fact that we, in 2019, late 2019, we renew an agreement for some of the key manufacturing plants that we have in Spain roughly at the same cost as there was an increase in cost but moving the commitment that the company had from less than 1 year to over 10 years. Therefore, no impact on the P&L but impact on the balance sheet for those increased number of years.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Could you please quantify and provide with a geographical breakdown, Spain, U.S., et cetera, of the top line growth recovery you point out for late April or early May?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I think we've probably covered this one at this point, Luis. I mean again, I think the key is the level of lockdown. Southern Europe was the most dramatically locked down and therefore, had the largest impacts. And as it come off, had come off quickly as people try to ramp up for the season.

So if you think about it from our business perspective, in Northern Hemisphere -- and the pool season really just starting after Easter, so it hasn't been that much time that's launched. So it's kind of a hurry-up offense to get back in the game.

But it's really country by country, as I mentioned earlier. Italy still mostly locked down for all of April, just really beginning to open up now. South Africa, the same thing. France, a little ahead and Spain, somewhere in between.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

How do you see distribution inventory levels in Europe and the U.S.?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

They're different really market by market. So I think in the U.S., most of the distribution has been pretty bullish to keep pushing forward and be prepared for the season.

As I look to Europe, you've got really a mixed bag, especially as it relates to the end of March and April, meaning that in some cases where the lockdown was so severe, there was nobody there to actually receive products. So in those cases, you see customers hurrying up, trying to make sure that they have all the availability that they need for the season. So it's really mixed country by country depending on the level of lockdown.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Could you give more light on the expectation of new construction performance in Q1 and expectation during the year?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I think new construction performed very well in Q1 in the Northern Hemisphere. As you go to Q2, I think the picture is less clear in Europe than it is potentially in the States.

In the States, what we've seen is strong lead demand even in the month of April depending on the market unit. We've got markets that are -- Florida, Texas, where lead generation has been at record levels; and other markets where new construction has been virtually closed, Pennsylvania, Michigan, where it's obviously significantly less.

So all in all, in -- for the States, we feel like Q2 will be strong in new construction based on backlog and the leads that have come in. The question in my mind is really, what's going to happen in Q3 and Q4 once somebody finds out that they can't get a new pool based on the strong demand in Q2 until it's really going to impact their season in '21.

So hopefully, what we'll see is the demand stays strong because nobody will want to miss the opportunity to have the pool for the next season. But on the other hand, there's the recessionary environment that may counterbalance that.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Given the cost flexibility and cash reduction measures in place, it appears we should expect limited operational gearing on the 20% April decline. Would circa 20% be appropriate? Could you quantify what was the operational gearing in March?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

Yes. We don't comment on monthly results or monthly gearing. I think we have provided, as part of the speech, the guidance that -- around 35% to 40% of our cost is variable and 60 -- the remaining being fixed cost. And we are targeting some cost reduction initiatives in order to reduce that, in order to improve the operating gearing, but we don't really comment on March or April. I think the situation is still too dynamic, and we are doing -- we are taking all the actions needed in order to protect the business and serve our customers.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

What is your best assessment on how much of the demand pickup post lockdowns is pent-up demand versus due to a new structural trend of people focusing more on own homes and pools?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

It's a great question and frankly, wish we had more color on that. I think you can tell by the tone of our speech. I mean we're fortunate to be in the space that we are. We're fortunate to have a product that helps enhance the home environment. And it looks like there's, at least for the mid to long term, an underlying cocooning effect that's very positive.

So we'll have to see to the ability that, that offsets some of the commercial challenge that we're going to face. But it's impossible for me to say what is pent-up demand versus already the beginning of the cocooning effect. Both are definitely happening. Both are happening in Q2, but we remain optimistic based on what we're seeing.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Do you expect any further structural changes in customer demand trends or in Fluidra's way of operating on the back of COVID-19?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

I think there's 2 factors here, one on the product end and another on how people buy. So from a product perspective, like we mentioned, sanitation products have a huge interest that people want to make sure that their pool is a safe environment.

The other thing that we continue to see right through the crisis is an increase in demand for connected products. So IoT or connected pool continues to grow at a rapid pace. People want to understand what the quality of the water is. They want to be able to manage their pool remotely to make sure that it's good to go. So we want to continue and invest into those areas.

I think the other question is really about how does it impact the way that people buy. Certainly, online channel for plug and play type products like cleaners and chemicals, has been very robust during this time. But we're also seeing people adapt really quickly with kind of click and collect or call and collect type of orders, and I think we'll see more and more of that as the future evolves.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Could you provide a monthly breakdown of second quarter 2019 sales? Was April, the largest contributor to the second quarter?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

No, April is the smallest month in the quarter. As the season in the Northern Hemisphere, starts to pick up, we have increasing sales from April to May and then we peak in June.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Could you tell us more about the COVID-19 sanitizer in water treatment?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

There's been a number of studies done internally and externally about how our properly sanitized pool manages viruses. What I would refer you to, if you would like to really get into the details, is to our white paper, and we'd be happy to provide that to you. But as both internal and external experts have shown, properly sanitized pool kills viruses.

And so although I cannot say that we particularly looked to COVID-19 virus, every indication of where that virus stacks versus other viruses that have been looked at in history say that our properly treated pool kills the virus.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Can you explain the cocooning effect a bit more? Is it clearly identifiable? Could you quantify it?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

Can I quantify it? I'd like to say yes, but maybe not ever. We'll see. I can give you a focus group of one, having a couple of kids locked at home and looking for opportunities for something for them to do. It says if you've got an opportunity to get them out of the house and into a pool, into a safe environment where they can play, it's a great relief.

And frankly, we're seeing that already. We've seen it before in our time. And so when people are sitting there looking at taking a vacation to Europe or the States versus investing in their backyard, when they can't travel, the investment in the backyard environment goes up.

So we would certainly expect that for sure in the mid to long term. I think part of the pleasant surprise is that we're seeing it earlier in markets like Germany.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Do you expect any increase in client payment default given current trading conditions?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

We don't expect any material change to payment condition from clients. As you have seen, we have had an increase in our provision for bad debt in the quarter but not that material. I think it's important to comment a couple of topics.

We are an important supplier to our customers, and they do the most to come to terms with us because they basically need our equipment in order to bill their hours, and that provides us a very good protection, as we saw, and this was legacy Fluidra, as we saw in the great financial crisis of 2019, just to give you a point of reference in the worst year of that crisis. But the provision peaked at 2% of sales, a little bit below 2%. It's actually 1.9% of sales.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Approximately what percentage of Commercial Pool business is maintenance?

Bruce Walker Brooks - Fluidra, S.A. - Co-CEO & Executive Director

The Commercial Pool business maintenance impact is similar to the overall global market. So we would say 75% plus of the commercial pool market would be maintenance.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Have you had any discussions with rating agencies? Do you expect pressure on your ratings?

Xavier Tintoré Segura - Fluidra, S.A. - CFO

Constant communication with the rating agencies, and they do their job, obviously, taking a look at how companies evolve and what expectations you have for the future. I don't expect any pressure on those ratings based on how we are seeing the year. But obviously, it's a little bit too early to assess how things would evolve. But we were well positioned with the profile of cash generation, deleveraging the company. So in a sense, we were positively positioned with the rating agencies as we were looking for the future before the COVID impact.

Luis Boada - Fluidra, S.A. - IR, Corporate Communications & Business Development Director

Thank you all. This marks the end of today's presentation. We will be happy to follow up with further questions off-line. We thank our speakers and participants. As always, please feel free to reach out to our Investor Relations department for further inquiries. Have a good day.

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