

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

FLUI.MC - Q2 2020 Fluidra SA Earnings Call

EVENT DATE/TIME: JULY 31, 2020 / NTS GMT



## CORPORATE PARTICIPANTS

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

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

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

**Xavier Tintoré**

## PRESENTATION

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

Good morning, and welcome to Fluidra's 2020 First Half 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 CEO; and Mr. Xavier Tintoré, our CFO.

Due to the special 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 its entirety in Spanish. You can select your preferred option in the drop-down menu at the bottom right of your screen.

(Operator Instructions)

Today's presentation is accessible through our website, [fluidra.com](http://fluidra.com), and was uploaded a couple of hours earlier to the CNMV as well. The replay of today's presentation will be made available on our website shortly after we finish.

You might have noticed that as part of today's quarterly results, we have also included a file containing our historic KPIs to-date. Going forward, this file will become part of our quarterly deliverables as we keep on aiming to provide you with the most meaningful information in an efficient manner. We appreciate your feedback so we can continue to learn and adapt.

Let us then start with the presentation by opening the floor to Mr. Eloy Planes.

---

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

Thank you, Luis. Good morning, everybody, and welcome to our 2020 first half earnings presentation. I hope you are all safe and sound.

We have been living unprecedented times over the course of this year and a lot has changed since we presented our first quarter results. I would like to start by thanking our people again, all of whom have demonstrated great commitment to our customers. Our teams have proactively responded to the challenge with extra effort and speed, strengthening our business while maintaining utmost care for the health of our employees. Thank you to Fluidra's entire global team for adapting quickly and in exemplary fashion, demonstrating our learn and adapt value.

As soon as confinements were over, mostly at the end of April, the 2020 pool season was able to fully kick off and has since been very strong. Our global footprint helped us deliver growth in the quarter yet again. The month of May, and especially June, show a spectacular recovery from April's lockdown-challenged performance. The underlying Brazilian and robust residential demand, combined with the favoring stay-at-home effect, meant excellent progression in the trading conditions during the second quarter. We stand ready should there be further resolutions and lockdowns.

Our intrinsic equity story pillars remain unchanged. We continue executing synergies and value initiative to drive margin improvements. This fact, combined with the implementation of measures to reduce fixed OpEx that we commented in our first quarter earnings call, successfully helped us enhance our margins and cash generation.

We have an excellent cash generation profile. By constantly reducing our financial leverage, we provide the company with improved flexibility for accretive M&A as well as further potential for future dividend.

As Bruce will share with you in a few moments, July business, drillings continue to be excellent and our perspectives for the year and the future in general are very encouraging. Having said that, the situation remains very volatile due to the pandemic. We remain cautious and ready to keep executing our strategy.

At this point, I give the floor to San Diego where is Bruce, our Fluidra CEO, who, along with our CFO, Xavier, will provide a deeper look at the 2020 first half figures and outlook.

---

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

Gracias, Eloy. It's a pleasure, even if virtually and quite early in the morning, for me as I'm currently based in our California offices, as you just said, to be with you to share our first half results. Hopefully, like Q1, we will not have any technical interruption with this format.

I will start with comments on our overall performance and highlights for the quarter and then turn it over to Xavier, our CFO, to provide more details on the financial results. I will then return to provide some color on our outlook.

The numbers you see on Slide 5 are the 2019 and 2020 financial highlights for January through June. Our global platform demonstrated its value again as North America and parts of Europe displayed strong growth, which compensated for COVID-19-driven slower Southern Europe and Rest of the World.

In the first half of 2020, sales grew 2.8%, adjusted for currency and perimeter, to EUR 771.3 million compared to the same period in 2019. What an extreme quarter. We achieved record sales in May and June after a record decline in April from the fallout of the government-mandated lockdowns around the world.

Adjusted for currency and perimeter, EBITDA and EBITA growth clocked in at 10.2% and 13.5% to EUR 169.4 million and EUR 138.7 million, respectively. Both measures showed strong operating leverage despite a challenging mix, fueled by measures to reduce OpEx in addition to cost synergies delivery and read-through of our value initiatives.

Cash earnings per share grew 21.4%, adjusted for currency and perimeter, based on the aforementioned positive EBITA growth compounded with lower interest paid due to the start of the year's debt repricing.

As for operating net working capital, we ended the period 12.2% lower from the same period last year, on an FX and perimeter adjusted basis, at approximately EUR 347 million, improving the ratio to sales by an impressive 490 basis points.

Our net debt and net financial debt stood at approximately EUR 738 million and EUR 619 million, respectively, having decreased 14% and 17.7%, each on a constant FX and perimeter. The decrease in net debt was driven by superb cash generation, reducing the EBITDA ratio 1 full turn compared to the prior year to 2.2x.

We also achieved full year run rate synergies of EUR 35.1 million, up almost 70%. Achievement of synergies continues ahead of schedule, and we look at our full year EUR 36 million run rate target with confidence.

Moving to Page 6. Given all that has happened over the last quarter, I would like to emphasize how our organization has reacted with great agility to support our clients while setting processes and implementing measures that minimize the pandemic's risk to our staff.

As Eloy mentioned, we need to thank the entire organization as they have and still are performing their jobs during these uncertain times in exemplary fashion. Truly, well done.

We take the safety of our employees and partners with the highest priority. We've implemented several measures to protect our teams such as making available adequate PPE, split working teams and contagion protocols.

From a sales perspective, April was the worst hit month due to the confinement in several countries, with revenues down close to 20%. Southern Europe was the most impacted area. Nevertheless, May and June changed the tendency as confinement measures were lifted. The stay-in-home effect boosted our sales to achieve this 3.8% growth in the quarter stand-alone. Due to the pandemic, investments in residential pools has become a higher priority for homeowners, demonstrating again the resilience of our industry.

As to operating expenses, we quickly introduced measures in the different geographies to reduce the fixed component and have gradually returned to the pre-lockdown expenses as the business have resumed.

Moving on to supply chain. We had some impact. In the months of March to May, our factories or those of our strategic suppliers faced sporadic closures for a period of about 1 to 2 weeks in total, which meant lower output and higher transportation costs to serve our customers. This, combined with the strong business activity in May and June, also meant some level of inventory shortages.

We maintained our small bolt-on accretive M&A strategy during the period with the purchase of Aquafive. Aquafive is the exclusive distributor of Zodiac in the Benelux region. So through the acquisition, we aspire to integrate our Belgian businesses and, in doing so, to become the best supplier to the Belgian market. This move provides us with a broader customer base to offer our full Fluidra catalog.

Turning now to Page 7. You see the sales evolution by geography. During the 6-month period, global sales grew 2.4% compared with the same period of 2019. Stand-alone Q2 sales grew 3.5% and an even higher 3.8% when adjusted for currency and perimeter. Our global footprint helped us compensate for the uncharacteristic sales decrease related to the coronavirus lockdowns we saw in certain areas.

Southern Europe experienced a stronger evolution of sales in Q2 compared to Q1, particularly during the month of May and June. After a weak April, which saw a 25% decrease, the region experienced currency improvement or adjusted decline of 0.6% in Q2 and negative 5.3% in the first half of the year. In general, we saw mixed performance in the region, with France growing at mid-single digits and Spain and Italy playing catch-up after their longer consignments. This region is active in commercial pool, which faced a slower market, significantly impacted by the pandemic's closure restriction, reduction of travel and leisure.

The Rest of Europe continued to deliver stellar results growing 22.8% in Q2 on an adjusted basis, driven by outstanding performance in Germany and Eastern Europe, both less impacted by confinement measures in the first half of the year. This area saw adjusted growth of 18.2%.

North America once again came through with double-digit growth of approximately 11% in the first half of the year. Residential Pools' large aftermarket-led base was reinforced by favoring trends of good weather and stay-at-home. Like Southern Europe, this area experienced a weaker April due to COVID-19 with a 9% decrease in sales, followed by double-digit growth in the rest of the quarter, with strong momentum into July. Q2 sales grew close to 5% in North America for the second quarter stand-alone on a constant currency and perimeter basis.

The Rest of the World had currency and perimeter-adjusted decrease of 5.8% in the first half of the year and 15.8% on the quarter stand-alone. The negative result was driven by the effect of COVID-19, particularly on the Commercial Pool segment, which represents a larger portion of the revenues in this area. This, combined with the fact that it was still the low season for Southern Hemisphere, but we were yet to experience the cocooning effect. This overall performance demonstrates the continued resiliency of our business in the face of this unprecedented challenge and our belief in the continued strength of our market fundamentals.

Next, on Page 8, we see the evolution by business unit. Residential Pool is our largest segment and accounted for 74% of Q2 sales, growing close to 10% for the quarter, supported by pent-up demand and encouraging signs of the cocooning effect. Growth was led by above ground pools, automatic cleaners and heaters. This segment is up 6.3% for the first half of the year.

As expected, Commercial Pool was significantly impacted by confinement measures related to the hospitality sector with a quarterly decrease in sales of around 30%. This decrease is attributed to the confinement, the resulting reduced usage of existing pools and the stalling of new projects. This business unit saw a 11.7% decrease in the first half of the year compared to the same period last year. It is important to point out the impact of this decrease on the overall business is limited as this business unit only contributed about 8% of our full year in 2019.

Pool Water Treatment shrank 1.4% for the quarter. This business unit saw a good performance of the water care equipment segment, which was offset by a weaker evolution of chemicals. Chemicals have a greater relative weight towards Southern Europe, so the longer lockdowns had a negative effect on sales, which are now recovering nicely.

The Fluid Handling business shrank 4.4% for the quarter also as a result of the fallout of COVID-19 and its relative weight towards Southern Europe.

In summary, our global footprint helped us deliver robust growth despite a challenging environment, together with excellent cash generation. 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 will turn it over to Xavier to explain the financial results in more detail before I come back to you on our outlook.

---

### **Xavier Tintoré**

Let's turn to Page 9 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 charges identified on one caption. In addition, in the appendix, you have the reported P&L with all the nonrecurring expense properly classified by nature.

Let's now comment on the profit and loss account for June. Sales growth of 2.4%, that is 2.8% adjusted for currency and perimeter, impacted in March and April by the COVID pandemic lockdowns and with a strong recovery in May and June, as Bruce has explained.

Gross margin reached 52.1%, 40 basis points higher than prior year, driven by price increases and positive impact of cost synergies, partially offset by mix as the first half sales include much more gas heater or above ground pools that carry slightly lower margin and less commercial pool that delivers a slightly higher gross margin than company average.

Operating expenses of EUR 229.7 million with a decrease of 2.4% show the impact of our cost synergies and the measures implemented to reduce fixed OpEx due to the pandemic, offsetting one-off costs associated to COVID-19. The reduction of people, travel, consulting and other discretionary cost items is worth EUR 9 million, but is partially offset by some EUR 2.2 million incremental costs associated to running the business under COVID-19, which include, amongst other, some costs linked to supply chain challenges.

Provision for bad debt is EUR 4.2 million or 0.5% of sales, with an increase of nearly EUR 2 million over the last year, driven by some collection issues in Middle East, Australia and Northern Africa.

EBITDA reached 190 -- EUR 169.4 million, with an increase of 10% driven by the higher sales volume and higher margin on the lower OpEx base. EBITDA margin reached 22.0% with an improvement of 160 basis points over prior year. Of this margin improvement, 60 basis points came from the net impact of COVID-19 OpEx measures and 100 basis points come from improved performance.

EBITA increased by more than 12% and margin reached 18% of sales. Below the EBITA line, the decrease of amortization, which is associated to M&A and mainly to the Zodiac merger, is driven by the natural decrease of these intangibles.

Nonrecurring expense showed a very significant decrease as we have expensed approximately EUR 10 million less than prior year in integration costs and also stock-based compensation is EUR 3 million lower than in 2019. The most significant item reported under this line now is stock-based compensation with close to EUR 4 million.

Net financial results is EUR 21 million or 18.6% lower than 2019. The decrease is driven by lower interest expense as a result of the repricing that we did at the beginning of the year. As expected, the negative impact of currency that hit Q1 turned favorable in Q2, but currency has a still negative impact in the first half.

As a result of higher volumes and margins on lower expense base, lower nonrecurring expense and lower financial charges, net income reaches EUR 54.9 million in the semester compared to EUR 28.8 million last year, an increase of more than 90%. As indicated in our Q1 call, we revised our disclosure materials and 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, which is purely purchase accounting-related, and other noncash costs that impact materially our net profit and EPS calculation.

Cash net profit reaches EUR 84.3 million with a 22.7% increase, driven by higher net income and the difference between net financial results in the P&L and cash interest paid.

Page 10 shows the evolution of net working capital for the group. Operating net working capital reached EUR 347 million or 25% of LTM sales, an improvement of almost 500 basis points to prior year. Inventory drives a significant part of that improvement, which is partially due to management decisions and partly impacted by COVID-19 as some of our plants or our suppliers' plant had to close for 1 or 2 weeks during this first half.

Account receivable shows also an improvement, driven by better geographical mix and good collection patterns in North America and Europe. This was an area of concern in our first quarter call and we have been positively surprised by the evolution in the second quarter. We are operating in a strong and healthy industry.

On the earn-out front, there is a significant reduction as we have paid some of our historical earn-out with Waterlinx in South Africa or Idegis in Spain. Of the outstanding short-term amounts, Fabtronics is the most significant one.

The following page shows the free cash flow statement for the semester as well as the net debt evolution. From an operating cash flow perspective, the company has generated EUR 66 million, that is EUR 64 million more than last year, driven by better results and lower consumption of net working capital. On the investment section, there is a significant swing as during 2019, we cashed in the sale of Aquatron, and in 2020, we have completed the acquisition of Fabtronics and paid some earn-outs. I want to point out that CapEx shows a decrease from EUR 23.3 million to EUR 16.8 million due to the COVID-19 measures.

With this great performance, net financial debt reached EUR 619 million, showing a decrease of EUR 121.1 million to prior year. This is a 17.7% decrease if we adjust for currency. Net financial debt leverage ratio reached 2.2x compared to 3.2x in 2019, a reduction of a full turn in 1 year.

If we look at total net debt, the results are also excellent. It reached EUR 738 million, which represent a ratio of 2.7x EBITDA compared to 3.7x in 2019. Again, a full turn of reduction in the last year, great performance.

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

---

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

Okay. Thank you, Xavier.

Talking about our outlook on Page 12. July is the most important month for the second half of the year and our initial figures continue showing double-digit revenue growth. With this strong momentum, we are expecting a strong finish to the 2020 Northern Hemisphere residential pool season in Q3. Our views for the full year, COVID-19's lockdown resurgence aside, is to continue to experience growth but with the contrasting dynamics of a strong residential pool market and a weaker commercial one.

Aftermarket was the main driving force for the Northern Hemispheres' business in the first half of the year. Looking a bit further ahead, we expect continued aftermarket strength on what could be a longer-than-normal season together with growing momentum for new builds and as pool

professionals play catch-up during the latter half of the year. Backlog and new construction leads continue to be very strong and they accelerated through the quarter. We remain cautious and acknowledge that the unfavorable macro could adversely impact spending for future new builds, yet for the time being, the situation seems promising as potential pool owners tend to be mid- to high-income earners less impacted by the pandemic at this point in time.

We are also expecting an encouraging kickoff to the 2020 Southern Hemisphere residential pool season with similar stay-at-home-driven demand as the Northern Hemisphere experienced, but continued weaker performance of commercial pool as long as the hospitality sector remains impacted by COVID-19's implications. With all these elements in mind, it is safe to assume that we should continue the same positive growth trajectory in the absence of further lockdowns.

Moving down the P&L, we will continue executing our play, delivering margin expansion. We are confident on our cost synergy plan of a full year EUR 36 million run rate target as well as continuing our value improvement initiatives. These plans will more than offset ongoing challenges of mix from both products and countries. In the absence of further COVID-19 lockdowns, it could impact our activity. Operating expenditures will track close to pre-confinement levels. All reduction measures such as temporary layoffs and furloughs have finished and compensation for most of the team was reestablished as of July 1.

So with that, back to the Chairman to put a bow on our first half results.

---

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

Xavier? As you have seen from today's presentation, we are experiencing very encouraging trading trends so far. We are positive about our overall results in the first half, following a solid second quarter delivery and expect a strong finish to the 2020 Northern Hemisphere residential pool season. Besides, preliminary data for July points to maintain double-digit sales growth. However, we must remain cautious going forward as we are in a dynamic situation and cannot rule out a potential COVID-19 resurgence in any of our major geographies.

The company has emerged from second quarter stronger and stands ready to face these type of situations, while our intrinsic equity story remains exactly the same: Brazilian double-engine market, combined with our leading platform, enabling growth through customer collaboration; and significant margin expansion, combined with a strong cash conversion, which drive excellent return on capital. In addition, we are well positioned to ease -- to seize further consolidation opportunities in a fragmented market as we recently did with Fabtronics and Aquafive.

Thank you for joining us today and for your continued interest. I hope you all stay safe. And with that, I will turn the call back over to Luis to begin our question-and-answer 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. (Operator Instructions)

First question. How much in your assessment did the pent-up demand impact Q2?

---

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

The pent-up demand in Q2 is a difficult one to answer. I think there's a few dynamics going on right now. Obviously, we've got the downturn in commercial. We've got the positive impact in cocooning. And then we've got the benefit -- the pent-up situation coming out of April. So I really think it's a mix of those 3 things and it's probably too early to be specific to how much really is impacted on that particular aspect.



---

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

Your key U.S. distributor reported 6% for Q2 and your key U.S. competitor showed flattish growth. How do you see the level of inventory at distributors? Any stock up? And how do you expect this to develop in the second half?

---

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

It's a good question. The question on inventory is a good one. I think what you can take from the reads of the public distributors that sell through in the market is very strong in the U.S. And certainly, we're playing catch-up. The other manufacturers and ourselves are playing catch-up, which leaves everybody to believe that inventory, at this point in time, and all our data shows that inventory is pretty clean. So it's in a very good position right now.

---

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

You mentioned in the slides the momentum of new builds. Are those new build pools into existing homes, i.e., families building up pools in their existing gardens or into purely new homes?

---

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

So new construction is important to our overall business. It's still below the long-term historic peak, but new construction doesn't generally happen with the build of a new home. New construction in our industry has always been driven by homeowners adding a pool at a point in time for the family to enjoy. So that trend is, if anything, accelerated by the cocooning effect or the stay-at-home. When -- I think that the kids are driving everybody crazy and families are looking for outlets, and pool is, fortunately for us, become one of those target outlets.

---

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

Could you give a bit color on how much you have benefited from short-term schemes such as furloughs and short-time work in Q2? And how should we think about it into H2?

---

**Xavier Tintoré**

Yes. I think we mentioned that during the presentation. Really, the reduction of people, travel, consulting and other discretionary costs during the first half was around EUR 9 million. And this was partially offset by some one-off cost of around EUR 2.2 million associated basically to running the business under the COVID scenario with, I would say, a special one, of course, associated to supply chain challenges and an increase on also bad debt. So the overall impact is around 60 basis points of margin improvement.

And as to how much of this we should see on the second half, as also Bruce pointed out, with the level of activity that we have at this point of time, most of those OpEx measures have -- were -- have been canceled and we will return to almost normal levels. So from a people-related, we have our teams fully working. Compensation is back to normal levels. We'll probably see still some savings on travel, but also some one-off cost on supply chain challenges. So I think we are back, more or less, to normal level.

---

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

Given social distancing measures are likely to remain in place for some time and individuals may be reluctant to travel, will you look to de-prioritize or reduce investment into the commercial area?



---

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

We know that commercial will be under pressure during this time frame. We still feel like commercial is a significant opportunity for our company over the long haul. And so we will continue to pursue commercial. We launched commercial -- launched a commercial business unit in North America, for example, in Q4 of 2019. As you would expect in this environment, it's off to a slower start than we would have hoped, but we have so much room to grow over the long term in this space. We're going to continue to pursue our path.

---

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

Next question was on dividend. Since we're generating so much cash, what's the stance on the -- of the company as regards to dividends?

---

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

As we disclosed in our last Capital Market Day, on a stable outlook, our capital allocation priorities are dividends and bolt-on accretive acquisitions.

On bolt accretive acquisition, you have seen that we were talking about doing between EUR 10 million to EUR 25 million annually. And you have seen this year already 2 acquisitions in small ones in the -- at the beginning of the year.

And on dividends, the range that we were talking in a stable outlook were between EUR 30 million to EUR 50 million annually. Dividends were put on hold due to uncertainty around the pandemic situation, but has since improved, beating our expectations. I believe that if we continue with these trends, you could expect the Board of Directors to resume them.

---

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

If there are no additional lockdowns this year, do you think results would likely be above your pre-COVID expectations for the year?

---

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

The pandemic has created, I think, a very dynamic and volatile world that calls for prudence. So I understand the question and the qualifier. So bottom line is we're not giving specific targets at this point in time.

Our prospects for the full year are promising. Our top line is following the right trajectory with an encouraging outlook for the second half. As I mentioned in the speech, July is really the most important month of the second half. And with one day to go, it looks very strong. And in fact, I'll tell you, July will be 15% or north of 15% growth for the particular month.

The challenge that we see right now in giving more specific guidance is there's multiple dynamics going on. How much is driven by catch-up, how much is driven by stay-at-home and then we've got the counterbalance of the tough situation inside of commercial. So before I really want to answer that one, I think we need to see some of these dynamics stabilize a bit. But bottom line, we feel very positive about our trajectory.

---

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

Now that pools are open, do you think pool professionals would be treated differently under a second wave? If the second lockdown happens during the winter when the pool professional isn't working, would it have the same impact on your business as it did in the spring?



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

It's an interesting question and I'm not sure I have a strong point of view. My personal belief is that if lockdowns happen, it will happen in a way that wasn't as severe as what we faced in April, but I think that's really yet to be seen, depending on the severity.

The comment on winter is interesting, the winter impact. We haven't seen the same level of impact in Australia and South Africa of the business getting the benefit of the cocooning. On the other hand, we have a tremendous amount of our business which comes in places like the Sun Belt in the U.S., which I think will continue to run. So it's -- that one is pure speculation at this point.

---

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

Help us understand the sustainability of the new construction pipeline. POOLCORP seems to think it can last into 2021. Do you agree?

---

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

I think the new construction pipeline is quite robust. As POOLCORP mentioned and as we've seen in the States, it is -- most of our builders would say that they are totally full up until November. Some are even reporting that they are full until the beginning of next year.

And I'd say this is not a U.S. phenomenon. We're seeing the same type of trends in France, in Germany, in a number of our markets across Europe. So I would say that trends are very encouraging. It looks like it would continue into '21.

And again, hate to say it, but the macro situation can change dramatically and quickly with COVID but -- as we've all found. But right now, it looks very positive.

---

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

The cocooning effect we have seen in 2020 could persist into the years ahead. And if so, does it change your product or distribution strategy?

---

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

Again, a little bit of a personal feel on this one, but I feel like the trends are there. I think people are looking to have an alternative to city life, head more to the suburbs, more time with the family. I think these are some of the longer-term trends that will come out of COVID. So I do believe that this will help on the new construction side as long as the macro doesn't really distinguish that backdrop.

So I feel like these are things that are going to continue on time. This is something that's been important to Fluidra. We're very strong in new construction. It doesn't -- it will not change our approach, but it would certainly provide some tailwind for us if it could continue.

---

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

We have a question as to the growth experienced in July. Is it backed by aftermarket or new pools?

---

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

I think what we're seeing in July is robust performance across the portfolio. So where -- in second quarter, I mentioned that I believe that the results were all more driven by aftermarket as there's just limited capacity to increase new construction in the heat of the season. In Q3, we're seeing it be more broad-based. So I think the new construction piece is starting to kick in.

---

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

Could you provide an indication on the synergies expected for the full year 2020 given that you have broadly delivered your initial target already in the first half?

---

**Xavier Tintoré**

As mentioned during the conference call, we feel pretty good about how we are executing on synergies. We are a little bit ahead of schedule but -- and we continue to track towards that target that we shared with you at our last Capital Markets Day of around EUR 36 million at year-end.

---

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

What was the weighting of -- relative weight of July in the second half of last year?

---

**Xavier Tintoré**

Yes. July is an important month in the -- it's almost the end of the season in the Northern Hemisphere. And it's, as pointed out, a significant month. It represents more or less around 20% of H2 revenues.

---

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

What do you expect about bad debt's evolution during the second half, taking into account an unfavorable economic environment?

---

**Xavier Tintoré**

As I mentioned during the call, I think that this was an area of concern when we started to see the evolution of the pandemic back in Q1. The performance that we have seen in the second quarter has been very, very good and very solid, and we feel very good about the evolution of collections in the remainder of the year. And we expect normal evolution in the second half, aligned with the historical practices.

---

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

Are you seeing signs that the pool season will be extended this year?

---

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

I think the pool season will, let's say, as long as the weather continues to hold, will be extended. What's really happened is we've got a tremendous amount of use of the existing pool base, and that drives a strong aftermarket. In addition, as mentioned earlier, the backlog for our builders stretches into the fourth quarter or sometimes into Q1. So again, as long as the weather holds, that would signal a continued momentum through the back half.

---

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

Has the business enjoyed any market share gains during this period?

---

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

It's a good and interesting question. I think it's hard to determine during the heat of the season, especially such an unusual season as this one. What I would tell you is I don't believe that we've lost share in any way, shape or form around the world. In fact, I do feel like our broad manufacturing footprint, with a mix of global and regional, has been able to respond well and respond quickly to the surge in demand that we're seeing. So yes, I'm optimistic that we may be gaining a little bit. But for sure, it's a robust market and I don't see that we're going backwards in any way, shape or form.

---

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

Do the owners of above ground pools move towards a traditional demand at some point in the future?

---

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

The question on that, do they move to traditional demand, meaning do they move to residential in-ground? If that is the question, I think the tendency is, over time, once people get a pool in their backyard, whether it's a splasher pool or above ground pool, will ultimately move to residential. They are a great backyard environment for the family, and people tend to step up over time.

---

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

Any update on your 2022 targets?

---

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

I mean, as you can tell from the call today, we're positive about our prospects. Having said that, the current situation is so dynamic and I think it's just too early to make a call on the absolute targets.

What I do think you heard today and then we reinforced today is that our intrinsic equity story remains the same. Once again, this market has proved to be really resilient with the double-engine, new construction and a huge aftermarket installed base. We're probably going to experience some mixed dynamics. I think the cocooning effect will continue, but commercial is going to be tough for a period of time. So the top line, combine that with our leading platform, which aims to continue to take share, we feel good about our prospects on revenue.

Perhaps the single most part -- important part of our strategy really is the margin expansion initiatives. You've seen how successful we've been in driving those. And we're not going to slow down. So we'll continue to work on our value improvement. We'll continue to work on lean. We'll continue to work on pulling synergies through. That delivers strong cash even in a potentially top line-challenged environment, which sets us up for further small accretive M&A activity like you've seen from us over the first half of this year, which we look to continue. So all of these things point to a sustainable return on capital improvements, which is, I think, our ultimate goal.

---

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

Given the strong season, how do you consider the next pricing strategy evolution, both in the U.S. and Europe?

---

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

And then -- I mean, excuse me, Luis, you said price? I just didn't catch that.



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

Price strategy for the U.S. and Europe.

---

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

Okay. Again, I'm going to say it's a little early to determine exactly the price strategy. As everybody knows, this is an industry that takes price. We really do look at it region-by-region. Currency comes into impact. Commodities come to impact. Commodities were a little more favorable earlier during COVID. Now we're seeing certain commodities rise. So I would anticipate a, let's call it, a more normal year versus a recessionary environment for price increases.

---

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

Next question is on M&A. Given the great net debt decrease and also the pressure on the commercial pool, how is the opportunity pipeline concerning M&A opportunities?

---

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

I think, in our industry, the pipeline always ebbs and flows. It's a long-term deal. We have a lot of family-type companies. Relationship is important. So we form these constantly over time. Right now, obviously, commercial is under a bit more pressure. And frankly, on the residential side, everybody is extremely active. So people are busy and happy with the short-term prospects of the industry.

So I would say fairly normal. We've got some positive potentially in the commercial. You've got some negative in the short-term with the residential people being full. But overall, we'll continue to farm these and stay towards the direction that we shared.

---

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

COVID-19 has changed the way business is done. For instance, all swimming pool fairs and trade shows have been postponed. How does Fluidra change its marketing strategy? How digital are you? And how digitalized is the sale process from orders to deliveries? How is this likely to change going forward? And how is competition on digital?

---

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

I think this is a complex question because I don't think it just involves digital. I think it also involves channel management and IoT.

So in macro, what I'll say is IoT or the connected pool is a space where we absolutely lead. And the pace of growth in connected pools right now is helping to drive average ticket up and is very demanded, especially in North America, as people remodel. So I think we're in an excellent position there.

From a channel perspective, the strength of having arguably 6 out of the top 10 brands and being able to customize our approach, whether it be for different pool professionals or consumers and how they like to buy and where they like to buy, again, I think, puts us in outstanding position.

As far as digital itself, clearly, there's been a push to digital to drive a level of efficiency. And I would say, in this particular case, as we have a longer opportunity to drive more efficiency into our business, I don't think we're really behind in our space, but I don't think we have a clear leadership.

So I think there's 3 components. Digital is one. I would put us in the middle of the pack. I think from a channel perspective, we have a leadership position. And then from a connectivity perspective, I think we're very strong. So the combination of the 3 puts us in good shape, but we'll continue to invest in digital as we look forward.

---

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

What's your view on a longer term as to potential gross margin improvements?

---

**Xavier Tintoré**

I'll take that one. We don't really guide on gross margin specifically. As you all know, our strategic plan was calling for an improvement of 400 basis points in absolute margin at the bottom line, and part of that improvement is coming from cost synergies and pricing that obviously affect gross margin, but we do not disclose the split of how much margin is coming from each component.

---

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

If lockdown return, staycation demand for pools is likely to accelerate. Will you be able to deliver?

---

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

Not sure what they hope for when you say that. Of course, from a global perspective, we hope that lockdowns don't accelerate again and certainly not to the level of what we experienced in April.

With that said, we feel good about our manufacturing footprint. We're trying to manage the company right now in this volatile time to be conservative on OpEx, but be aggressive in inventory. So we feel like we'll be in very good position to continue to handle any surge in demand.

With that said, I think one of the challenges for the industry is really capacity, particularly in the new pool build space. So I think it's less about us and more about the market. In particular, subcontractors, and you think about people like shooting the concrete or the gunite in the pool, is one of the more challenging spaces or limiters right now.

So we feel good about the position that Fluidra is in, and Fluidra will be able to supply surge. Frankly, we'd love to see some additional capacity in the build plan.

---

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

After the agreement with PWT for robot distribution, have you been able to regain some of the lost ground?

---

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

Yes. I'll start that one. And I don't know, Xavier, if you have anything you'd like to add on it.

We've seen really good performance of our robot business to this point in the year. So I guess my reaction to that is, yes, but it is a complicated deal that we have with PWT. It's a dynamic market that's changing. And we're in that process of transitioning out of legacy product that would have come from Aquatron, and in some cases, even Aqua products, moving towards more legacy Zodiac-type products.

And as I look at robots in total, we feel very good about our performance year-to-date. In fact, it's one of those areas where we wish we had a little bit more inventory. So I'd say, overall, we feel pretty good, but there are a lot of moving parts in this particular deal.

---

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

We received an additional question, asking us to be a bit more specific regarding double-digit growth in July.

---

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

Okay. So as I mentioned earlier, we see growth in July being north of 15%, so very strong. I think it's really driven by 3 factors, and it's hard for us to isolate on the factors, which I'm sure is probably the driving force behind it -- behind the question. How much of it is really driven by pent-up demand? How much of it is -- or backlog? How much of it is driven by the stay-at-home phenomenon? And then again, we've got the challenge of commercial, which, as you saw in Q2, was severely under pressure.

So my belief is as we -- as the channel inventory begins to catch up, you'll see that part of the drive come down a little bit. I think the stay-at-home will continue to be strong. And I think commercial will stabilize at a rate that's below what you saw in Q2.

---

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

We have not received further questions. So this marks the end of today's presentation.

We thank our speakers and participants. As always, please feel free to reach out to our Investor Relations Department for further queries. Have a good day.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.