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FLUI.MC - Full Year 2020 Fluidra SA Earnings Call

EVENT DATE/TIME: FEBRUARY 26, 2021 / 10:00AM GMT

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PRESENTATION

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

Good morning, and welcome to Fluidra's 2020 Full Year Results presentation. I am Luis Boada, Investor Relations, Corporate Communications and Business Development Director of 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 Tintore, our CFO.

You can follow this presentation in its original English version or its entirety in Spanish. You can make your preferred option in the drop-down menu at the bottom right of your screen.

Today's presentation will include live Q&A instead of online written questions as we already did in Q3. (Operator Instructions)

Today's presentation is accessible through our website, fluidra.com, and was uploaded pre-market open to the CNMV as well. A replay of today's presentation will be made available on our website shortly after we finish.

Let us start with the presentation by opening the floor to our Executive Chairman, Mr. Eloy Planes.

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

Thank you, Luis. Good morning, and welcome to our 2020 full year earnings presentation. 2020 has been an extraordinary one for all of us. We have all suffered the impacts of the pandemic, and I hope you are all safe and well. Many sectors and companies have also suffered, but the pool sector has shown its resilience, capitalizing on the opportunities on the heightened interest in enjoying swimming pools. I'm glad to say that Fluidra has recorded one of its best year ever helped by the commitment of all of our stakeholders.

In these hard times, as Executive Chairman, I feel very proud of our people. I would like then to start by thanking them. They are the key factor behind Fluidra's strong figures. Our teams have proactively responded to discontinued challenge with an extra effort, adapting our company to this new environment and strengthening our business in doing so.

As you know, the pandemic hit us last March, which led us to withdraw our guidance and hold our dividend due to the uncertainty that took over at that time. However, as soon as we were back in business with some degree of normality, we were benefited from the resilience of our sector as well as a strong demand boosted by the stay-at-home effect in the residential pool. We were, at this time, able to post solid first half results. We then experienced a sales record in Q3 with a superb finish to the 2020 Northern Hemisphere residential pool season. Q4 was driven by continued strong levels of demand in the Northern Hemisphere. And on top of that, we received very high levels of Early Buy orders for the U.S., which we could only ship a portion of in 2020, paving the way for a very strong start to 2021.

Besides a very good top line evolution, we kept the focus on constant margin expansion and cash generation, executing basically our plan. As you can see in today's results, the delivery was phenomenal, ahead of the plan. Our excellent cash generation profile sees us at low leverage levels and provide plain, full visibility for capital allocation in the shape of dividends and inorganic growth. We resumed both of this during 2020 with EUR 41 million of dividend paid last October and by making 3 bolt-on acquisitions in the year.

During Q4, we also approved our new ESG plan. We continue with our goal of making Fluidra a responsible company in every way. That's why we have defined our responsibility blueprint, an ESG plan that guides us to reach our objectives. We are convinced about the importance and the need of consistency on ESG matters. The new plan that we will share with you in the next Capital Markets Day is the first after the merge and is another example of the commitment that Fluidra has always shown on this matter.

As I said, the figures we are presenting today reflect the solidness of our business fundamentals. And as Bruce will share with you in a moment, the business outlook remains very strong. Our global leading platform is ready to continue our growth, profitability and cash expansion despite the volatile environment. We remain cautious and ready to keep executing our strategy with very encouraging perspectives for the future.

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

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

(foreign language), Eloy. It's a pleasure for me to join you from Barcelona to share our earnings for the full year period of 2020. Let me 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 December. Our industry-leading global platform continued to demonstrate its value as we saw extraordinary growth in the quarter, chasing the very strong demand in the channel and putting us in excellent position to wrap up this most unusual year. In the 12-month period of 2020, sales grew 11% adjusted for currency and perimeter compared to 2019 to EUR 1.488 billion. Q4 was great quarter with double-digit sales growth.

For context, I think it may be helpful to remind you of how 2020 played out. The year started out with adjusted revenues up 1.3% in the first quarter with strong double-digit growth in January and February, offset by the impact of COVID-19 in March. The second quarter saw weak April where sales were down 25% as COVID-related shutdowns took effect. Sales started to rebound in May and accelerated into a record June when the step change in demand for our industry to truly began, closing with quarterly adjusted growth of 3.8%. In the third quarter, the step change solidified. Sales were heightened by pent-up demand and strong execution, delivering adjusted growth of 25.2% for the quarter. Finally, we maintained constant FX and perimeter growth of 17.3% in the fourth quarter boosted by continued demand momentum in residential pool for both new construction and the aftermarket.

Adjusted for currency and perimeter, EBITDA and EBITA growth clocked in at 19.4% and 29% to almost EUR 321 million and EUR 263 million, respectively. Both measures showed excellent operating leverage driven by gross margin expansion and cost synergies. Cash earnings per share grew an outstanding of 57.8%, adjusted for currency and perimeter, based on the aforementioned positive EBITA growth compounded with lower interest paid due to the debt repricing operation we carried out at the start of 2020 and the natural impact of lower debt levels.

On operating net working capital, we ended up the period 22.1% lower from last year on a currency and perimeter adjusted basis at EUR 224 million, an evolution that exceeded expectations by far and shows the strength of the demand environment. Our net debt and net financial debt stood at

EUR 582 million and EUR 468 million, respectively, having decreased 21.1% and 24.7%, respectively, on a currency and perimeter adjusted basis. The decrease in net debt was driven by our superb cash generation with a resulting leverage of 1.8x net debt-to-EBITDA. This is a full term below last year despite the fact that during 2020, we resumed capital allocation to dividends and completed 3 acquisitions. We also achieved full year run rate synergies of EUR 37.2 million, up 28.1%. We are ahead of plan in cost synergies and very well positioned for our 2021 target of EUR 40 million, another great job by our team in these extraordinary times of lockdown.

Moving Page 6, let me share some highlights from the quarter. We continue to operate with agility in the new normal with the appropriate measures and processes in place to ensure preparedness for resurgence. As Eloy said, we've worked toward a new ESG plan, which has been recently approved. In addition, I'm proud to say that we are the first of our peers to be rated by the CDP organization, proving our commitment with regard to climate change as well as by S&P with a C and a 69 out of 100 rating accordingly. Room for improvement but strong passing grades to start. It's also worth noting that we remain on the FTSE4Good Index for another year.

As for sales evolution, we experienced sustained levels of high demand during Q4. This demand momentum continued with double-digit growth in January combined with a strong U.S. Early Buy that we were unable to totally fulfill last year point to an excellent start in 2021. Lasting macro trends, like cocooning, and even the flight to single-family homes in the suburbs, support the aftermarket and bolstered the strong backlog of new pools. Pool builders in core residential markets currently have a backlog that is more than 2x last year's level and continues to at least maintain and, in many cases, grow as leads for new pools continue to be strong. Most builders in the Northern Hemisphere report backlog into the back half, and many are beginning to report that they are sold out in 2021. Substantial increase in delivery times for new build supports our second growth engine for medium-term and feeds the expanding aftermarket for the long term.

The Northern Hemisphere's traditionally lower-demand quarters now offer the industry an opportunity to make up some of the pool pros capacity constraints. We're even seeing builders' tent backyards in the Snowbelt, so they can continue to work in the winter months. Even in the unusual cold snap that the south of the U.S. has experienced, like in Texas, we'll drive accelerated aftermarket demand as those pools traditionally are not winterized. We're just beginning to scope this challenging opportunity. As governments around the world roll out their vaccine programs, commercial pool activity is expected to start, coming back only in the second half of the year.

Our diverse supply chain footprint and our group of excellent supply experts have kept running in this challenging environment. We experienced marginal supply chain impacts for the whole year as we continue to play catch-up to the strong demand pressure on our inventory levels. Our OpEx level is normalized and we continue to execute our plan, delivering strong results on our important margin expansion initiatives like value improvement and lean.

Lastly, we continue executing our accretive capital allocation strategy with the acquisition of Built Right, a trusted Florida-based manufacturer of heat pumps for around USD 10 million. This move further strengthens the company's position as a leader in the pool and spa heating solutions space and offers very interesting future value-creation opportunities. We are now prime in this fast-growing, energy-efficient segment of the market, allowing us to maintain our claim of the most energy-efficient pool pad, whether using a gas heater with patent-pending flow bypass or a heat palm in combination with our patent-pending VERSAFLO filtration system.

Turning now to Page 7, you see the sales evolution by geography. During this 12-month period, global sales grew 11% compared with the same period of 2019 on a constant FX and perimeter. Stand-alone Q4 sales grew 13.3% and an even more impressive 17.3% when adjusted for currency and perimeter. Our global footprint and product diversification helped us compensate for the uncharacteristic sales decreases related to the coronavirus' lockdown experienced mostly in Q2.

Southern Europe's excellent recovery continued with currency and perimeter adjusted growth of 23.2% in Q4 driven by France, Spain and Italy's strong sales in the quarter and 3.8% in this 12-month period. Our performance year-to-date in Southern Europe is composed of 2 contrasting dynamics: our Residential business experiencing strong growth and the Commercial Pool business negatively impacted by the hospitality sector.

The Rest of Europe continued to deliver stellar results with constant FX and perimeter adjusted growth of 23.7% in Q4 driven by outstanding performance in Germany. In the 12-month period, this area saw adjusted growth of 25%.

North America continued its double-digit growth, up 19.7% and 17.2% on an adjusted basis for the quarter and the year, respectively. Residential Pool's large aftermarket-led base was favored by very good weather and stay-at-home trends. Growth was further supported by continued strong levels of Early Buy and standard orders during Q4. I would like to point out that because of the increased levels normal demand, we prioritized standard order shipments in Q4. As mentioned before, Early Buy orders only started to ship later in the quarter, and we are now in the midst of fulfilling them. Therefore, that momentum is continuing into 2021.

The Rest of the World saw sales growth of 7.4% for the quarter and 0.7% for the year on a currency and perimeter adjusted basis. This area saw a relatively better performance of the Residential segment for the quarter, which more than offset the weaker performance in the Commercial Pool segment. This overall performance demonstrates the continued growth of our business and strength of our market's fundamentals.

Next, on Page 8, we see the evolution by business unit. Residential Pool is our largest segment and accounted for 72% of Q4 and full year sales, up 200 basis points from the prior year due to Commercial Pool's weaker performance. Residential Pool grew 15.1% for the quarter supported by strong demand, favored by the cocooning effect and driven by both the aftermarket and new builds. This segment was up 12.6% for the year.

As expected, Commercial Pool continued to be impacted by COVID-19's effect on the hospitality sector with a decrease in sales of 10% for the quarter and 8.9% tier the year. Hospitality remain weak, some projects resume work towards completion and the pipeline for new projects is soft, but it was partially offset by the Commercial Pool launch in North America, which represented a small piece of our growing revenue synergy.

Pool Water Treatment grew 17.2% for the quarter and 5.2% for the year. This business unit saw great performance of the water care equipment segment, which more than offset weaker evolution of chemicals impacted by the Commercial Pool segment.

The Fluid Handling business grew an excellent 25% for the quarter and 8.1% for the year, benefiting from North America's strong performance and more aligned with the Residential segment and its greater contribution from new builds and refurbishments.

In summary, our global footprint continues to play an integral role in helping us deliver robust growth together with excellent cash generation.

I want to thank our talented team of more than 5,000 employees and business partners for their agility, positivity and sacrifices during these challenging times. To move from shutdown to full speed, keeping our customers and values at the center of all we do, makes me know that we are truly One Fluidra and continue to have many opportunities ahead of us.

With that, I will turn it over to Xavier to explain the financial results detail before I return to share our outlook and guidance.

Xavier Tintore - Fluidra, S.A. - CFO

Thank you, Bruce. 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 in 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 2020. Sales growth of 8.8%, that is 11% adjusted for currency and perimeter, with a strong sustained recovery that started in May, accelerated in Q3 and has maintained an excellent growth rate in Q4, as Bruce has already shared with you. Gross margin reached 52.9%, 110 basis points higher than prior year driven by price increases and positive impact of cost synergies, partially offset by country and product mix. These 2 negative mix factors that had a significant impact in Q2 have had less importance in the second half of the year as we have driven a more natural product mix.

Operating expenses of EUR 466 million with an increase of 4.7% showed good operating leverage as a result of the impact of our cost synergies and the reduction of OpEx due to the pandemic, offsetting one-off costs associated to COVID-19 and increases in variable compensation, which have a significant impact in Q4. Provision for bad debt is EUR 3.7 million or 0.2% of sales with a small decrease when compared to last year driven by good evolution of the business in the second half of 2020.

EBITDA reached EUR 320.8 million with an increase of 19.3% driven by the higher sales volume, margin gains and good operating leverage. EBITDA margin reached 21.6% with an improvement of 190 basis points. EBITA increased by more than 29%, and margin reached 17.6%.

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 of EUR 18.7 million showed a very significant decrease of more than EUR 45 million driven by lower integration costs, impacts associated to the Aquatron divestment that hit our P&L and also lower stock-based compensation. The most significant item reported under this line now is stock-based compensation with EUR 9.1 million. Net financial result of EUR 45.1 million, 18.7% lower than 2019, the decrease is driven by lower leverage and the TLV repricing that we did at the beginning of 2020, partially offset by negative FX impact.

As a result of higher volumes and margins on a lower expense base, lower nonrecurring and lower financial charges, net income reached EUR 96.4 million, more than 11x higher than the EUR 8.4 million reported for 2019. As you know, we track cash net profit, a good indicator for Fluidra, as we have a very significant amortization, which is purely purchase accounting related and other noncash costs that impact our net profit and EPS calculation. Cash net profit reached EUR 165.8 million with a 56.1% increase driven by higher net income and lower cash interest paid.

Page 10 shows the evolution of net working capital for the group. Operating net working capital reached EUR 224.2 million or 15.1% of sales, an improvement of 627 basis points to prior year. That is an extraordinary result that requires some explanation.

On the inventory front, we have been driving towards reestablishing our inventory levels in this supply challenged environment. We have achieved a solid increase that, despite the strong demand that we are seeing in Q1, will help us better serve our customers.

Accounts payable is well aligned with the increase of activity. Accounts receivable has shown improvements in the last 3 quarters of the year driven by a better geographical mix and good collection patterns. In addition, in Q4, in North America, there is a higher degree of standard orders that carry faster payment terms versus what we had at the end of 2019.

On the earn-out and other items front, the most significant earn-out at year-end is SIBO with EUR 7.9 million, which has already been executed in early 2021.

The following page shows the free cash flow statement for the 12 months of 2020 as well as the net debt evolution. This year has been phenomenal in terms of cash generation. From an operating cash flow perspective, the company has generated an extraordinary EUR 292.1 million. That is EUR 136.5 million more than last year driven by better results, lower interest paid and cash generation from net working capital, partially offset by higher income tax paid.

On the investment section, there is a significant swing as during 2019, we cashed in the sales of Aquatron. And in 2020, we have completed the acquisition of Fabtronics in Australia, Aquafive in Belgium and Ten Four in Brazil. We have also paid some earn-outs.

I want to point out that CapEx shows a decrease, approximately EUR 4 million, to EUR 43.5 million due to the COVID-19 measures implemented in the second quarter. Even though we returned to normal spending in Q3, we have not been able to fully recover from that slowdown.

With this great performance, net debt reached EUR 581.9 million, showing a decrease of EUR 175 million to prior year, representing a ratio of 1.8x EBITDA compared to 2.8x in 2019, a full turn of reduction in the last 12 months. Net financial debt, excluding leases, reached EUR 467.7 million at 1.5x EBITDA. Let me remind the audience that these leverage ratios have been reached despite the fact that in Q4, we resumed dividend payment with EUR 41 million paid in October. We have beaten our long-term leverage guidance as indicated in the 2022 strategic plan, and we have done it 2 years in advance. From here onwards, we intend to run the company at plus/minus 2x net debt ratio, devoting cash to accretive M&A and steadily increasing dividends. So in summary, great performance that shows the cash generation strength of our business.

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

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

Thank you, XT. Moving on to Page 12, let's talk about our outlook and specific guidance. We return to try and give perspective with a wider range than normal and a few more assumptions in these fast-changing times. As discussed in today's call, we saw a superb finish to 2020. The very strong U.S. Early Buy orders and early data for January and February point to the step change in volume continuing the momentum with double-digit sales growth. We're expecting continued weak performance of Commercial Pool during the first half of the year, but that has a limited impact on our total sales. 2021 will be another strong year of growth for Fluidra. Please note that due to the pandemic impact in 2020, quarterly comparisons will make little sense. So we need to all focus on the full year.

We anticipate sales growth at constant FX of between 6% to 9%, EBITDA margin of between 22.5% to 23%, cash EPS growth of between 12% to 20%. It is important to point out that this guidance should be taken with the following assumptions: implied growth is based on normal weather patterns, we are not assuming any COVID-19 resurgence shutdowns, tax rate of around 28%, share count remains stable during the period for cash EPS and we have assumed current FX rates.

Our highly cash-generative business will see us continue with our policy of accretive capital allocation. We see ourselves as market consolidators through a disciplined process that delivers value on the capital employed. For 2021, M&A pipeline is strong. Even with the inorganic acceleration, we will still have capacity for steadily increasing dividends for our shareholders.

And now back to the Chairman to put a bow on our full year 2020 earnings.

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

Thank you, Bruce and Xavier. As you have seen from today's presentation, we are experiencing encouraging trading trends so far. We are delighted with our overall results in the year and we are expecting a strong 2021 with a great start already in place. I would like to emphasize that we have reached our long-term leverage target ratios well ahead of time through phenomenal cash generation in 2020.

The fundamentals of our sector remain strong. The pandemic will continue to provide this step change in growth for the short term, and we believe the industry will return to its long-term growth trends based on continued aftermarket expansion and new construction. While we remain cautious and ready with the pandemic's dynamic situation, the company continues to strengthen, and our intrinsic equity story remains the same: resilient double-engine market combined with our leading platform, enabling growth through customer collaboration; and significant margin expansion combined with a strong cash conversion. All of that drives excellent return on capital that can be accelerated by accretive capital allocation. Overall, we are executing ahead of our 2022 strategic plan.

And now before ending this presentation, I would like to share with you our willingness to host a Capital Markets Day during this spring in order to make a general review of our strategy.

Thank you for joining us today and for your interest. I hope you all stay safe. And with that, I will turn the call back over to Luis to begin our Q&A session.

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) Adam, please go ahead with the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Iris Zheng from Crédit Suisse.

Xiaolu Zheng - *Crédit Suisse AG, Research Division - Research Analyst*

I've got a list of questions, but I will start off with 3, and then I will go back to the queue for the other questions. The first one is on your 2021 sales guidance which, if we take out the M&A contribution, implies 5% to 8% organic growth. And this compares to one of your key peers who has indicated for mid-single-digit plus growth. So could you maybe comment on the market share side, if you think that you are growing ahead of the market growth and, broadly, how -- where you think your market share was last year versus before. And also into 2021, do you think you will gain market share? And my second question is on the margin side. You are guiding for 22.5% to 23% for 2021, which sounds like you are 1 year ahead when it comes to achieving your mid-term target, which was supposed to be achieved by 2022. So how should we think about margin progress going forward?

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

Okay. So why don't I try to take the first one, XT, and then we maybe trade off on guidance -- I mean, excuse me, on margin. So as I think about the year -- and your comment, Iris, kind of reminds me of our Board. I mean it's -- I don't know. Jokes aside, we're putting forward a pretty compelling growth guidance. We're still in late February. I don't think there's a whole lot of people swimming yet in the Northern Hemisphere, and we're coming off a really unusual year, providing very strange quarters and strange quarter comparisons. Pandemic is still alive. And last year's weather was great for the Northern Hemisphere. I think this new news in Texas is not in our guidance, and we haven't quite scoped it yet. So there's a lot of moving pieces. But let's say we're confident with our guidance. And if there is any risk, we'll probably err on the conservative side.

Now if I go to your second question, which is about share, let me think a little bit about how the year played out and just kind of the flow of the sell-through, probably particularly in America based on how you're thinking about this. And it never quite lines up from a timing perspective. We think, from what we can see from our sell-through data, that we're performing very well. It is definitely a supply challenged environment. So we think our global footprint has probably put us in a favorable position from that share stance. I would further say that I think as new build has accelerated, that certainly plays to our strength, and we think we continued to gain share in the aftermarket. So we feel pretty good from a share perspective.

Xavier Tintore - *Fluidra, S.A. - CFO*

Thanks, Bruce. I'll take the second one, Iris. Yes, you're absolutely right, with this margin guidance that we have provided for 2021, we are ahead of our strategic plan targets for 2022 as a result of the strong execution on the synergy front, on lean and VI and the different initiatives that we have. And how do we see this going forward? When we look at the company, we still see potential for additional improvement of margins. And as said by Eloy, we are organizing a Capital Markets Day in the spring, in which we intend to disclose additional level of information in terms of margin targets, on what are going to be the programs in which we are going to invest in order to reach that additional margin.

Operator

So our next question comes from George Featherstone with Bank of America.

George Featherstone - *BofA Securities, Research Division - Research Analyst & Associate*

My first one would be on the new build market. Are you seeing any regions that are getting back towards pre-Global Financial Crisis levels?

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

I'll take that one, George. So no. I mean I hate to just be that blunt, but let me see if I can give a little bit of color to you. I would say new construction in most of the spots of the world are growing at, at least 10%. And in the northwest part of Europe and in North America, we see it closer to plus/minus 20%. Further, I always pass a few builders before a call like this, and the lead generation continues to be strong. So right now, it's looking like a very strong new build year.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Okay. That's great color. And given the backlogs faced by the pool professionals that you mentioned before, do you expect a slightly different seasonal impact on revenues this year as the Northern Hemisphere perhaps uses the low season to work through these orders?

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

Yes. It's going to be a very strange year, really starting back with 2020 because we started really well in January and February, and then everything stopped for late March and April, which are really some of our bigger times, as you think about it, right before the season and then picking back up really in the third quarter with a lot of pent-up demand. So I think -- I mean it's going to be a really strange comparison, George, just because of that timing of 2020. But my expectation, our expectation, is that we'll start off the first half of 2020 really strong, and then we'll have a bit more tough comparables in the back half of the year. But again, I'd try to get everybody to focus. This is going to be a strong year for Fluidra on an annualized basis, and the quarters are going to make little sense.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Okay. And final question for me. On M&A, obviously, there are a few deals coming through now. You touched on the pipeline. It would be great to get a little bit more color on that and the cadence for M&A you expect this year. And also, what are the key characteristics you're looking to bring into the portfolio through M&A?

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

Okay. So I guess maybe it's, in a way, easier to go back on M&A and break it down in a couple of different ways. So from -- last year, we felt like M&A would accelerate, and it really went dark in Q2. So the deals that you saw were either kind of pre or post the acceleration, if you will. We also thought there would be -- and we're hoping for more deals on the commercial space. And so it's really, again, an unusual basis in 2020. As we look into, let's say, Q3, Q4, we saw an acceleration of opportunities, mainly on the residential side. Hence, you see the nice acquisition that we're excited about of Built Right that came through in January. And then as we look forward, it still seems that there's more residential opportunities than commercial at this point in time.

I would say, as far as the opportunities that we see out there, they tend to be smaller bolt-on opportunities that we can tend to pick up at a pretty attractive rate. As I've mentioned before, we look for products that we can push through our global footprint or new customer opportunities that we can bring our larger bag for. I think Aquafive was a great example of that last year. Built Right right now is a great example of the product play. Hopefully, there'll be some larger opportunities that come down the path, but they'll tend to be at a bit higher rate than some of the, let's call them, less than 20 million type of bolt-ons.

Operator

Our next question is from Francisco Ruiz from Exane.

Francisco Ruiz - *Exane BNP Paribas, Research Division - Research Analyst*

I have 3 questions. The first one is if you could give us -- what's the sensitivity of your margin to the FX, I mean if there is any major difference between the margin in regions that we could see also impact this year's margins? The second question is on the capacity that you commented on the pool pros. How easy is this to increase and if you see that these guys are increasing the capacity or just living at 100% and expect that the demand will lift in the future? And last question is on, well, some data first on how you see working capital evolving next year as well as the depreciation, please?

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

Do you want the first, XT, on FX?

Xavier Tintore - *Fluidra, S.A. - CFO*

Yes. Well, margin by regions, Paco, basically, we have a slightly higher margin in North America than what we have outside of North America. As you know, in -- outside of North America, we play the role of distributor in addition to manufacturer and, therefore, we carry a higher share of product that is not manufactured by the group and, therefore, we carry distribution margin. So therefore, that's why -- that's the main reason for having a lower margin in Europe and in Asia Pacific.

Let me go to the last one here on net working capital guidance for 2021. As we pointed out during the presentation, we have reached an extraordinary level of around 15% of sales at year-end due to some new structural changes to the market in the last quarter. We think that part of these structural changes are going to be sustainable. And I would guide you to think about net working capital target for year-end at the end of 2021 to be around 17% to 18% of sales. And then I think there was another question on...

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

Pool pro capacity. I will go ahead and take that one, XT. So as far as the pool pro capacity, I guess it would almost go back to the GFC, Paco. The capacity was severely reduced during the GFC. And I would say that the pool pros have been very cautious about adding capacity since then. So if I was getting more specific, what I would say is a lot of them were fairly vertically integrated in the past with their own guys that could shoot concrete or dig the various holes or even plumb the pools in a certain way. And so as I think about this, you see some of them expanding slightly. I think that's why we're seeing the growth towards 20% or a little bit higher on new construction in some markets. But I think it's going slowly, which makes me think that it's going to run for a while longer, especially if the demand keeps coming. So -- and I'd also point out that this is not a North America thing, okay? We're seeing the capacity strengths across Europe and beginning to hear about them in Australia as well as new constructions kind of started to pick up there with the counter-seasonal nature. So I hope that answers your question.

Xavier Tintore - *Fluidra, S.A. - CFO*

I'd also pointed out that -- you asked about some guidance on depreciation, Paco. And you can think about depreciation and amortization going down on average around 10% the coming year.

Operator

Our next question comes from Manuel Lorente from Mirabaud.

Manuel Lorente - *Mirabaud Securities Limited, Research Division - Analyst*

My first question is some granularity on revenue guidance. Assuming current FX and your geographic footprint, is it fair to say that the FX headwind should be around 2%, 2.5% revenue growth?

Xavier Tintore - *Fluidra, S.A. - CFO*

It's slightly lower than that, probably 1.5% or so.

Manuel Lorente - *Mirabaud Securities Limited, Research Division - Analyst*

Okay. And my second question is, again, on guidance. As Bruce perfectly said, 2020 has been a very bumpy year, and extracting conclusions on a quarterly basis is difficult, right? But assuming that the second half of the year has been, let's say, more -- has seen a better indication of the underlying reality of the market, right? If you -- on the second half of the year versus the second half of last year, the operational leverage of the company has been roughly 20%, right? When I look at your guidance, and assuming a mid-range indication of that guidance, that is pointing out, on an operational leverage, improving roughly to 30%, 35%. So I was wondering what do you see for next year to improve the operational leverage versus the second half of this year? Is it further synergies? I don't know.

Xavier Tintore - *Fluidra, S.A. - CFO*

Manuel, I think that more than looking at the increase next year, this is driven by some impacts that took place in 2019 and 2020 which, in the second half of the year, as I have explained during the call, there has been a significant impact. Especially, I would say, I would point out to the fact that variable compensation was lower than the last part of 2019 as we released some accruals, and we have had to accrue at a significantly higher rate during 2020. And that has impacted the operating leverage in the second half of the year. In addition to that, we have accrued also for some warranty issues in some geographies. So there's a number of factors in the second half that have reduced the operating leverage, and that's what explains the evolution as you look at 2021.

Operator

Our next question comes from Christoph Greulich from Berenberg.

Christoph Greulich - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Two questions from my side, if I may. The first one is with regard to the raw material. So could you please provide us with some color on what you are seeing, what kind of trends you're seeing, in the raw material markets you're exposed to? And do you believe that your price increases will be enough to offset any potential negative impact on the gross margin? And then secondly, if you could also provide us with some color on the progress with regards to the revenue synergy targets that you have outlined in your strategic plan?

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

Okay. Thanks, Chris. I'll take those questions. So as far as raw materials are concerned, I mean, you are correct. I mean we're seeing some inflation currently, particularly in transportation for containers out of Asia, which is probably not a surprise to you guys. And we're also seeing some increases on some of the -- on commodities. As far as how price will cover, I mean, right now, we feel like we're making the right steps to make sure that we're in a good position there so that our VI and lean and synergy can continue to enhance our margin. We took -- and with price, there's always a little bit of variance depending on product families and a little bit on timing. But we took about 3% of our traditional price increase in North America in October, and we took roughly 2% for EMEA that kicked off in January. And we'll take a price increase in Southern Hemisphere before we get to the season.

So as we're seeing this inflation come, it was a bit of a surprise. It's unusual for the industry to take price during the season or see an in-season increase. But when we see inflation like that, it's not unusual for us to go ahead and do something about it. So we're executing a price increase in Europe that goes into effect March 1, working on it in other parts of the world. So I guess, unless there's something very strange that continues to happen in commodities, we feel like our price initiatives should put us in good position.

As far as revenue synergies are concerned, we've had a pretty ambitious goal for revenue synergies. I think the target was just under EUR 30 million for 2020 on a net basis, right? Or did I do '21? So anyway, the revenue synergies are tracking quite well. Now what I shared last time, and I think continues to be true, is we're ahead in Europe, specifically in the robotics space, robotic cleaner space after the Aquatron divestiture. So that's gone extremely well. North America prioritized the commercial products. Timing of that was not particularly stellar on our part. But -- so we're seeing some, in North America, a little bit behind where we were hoping to be. But all in total, with the strength in Europe, we're pretty much on track.

Operator

That's next question comes from Pierre Bosset from HSBC.

Pierre Bosset - HSBC, Research Division - Head of French Equity Research

Congratulations on the results. Three questions, if I may. I'd just like to understand why the growth rate of revenue in the Rest of the World is lower than the average. Is it because of the working-at-home trends did not work as well as in Europe or North America? Or is it because of fleet of acquisitioning? That's my first question. My second question is on POOLCORP and the subsidiary, SCP, in Europe, which are expanding in distribution. I just would like to see that -- to see if you see that as a threat because it could gain share in distribution in Europe. And my third question is on digital. Are you seeing now, especially because of the COVID crisis, a change in the purchase process from the installers with the greater use of Internet and the website of the company?

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

Okay. So let me talk about the 3 questions, Pierre. First of all, why is the Rest of the World lower? I would say 3 factors, okay? So if you think about the geographies that make up that area, a prime geography in that space is Asia, which is predominantly commercial. So it's negatively impacted by the hospitality and lack of travel that is going on. Second, as I think about South Africa, which is a material market for us, my view is that South Africa has had the biggest economic impact of any of the countries based on COVID. So that one's been a little bit slower. And then I guess the third piece that I would say is just the counter-seasonality. So remember, when COVID started, it was headed into the season in the Northern Hemisphere. It was into winter in the decline of the Southern Hemisphere. And what we've seen in the fourth quarter is an acceleration of that Residential business in places like Australia and some of Latin America, more similar to what we were seeing in the Northern Hemisphere, but just a bit delayed from it.

On the second question, as far as POOLCORP as a distributor in Europe, I mean POOLCORP is an excellent distributor. They're our #1 customer globally. They are a customer in the U.S. and in Europe. They've been here for more than 10 years. So I think we're quite used to working this play in Europe. So I don't see any significant change there. As far as digital is concerned, I'd probably go too deep on this one. And you guys are going to look at me and give me the flag to come off. I think of digital in 3 different levels, okay? So digital internal where I still think we have an opportunity to continue to simplify the company and work more efficiently. Digital, as far as how pool pros are purchasing, and we did see some acceleration there in the past year, not to what I would call online customers but more to click-and-collect and things like that at our Fluidra pro centers and customers trying to figure out how to be more efficient to be able to get the product in this high demand type of period.

And then the third is connected pools, which you didn't specifically ask about, but it continues to accelerate. We saw our connectivity run at about, I don't know, more than 4x greater than our overall growth of the business. It's increasing the average ticket price as well as increasing the sales. And last, but not least, it's really starting to get us some really interesting data that we think can be beneficial to us in the long run. So maybe I took that in a couple of different directions, Pierre, but I mean there's, I think, a few different points to that one. Good question.

Operator

We have a follow-up question from Iris Zheng from Crédit Suisse.

Xiaolu Zheng - *Crédit Suisse AG, Research Division - Research Analyst*

I just have 2 really quick follow-ups. So one is for your 6% to 9% growth guidance for 2021. Can you maybe give us a bit color just by different geographies between Europe and North America if there will be any differences when it comes to growth rates that you expect? And also just on the transactional FX impact, say, the weakness of U.S. dollar, will this have an impact on your margin in addition? Or maybe is that the product mix that you have since you've mentioned that North America is of higher margin without the distribution business? Just on the cost side, it's naturally hedged or you ship products to the U.S. or vice versa.

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

Okay. So thanks, Iris. So I'll take the first one about geographic growth guidance. I mean we usually don't break it down that way. But just to give you some maybe some high-level color, I think in the Northern Hemisphere, you're going to continue to see real strength in Northwest Europe and, in particular, North America with the strong Early Buy and the start that we're seeing to the year. I think one of the real pleasing things that we've seen in Q4 was the acceleration for us in France, which is our #1 market in Europe. So I think that's really encouraging. We remain cautious really in the Rest of the World. We're pleased with what we saw in Q4. But I think based on the year that we had there last year, let's make sure that we've got all our fundamentals right, and that market starts to move in the right direction.

Xavier Tintore - *Fluidra, S.A. - CFO*

Yes. Iris, as to the effect of the weakness on the U.S. dollar and on the risk policy that we have, we basically hedge all our purchases in U.S. dollar, more or less 1 year out. And then, in addition to that, we have some U.S. dollar-denominated debt, which helps us protect the equity value of the company to the evolution of the U.S. dollar.

Operator

We have no further questions. So I'll now hand back to Luis to close the call.

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

Thank you, Adam. 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 great day.

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