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# EDITED TRANSCRIPT

FLUI.MC - Q4 2021 Fluidra SA Earnings Call

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## PRESENTATION

**David Herrerías**

Good morning, and welcome to Fluidra's 2021 Full Year Results Presentation. I'm David Herrerías, Investor Relations, Corporate Communications and M&A Director at Fluidra. Today's presenters will be Mr. Eloy Planes, our Executive Chairman; Mr. Bruce Brooks, our CEO; and Mr. Javier Tintoré, our CFO. You can follow this presentation in its original English version or in Spanish. You can select your preferred option in the drop-down menu at the bottom right of your screen. (Operator Instructions)

You will find the telephone numbers and PIN codes needed to ask questions to management. Please feel free to dial in during the presentation so that the operator can include you in the Q&A roster. Presentation materials are accessible through our website, fluidra.com, and they have also been uploaded premarket open to the CNMV. The replay of today's presentation will be made available on our website shortly after we finish.

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

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

Thank you, David. Good morning to everyone on the call, and thank you for joining us for this full year results presentation. It is really strange to communicate in a day like today. I would like to start by saying that our thoughts are with the millions of people facing the terrible situation in Ukraine. We hope the situation improves soon.

Acknowledging this tragedy, I will now turn to our results. I'm very proud to present the results of this extraordinary year. I'm going to start with a big thank you to our team for their efforts and fantastic execution and to our clients for their trust. During 2021, we confirmed quarter after quarter our positive views for the company and for the sector. We can now say that the fourth quarter finished off a record year and the fundamentals of the business remain very strong.

Let me share some comments on today's results before Bruce and Javier dive deeper into the figures. As we have shared in our previous presentations, the growing importance of outdoor living has generated new demand for pools and for pool products. We are delivering record numbers on the full year with all our strategic plan targets deliver 1 year in advance. As we said last year, our focus was to service the extraordinary demand from our customers. Our successful results prove that we have been resilient and flexible supporting our customers in the challenging environment.

And despite the growing inflation, we have been able to increase our gross margins. This is an industry that takes price, and we are confident in our pricing capability to protect our margins in the medium term. On top of that, our operating leverage has allowed us to generate more than 350 basis points of EBITDA margin expansion.

This is a fantastic achievement. At the same time, we are leveraging our strong cash generation with value-accretive investments. We have been very active on M&A, closing 5 acquisitions this past year, 4 of them in the U.S. In addition to M&A, we continue with our increasing shareholder remuneration with an attractive dividend payment of EUR 78 million, 90% higher than in 2020. To finish with numbers, I would like to highlight our 22% returns on capital, a very important metric as it shows our ability to generate value to our shareholders.

Let me now finish with the appointment of Mrs. Barbara Borra as a new independent director of our Board effective in December last year. She replaced Martin Ariel from Rhône Capital. Barbara brings 35 years of international experience and has already proven to be a fantastic addition to the Board.

Let's move to Page 5. Before I leave the floor to Bruce, I would like to take a couple of minutes to look back to 2018 and the merger with Zodiac. We all knew the combination had tremendous strategic rationale, and we shared with you an ambitious strategic plan for the period 2018 to 2022 with significant value creation opportunities. Today, we can comfortably say that the merger was a success from all angles: culturally, operationally and financially. We have created a global sector leader that has navigated this complicated period exceptionally well and outperformed all the 2022 targets 1 year in advance. And more importantly, we have a bright future ahead of us. Bruce will give you more details, but I can advance that we are looking at another strong year with more organic and inorganic growth, margin expansion and value creation for our shareholders.

At this point, I give the floor to Bruce, our CEO, who along with our Chief Financial and Transformation Officer, Javier, will provide a deeper look at the 2021 numbers.

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

Gracias, Eloy. Let me start with comments on our overall performance and highlights for the full year period of 2021 and then turn it over to Javier, our CFTO, 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 6 are the 2020 and 2021 financial highlights for January through December. In the full year period of 2021, sales grew 36% adjusted for currency and perimeter, compared to the same period of 2020, to EUR 2.187 billion. This sustained growth was driven by the continued demand momentum in residential pools. Adjusted for currency and perimeter, EBITDA and EBITA grew 75% and 89% to EUR 549 million and EUR 482 million, respectively. Both measures showed excellent operating leverage despite the accelerated inflationary pressures in the back half of the year.

Cash earnings per share grew an outstanding 111%, adjusted for currency and perimeter, to EUR 1.72 per share. As a reminder, in 2021, we have delivered a 90% dividend increase with a payout of EUR 0.40 per share as part of our approximately 50% cash net profit distribution policy. On operating net working capital, we ended the period well, only 19% higher on a currency and perimeter adjusted basis. The operating net working capital ratio to sales increased only 54 basis points to 15.6%, principally due to acquisitions. Our net debt stands at EUR 1.067 billion. Our leverage ratio remains below our 2x target despite significant inorganic activity and the larger dividends paid.

Moving to Page 7. Let me share some highlights for the quarter. As for business performance, fundamentals remain strong with a record quarter to finish the year. We have achieved 6 quarters in a row with double-digit growth, confirming the step change in the industry. Over the last 18 months, we have lifted our capacity by greater than 70% by increasing the number of shifts, investing in tooling and equipment while leveraging our existing manufacturing footprint. We see another 30-plus percent increase coming online over the course of 2022, principally in the U.S., where we face our largest backlog. The supply base has also been reinforcing their capacity, which should give us better flow of components, enabling us to take advantage of our expanded capacity. However, in the short term, we are still operating in a supply-challenged environment as we continue to face strong demand, combined with shortage of some components, price volatility on raw materials and transportation issues.

We have seen some improvement from the peak in October, November, but it's still difficult, especially in North America. We're very proud of our supply chain team and how they continue to deliver. We implemented a mid-single-digit plus price increase October 1 to protect our P&L in 2022, as we continue to experience inflationary pressures on shipping, raw materials and some components. This is on top of the 2 price increases over

the last 1.5 years, one at the beginning of last season and another one in season. As you all know, this is an extraordinary situation. However, as we operate in an industry that takes price, we've been able to protect and expand our gross margins in 2021, and we will continue to do this as we look forward.

Let's move to capital allocation. We paid the second half of the EUR 0.40 dividend per share in November 2021, which in total represented a 90% increase from last year. Earnings growth and cash generation continues to support increasing shareholders' remuneration. Based on our 2021 cash EPS and keeping our 50% payout policy, our dividends for 2022 would increase by 100%.

On the M&A front, we acquired Taylor Water Technologies, a leading U.S.-based manufacturer of water-testing solutions, for USD 78 million in November 2021. This has been an extraordinary year for M&A. We've completed 5 deals in 2021, 4 of them in the U.S. for an aggregate investment of EUR 494 million. We're happy to share that these acquisitions are performing ahead of plan. We continue to monitor the market for additional accretive M&A opportunities and the pipeline remains strong.

Finally, yet importantly, we are focused on our ESG journey as it is a key part of our values. As we recently shared, we refinanced our debt in January 2022, thus simplifying the debt structure, extending maturities and rebalancing the currency mix. Terms are linked to some of the environmental targets of the Responsibility Blueprint plan, which reinforces our commitment to ESG. Moreover, we approved the new diversity, equity and inclusion policy as well as launched the Embracing Diversity strategy, which spans from 2021 to 2025. Lastly, in terms of ESG rating, we are proud of the CDP's rating improvement, moving from C to B minus and reflecting our commitment to sustainable practices.

Turning now to Page 8. You see the sales evolution by geography. During Q4, global sales grew 19% to EUR 483 million on a constant FX and perimeter on top of 17% growth of Q4 2020. In the full year period, sales grew an impressive 36% versus 2020 when adjusted for currency and perimeter. Southern Europe saw an excellent performance in the quarter across all regions led by France, with currency and perimeter adjusted growth of 26% in Q4 and 31% in this 12-month period. The Rest of Europe continued to deliver strong results, with constant FX and perimeter adjusted growth of 23% in Q4, driven by outstanding performance in Germany and Eastern Europe. This region had the toughest comparable with 24% growth delivered in Q4 2020. In the 12-month period, this area saw adjusted growth of 31%.

North America continued its growth momentum with sales up 22% and 56% on an adjusted basis for the quarter and the 12-month period, respectively. The positive demographic trends driving excellent sell-through along with inorganic activity drove the evolution in this key region. Acquisitions represented about EUR 160 million of sales, whereas the Texas freeze one-off accounted for some EUR 40 million. Rest of the World grew 6% for the quarter and 15% for the full year period on a currency and perimeter adjusted basis. This area is supported by the solid performance of Australia. This overall performance demonstrates the continued growth and strength of our market's fundamentals.

Next, on Page 9, we see the evolution by business unit. Residential Pool is our largest segment and accounted for 75% of Q4 sales, growing close to 46% for the quarter, supported by continued robust demand and M&A activity. Growth was led by filters, pumps, automatic cleaners and heaters. This segment is up 55% for the full year period. Commercial Pool recovered well in the quarter on an easy comparable with a 28% increase, helped by inorganic activity. This business unit saw a 23% growth in the 12-month period compared to the same period of last year. We have now recovered above pre-pandemic figures, reinforced with the acquisitions and positioning us well for further growth.

Pool Water Treatment grew 26% for the quarter. This business unit saw a strong performance of the water care equipment segment along with a good evolution of chemicals. The segment is up 27% for the 12-month period. The Fluid Handling business reached double-digit growth of 19% in Q4. On a full year basis, this business unit grew 32%. In summary, our global footprint continues to play an integral role in helping us deliver strong growth together with excellent cash generation. Again, I want to thank our talented team of more than 7,000 employees and business partners for their agility, positivity and sacrifices during these challenging times. Moving at full speed, keeping our customers and values at the center of all we do makes me confident that we are ready to continue executing the many opportunities that lay ahead of us.

With that, I'll turn it over to Javier to explain the financial results in more detail before I return to share our outlook and guidance.

**Javier Tintore Segura - Fluidra, S.A. - CFO**

Thank you, Bruce. Let's turn to Page 10 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 EBITA, 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 get started. Sales growth of 47%, that is 36% adjusted for currency and perimeter, with all geographies performing nicely. Gross margin reached 53.1%, 20 basis points higher than prior year, driven by price and positive impact of value initiatives and synergies, partially offset by commodity and freight inflation, country and product mix. We have seen an acceleration of inflation impacting the quarter as we have delivered mainly orders, which did not have the revised pricing yet. We expect this pressure to continue in Q1, but we are confident on our pricing capacity over the long haul.

Operating expenses of EUR 613 million with an increase of 32%, which is 20% if we adjust for perimeter, showing great operating leverage comparing to a low base in 2020, as we had implemented COVID-19 expense reduction programs. Provision for bad debt is almost 0, showing the good industry situation around the globe. EBITDA reached a record EUR 549 million with an increase of 71%, driven by the higher sales volume, margin gains and excellent operating leverage. EBITDA margin reached 25.1% with an improvement of 350 basis points. EBITA reached EUR 482 million, also showing great leverage, increasing by 84% and reaching a margin of 22.1%. Below the EBITA line, the amortization, which is associated to M&A, decreases 3% despite incorporating the intangible asset amortization of all the new acquisitions. Nonrecurring expense of EUR 42.5 million showed a significant increase as we have put EUR 26.5 million of stock-based compensation, including a catch-up adjustment to reflect the overperformance of the company versus the plan.

In addition, there are almost EUR 16 million related to M&A activity that includes the CMP, BuiltRight, Zen and Splash, S.R. Smith, and Taylor Water Technologies deals. Net financial result is EUR 44 million, almost flat to 2020.

Tax rate for this 12-month period is 24% due to a tax benefit in the U.S. associated to the Zodiac merger that we have been able to apply in Q2. This is a one-off positive impact in 2021. From here onwards, we should return to a normal tax rate between 27% and 28%. As a result of higher volumes and margins, great operating leverage and lower tax rate, net income reached a record EUR 252 million compared to EUR 96 million in 2020. As you know, we track cash net profit, a good indicator for Fluidra, as we have a very significant amortization, entirely purchase accounting related, that impacts our net profit and EPS calculation. Cash net profit also reached a record amount of EUR 337 million with more than 100% increase over 2020.

Page 11 shows the evolution of net working capital for the group. Operating net working capital reached EUR 341 million and includes EUR 69 million of acquisitions, which is mainly driven by the incorporation of CMP and S.R. Smith. It represents 15.6% of sales, 50 basis points higher to prior year, which is entirely linked to the acquisitions. As if we look at it on a pro forma basis, the ratio would be below 15%. On inventories, the 76% growth over 2020 is impacted by acquisitions, which represent 26% of growth. And then inflation, higher in transit due to supply chain issues and investments for the increased level of activity in this supply challenge environment, excellent performance of accounts receivable, driven by a better geographical mix and good collection patterns around the world. Accounts payable increase can be split in 23 points organic and 11 points inorganic. The increased level of activity drives this organic growth.

The following page shows the free cash flow statement as well as the net debt evolution. Excellent performance in terms of operating cash flow, reaching EUR 50 million more than in 2020, driven by better results, lower interest paid, offset by investment on inventories and higher income tax paid. On the investment section, there are a few significant changes. We have completed the acquisitions of CMP, BuiltRight, Zen and Splash brands, S.R. Smith and Taylor Water Technologies for a total of almost EUR 500 million. We have also invested EUR 86 million in the acquisition of treasury stock. In addition, it is important to highlight the increase in shareholder remuneration with dividends reaching EUR 78 million, which represents an increase of 90% in dividend per share. Even with all this activity, we finished the year with a net debt of EUR 1.067 billion and a leverage ratio of 1.9x.

So in summary, record financials for an outstanding 2021. Before I turn the call back to Bruce, I would like to briefly comment on the debt refinancing that we have successfully completed in January. The process was neutral from a leverage point of view. We were looking for extending maturities and locking interest rates while adjusting the currency mix to our current EBITDA generation in U.S. dollar and euro. We have successfully raised a term loan B with tenure to 2029 with 2 tranches, one of \$750 million at a margin of 200 basis points and the other of EUR 450 million at a margin

of 225 basis points. At the same time, we have simplified the structure of the net working capital financing facilities by upsizing the RCF to EUR 450 million and extending its tenure to 2027 and canceling the ABL, which was due in 2023. All these refinancing activity carries and noncash write-off of EUR 12 million. We are now well structured to execute our plans.

And with that, I will give the floor to Bruce and Eloy for the closing.

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

Thank you, Javier. Moving on to Page 13. Let's talk about our outlook and specific guidance. As discussed in today's call, we saw a superb finish to 2021, and we remain positive for 2022 and beyond. Sales and sell-through data for January and February suggest demand remains strong. Momentum continues for new builds. Builders backlog stretches through the summer season with pent-up demand from 2021. The aftermarket remains strong, driven by average ticket increase from higher-end products like variable speed pumps and connectivity, along with material price increases to offset inflation. In addition, we continue to see recovery in commercial pool.

We still face some supply challenges, mainly in North America that are affecting our ability to ship to our clients, increasing our backlog in the U.S. and delaying the read-through of our new pricing. That delay, together with continued inflationary pressures will have an impact on the first half margins. In 2021, we increased price early in the season before inflation kicked in, building a buffer that will now play as a difficult comp in 2022. This will be fully offset over the year with our recently announced first half price increase and the full read-through of the October 2021 increase. We are happy to share that the integration of our recent acquisitions is on track. We continue to monitor the market for additional accretive M&A opportunities and the pipeline remains strong.

Finally, our growing profitability and cash generation capacity enables us to keep increasing our shareholders' remuneration. In summary, 2022 will be another strong year for Fluidra. We anticipate sales growth from 12% to 17%. These growth rates already include run rate M&A from 2021, which contributes mid-single digits. Secondly, we estimate a mid- to high single-digit price read-through. Thirdly, we see volume growth for the full year from new construction and the continuous expansion of the aftermarket. Lastly, we adjust for the one-off impact of the Texas freeze from last year.

EBITDA margin higher than 25.5%. We're committed to deliver margin expansion geared towards the second half of the year, largely driven by value improvement and lean while we begin to look at longer-term opportunities to simplify the company. Cash EPS growth between 10% and 16%, driven by a return to normalized 28% tax rate after the Zodiac merger-related tax benefits. Additionally, it's important to point out that this guidance should be taken with the following assumptions. We are assuming no additional major disruptions in the supply chain.

Inflation decelerates on a difficult comparable in the second half, current FX rates. Although Russia and Ukraine represent less than 1% of our sales, the picture is not clear yet on what impact this tragedy will have on Europe or even the global economy. Therefore, we're not incorporating the potential impact of the recent macro political crisis into our guidance. Hopefully, we can get back to peaceful diplomacy quickly. 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. And now back to the Chairman to wrap up the prepared remarks before moving to Q&A.

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

Thank you, Bruce. Thank you, Javier. As you have seen from today's presentation, 2021 has been a fantastic year across all regions. Excellent results that came with extraordinary efforts from our team to service our clients. Looking at 2022, the terrible situation in Ukraine creates uncertainty that is too early to predict. We will monitor the situation closely. As Bruce said, hopefully, we get back to a peaceful diplomacy shortly.

Operationally, we faced 2022 with a strong confidence, as the demand, our customers' backlog, our price increases and the run rate of M&A only give us a solid foundation. We are expecting another strong year for Fluidra. And more importantly, our fundamentals remain strong. The larger number of installed pools will generate value in the aftermarket over the next few years.

In addition, those pools have more and more connectivity and sustainable products, increasing the average ticket. New construction is running at healthy levels and there is a pent-up demand for remodel that hasn't been serviced recently. Looking at the medium term, we are still convinced we have opportunities to simplify and improve the company's efficiency. All in, our strategy and investment thesis remain unchanged. We are the global leader in an attractive market with a structural growth. We are reinforcing our global leadership position with market share gains and bolt-on acquisitions. We drive our business through our customer-focused platform, leading the field in IoT and connectivity where we are investing for the future, reinforcing our ESG range of products, making the efficiency and the sustainability the anchor of our activity. We have a healthy balance sheet and growing profitability. We plan to continue our margin expansion and strong cash conversion.

Our strong and solid growth, combined with margin expansion and value-accretive investment, including potential M&A, deliver attractive return on capital. Thank you for joining us today and for your continued interest. Now I will turn the call back over to David to begin our Q&A session.

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### David Herrerías

Many thanks, Eloy, Bruce, Javier, for your presentation. We will now begin the Q&A session. Let me remind you that you will be able to ask questions to management by calling the telephone numbers or the Ask Question tab of your screen. Operator, please go ahead with the first question.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from George Featherstone with Bank of America.

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

I'd like to start, if I can, with a couple of questions around the guidance. Looking at the revenue guidance, the upper and lower end of the ranges suggest there's some back-of-the-envelope calculations that at the lower end, you're expecting low single-digit volume growth and at the upper end low mid-single digit. I'd just like to firstly understand if that's right in terms of what you're assuming and that's how we should understand that. And then within the volume growth assumptions, can you give a little bit more color on what the primary drivers are in terms of what you're expecting, specifically from new construction versus aftermarket and also by the different regions?

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

Okay. Thanks, George. I guess as far as the volume growth, I mean you're reading the tea leaves correctly. I think they were pretty clearly laid out that -- we've got the benefit of M&A. We've got the benefit of price and then the volume expectations kind of in the range that you said. And then we subtract out about 2% for the Texas freeze, which was mostly a first half and pretty much exclusively a North American event. So those are the key overall drivers. We think that new construction finished the year of 2021, and we haven't seen final numbers yet, George. But probably in the neighborhood of 120,000 or a little bit higher than that. And we're expecting that new construction will still be strong into 2022.

Right now, our builder backlog is pretty much through the summer season. And that's really across the Northern Hemisphere. So builder backlog is strong both in U.S. and in Europe. So in other words, if you want a new pool, you're not getting it before sometime in the back half of the year, which means all the leads that are still coming in are really setting us up for the back half and even into 2023. As far as the aftermarket is concerned, we continue to see unit growth there. It's pretty much broad-based, George, really driven by the increase of the number of pools that are being brought into the market over the last couple of years. So it's -- I think it's implying a good year as we have laid out.

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

And then maybe turning to the margin guidance as well. Could you give a little bit more detail on the phasing of this? I know you kind of mentioned that H1, there'll be some headwinds. But do you expect margins in Q1 and Q2 to compare similarly to Q4? Or should we expect some different phasing there?

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**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

George, this is Javier. Thanks for your question. You know that we don't want to be specific about guiding quarter-to-quarter. But clearly, as we have shared during the call, we had some very positive results in the first half of 2021, which now will be a tough comparable. In addition to this, we'll have -- especially, I would say in Q1, still backlog that doesn't really reflect the pricing yet, the pricing impact of the October one as well as the new pricing that as we have announced will take into effect at the start of the month of March. So really compression, I would say, in Q1 and then better results as move into Q2 and the back half of the year.

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**Operator**

Our next question comes from Andre Kukhnin with Crédit Suisse.

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**Andre Kukhnin** - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

I'll go one at a time as well. Can I just double check a couple of things first? One is on the guidance assumptions that you mentioned where you talked about deceleration of input cost inflation. Could you just help with a bit more color around that? Can we read that as at current spots? Or does your guidance assume that there is change in spot rates from the current level?

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**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

Andre, thanks for the question. Again, without being very specific on to the assumption for each of the quarters, what we assume is that inflation in the second half of the year cannot grow at current rates as what we have seen in the last half of 2021. And therefore, the inflation rate -- the growth at which inflation will grow will be significantly smaller.

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**Andre Kukhnin** - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Okay. That sounds like you expect spot rates to continue to increase, but obviously, with the base effect at a lower rate. Is that then the right interpretation?

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**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

It's a right interpretation, Andre.

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

It's a good read.

**Andre Kukhnin** - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Okay. And can I just take stock of -- and apologies if that's (inaudible) but stock of where 2021 landed in terms of the amount of raw material and logistics inflation that you saw and how much of that was offset by price? And then if we think about 2022, could you give us any idea of how much further inflation you anticipate within your guidance? And how much price you're carrying over already into 2022?

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

Okay. From an overall price read-through in 2021, we saw about 6%. And amazingly, commodity increases, push on transportation was about exactly the same. So I think a good job by our team demonstrating again the ability of this industry to get price and protect our margins. We did have some additional pressure from mix, which usually comes from both countries and products, as Javier mentioned in his remarks. But I'm really pleased by the continued work of our value improvement and lean teams, which were able to more than offset that and ultimately get us some read-through in 2021 in the margin line.

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**Andre Kukhnin** - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

And for 2022, if there's any indications you could give us on those 2 line items?

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

Yes. I think the only real specificity what I would give you there, Andre, is that whatever inflation is, we're going to work to go get the price to offset it. You might see some noise quarter-to-quarter. But over that midterm period, we're confident that we can offset the inflationary pressures with price. We have announced a price increase in October that you guys would have known about. And then we're enacting a price increase right now here, I guess, in the next couple of days, the beginning of March, that will go across the Northern Hemisphere as we haven't seen the inflation subside.

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**Andre Kukhnin** - *Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst*

Great. And if I may just last question and I appreciate that's probably going to be kind of a million-dollar question. So don't expect exact answer, but I would really appreciate any input from you on the question on how much would demand pull forward as opposed to demand creation have we seen in the last 12 to 18 months as we've seen this kind of substantial pickup in demand for you? Have you done any work? Or do you have any estimates or data on how much of this pickup and kind of above COVID level demand that we're seeing now is due to demand creation, i.e., people who maybe did not consider building a pool prior to pandemic, have now done it or ordered one as opposed to those who are planning to do it or planning to do full renovation and just ended up doing it earlier?

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

Yes. We've actually spent a fair amount of time on this. But it's, I'm going to say, Bruce's opinion as opposed to fact. I mean there's no way to squeeze out the exact facts, Andre. So first of all, I do think there is some pull forward in the aftermarket. The first clear spot that I would say pull forward is the Texas freeze because that accelerated replacements of pumps, filters, valves, those types of things that we would have not naturally seen. Hence, why you see us, in the guidance, take that as a flat out. We also think there's a couple of categories that have run faster than the rest of the overall market. We would point to places like heat and above-ground pool. So we think there could be some pull forward there.

But the amazing piece is the strength of the aftermarket. As you add more and more new pools to the overall base, we see growth there. We're seeing growth of average ticket before inflation because of things like variable speed pumps, more and more people want their pool connected. So the average ticket increase has been nice. And then we've got the addition of the price to go on top of that.

As you think about new construction, I think that's the real question, and what I would say is right now, the backlog continues to be strong. Leads are good. And so this work from home, I guess, it's now probably turning into more of a hybrid work from home. Work from the office is still there. The one that we still see incredibly strong in the U.S. is the flight from the north to the south. And as people move from the north to the south, they want to put a pool in. So right now, the signals inside the pool industry are still quite positive, hence, the guidance that you have seen from us. In addition, for Fluidra, we've got a couple of other advantages. Commercial has been an area where we're under indexed and have invested in. So we see growth there. And we also see the benefit of the M&A.

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**Operator**

Our next question comes from Francisco Ruiz with BNP Paribas.

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

I have 3 questions. The first one is, if you could give us a bit more clarity on your mining expansion for next year? I mean, your volume growth could be as commented in the call remains low single to mid-single-digit growth. So I don't know how much of this margin expansion would come on operating leverage. Or how much could come on in synergies and if you have any headwind coming from inflation.

The second question is just to clarify. I mean this year, we have seen some bigger structuring charges apart from the higher compensation of new shares. So what should we expect for next year? And last but not least, you have commented that whatever happened with the cost, you would be able to pass it through prices. How is the competitive situation? How are your peers in this situation? Are they as willing to increase prices as much as they need in order to offset this?

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**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

Yes. Thank you. Paco, gracias. In terms of the guidance for margin, which I understand was your first question, look, I think we've indicated that we have visibility, and we have proven it in the past visibility to trespass to our customers, and it's something that comes from the industry really every bit of inflation that we suffer. In addition to trespassing that inflation, we have built into our guidance, our cost synergies from the acquisitions that we have done as well as the traditional 1-1.5 points of value initiatives and lean manufacturing. So all of this is what makes us feel confident that we can deliver on the margin gain that we have included in the guidance.

As to your second question, for nonrecurring, we'll get back to a more normalized, if you want, stock-based compensation charge. It's true that we are going to go to the next shareholder meeting with a new long-term incentive plan for the management team. And since that is yet not approved, it's difficult for me to give you a number. But I think that if you assume that from a stock-based compensation, you will get a number of around, I would say, EUR 20 million that should be safe. And then again, on the deals, difficult to know. The pipeline is strong, and I would use an assumption of around EUR 10 million for that safe bet.

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**Operator**

Our next question comes from Christoph Greulich with Berenberg.

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

Yes. I would like to start with a question on pricing. So you mentioned that you're going to implement another price increase in the coming days. So could you give us any indication on the magnitude of the price hike and when exactly it will really feed through the P&L.? So I understand there might be some delay between implement and the price increase and then really affecting the prices of the products you're selling.

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

Okay. Christoph, it's Bruce. Before I answer that one, I'm going to go back and answer Paco's third question, which was the price increases, what are we seeing in the pool industry, I guess, from competitors, et cetera. And I would say it's normal, it's historic for this industry to take price. And so it's not a Fluidra's stand-alone initiative. I can't say that it's exactly the same, clearly. But I would say we're all in the same neighborhood of price increases and timing. There might be a month or 2 delay here or there or acceleration for some versus others. But again, it's an industry that's demonstrated its ability to take price, and we'll continue to do so. And I think the good news at this point in time is it's been pretty inelastic. We haven't seen any cancellations of the builder backlog. And remember, I mean, the majority of this market is driven by the aftermarket, the annuity-like aftermarket. And if you need to -- your pump breaks down, you need to replace it or your pool is green in 3 days, so it's not so discretionary. So that's what we see so far.

Christoph, I'll go to you now. And so if we talk about the recently announced price increase, it will take place over the next couple of weeks depending on which geography you are, let's call it, low to mid-single digit, which on top of that price increase in October, we'll expect that read-through to be into that mid- to high single digit.

As far as the timing of the read-through, I mean, clearly, we're going to have pressure in Q1, maybe a little better performance in Q2, but it's really going to be back half weighted. And it's impossible for me to say at this point exactly when to go through just because of the backlog that we have, but also the capacity that's coming online that never ramps up at exact speed and how the orders flow, whether it's more U.S.-based or whether it's more European-based. But again, we feel confident over the course of the year.

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

Okay. That's clear. And you are seeing there are some differences between Europe and the U.S. So the magnitude of the price hike, is it very different between the 2 regions?

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

It's maybe marginally lower in Europe, but not dramatically. Europe was maybe a little bit higher in October and the U.S. was a little bit lower, and I think now we've reversed it in the March price increase.

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

Okay. That is clear. Then I was wondering, when I look at the organic growth figures in Q4 for the individual regions, I mean, we have seen so far in the year until the Q3 that the U.S., by far, or North America was the strongest growing region from an organic point of view for you. I mean it seems now that trend has somewhat changed in the fourth quarter. So I was just wondering if there are any kind of important factors that have led to this change in the trend.

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

Well, we've talked about it all along. I mean I could say that the North America run rate could have been higher in Q4, but we certainly were facing continued supply challenges. In particular, the ports in the West, I think, hit a peak of backlog in October and November as other products, et cetera, were trying to get in for the Christmas season. So it was a little lower on our production in Q4 than we would have certainly liked to satisfy our customers' needs. We've gotten -- we're getting better as more capacity comes online. And I would say that the -- although there's still a backlog at all those ports, it's about half of what it was in that October, November time frame.

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

Okay. And then my last question is with regards to the inventory levels you see at the distributors at the moment at your clients. Are these levels basically in line with what you've seen pre-pandemic? Do you think there's still further room to increase those if, basically, the supply chain further normalizes? Or what's the current view on that at the moment?

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

So interesting question, Christoph, and I'll go to the really short answer, which is inventory turns are still improving out in the marketplace with our clients, which I think, implies that inventory levels are not too high. I will tell you that after 2 years of supply chain constraints, pool pros are prepping for another strong season. Builder backlog is there, all those things. So they're definitely forecasting a strong season and are trying to prepare for it. But in the end, I think the best measure is inventory turns, and inventory turns are in really good shape.

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**Operator**

Our next question comes from Alvaro Lenze with Alantra.

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**Alvaro Lenze Julia** - *Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst*

First one, apologies for going back again to the margin guidance. With the mid-single-digit price increases, I know that you may raise the prices again in H2, but looking at the inflation dynamics that we are seeing right now in commodities and logistics and so on and your exit rate in terms of gross margin that shows a decline year-on-year. Should we expect this 50 basis point expansion in EBITDA margin to come mostly from the lean initiatives and simplifying the structure and operating leverage on higher volumes? Or do you also expect to increase gross margin? That would be my first question.

And second question would be just to understand the increase in volumes you see for the industry. Of course, the supply seems very constrained right now. It was also very constrained at the beginning of 2021. So I wanted to know if you could provide us some indication of how the capacity on the side of the pool pro is evolving. Whether you see that they are increasing their teams with all the -- especially in the United States with all the difficulties in the labor market? Whether you see a significant increase in the pool pro capacity to justify this volume increase?

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

Okay. So thanks, Alvaro. I guess, first, as far as the gross margin increase and whether we see it being driven by price, we never really bank on pricing improving our gross margin. Our goal with price is to offset any inflation and maybe to give a little bit of help on mix. But we don't really expect price to be the driver of improving our gross margin. What we do is like to have that at a neutral page and then all the work that we do on lean, BI, synergies coming through the deals, some additional leverage is really what drives that margin improvement, okay? So that's the first one.

As far as the supply constraint, yes, industry is supply constrained right now from both the manufacturers and the pool pro. From a manufacturer perspective, the backlog was not as big at this time last year as it is this year. So the entry into the year is a little tougher, especially when you're talking about that price read-through. So -- but it certainly gives us a help as far as the look at the overall 2022. As far as capacity on the pool pro, I do think that capacity has expanded. I would point to new pool construction in 2021 as a sign that it really did expand. We were expecting new pool construction probably around 115,000 units in the States, and it ended up, we think, at 120,000-plus. So coming off of a couple of good growth years that says that we grew over 25% in pools, and that means some new pool pros had to be coming online. But I agree with you. I mean, labor is tough, especially in the states. And so I think it's still going to be muted in how fast those -- that expansion is.

**Operator**

Our final question comes from Manuel Lorente with Mirabaud.

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

My first question is on a like-for-like basis, we have seen revenues go up roughly 36% on the full year '21, of which, if my understanding is correct, roughly plus 6% has been a combination of price mix. So the remaining 30% should be coming from volume. Can you give us an idea of the split of that volume growth? This is mostly upgrades and updates? This is mostly in your build? This is a combination of more or less both or is too early to say?

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

I guess as far as our internal official statistics, which are not really that official, it's too early to say. We probably don't have those until sometime later in the second quarter. But I would -- my reaction to your question would be it's coming from both. So clearly, new construction is up. Average ticket on the new construction is going to be up. But to get to that kind of growth across the industry, it has to be in the aftermarket, which is the much bigger piece as well. And so as units continue to upgrade, people are using their pool more, all that is good for us. Seeing more variable speed, seeing more connectivity. These things are all positive for the industry.

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

I see. And my next question, sorry to come back with this again, it's about the phasing of the margin expansion for this year. I'm a little bit intrigued about what Eloy was saying about further margin compression in Q1. This is from the 20% margin of the fourth quarter stand-alone or from the 25% margin over the full year?

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**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

This is -- Manuel, this is related to where we were last year. That's where we expect to see margin compression. We had an exceptionally positive Q1 in 2021, and that's where we are going to be seeing margin compression. In reality, when you look at our margin quarter-to-quarter, you see that there is a pattern because of mix of countries and type of products that we sell. So whenever we reference compression in a given quarter and so on, it's always to prior year because margin changes quarter-to-quarter.

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

This is very difficult to see because visibility at this stage is -- it's very limited but it is fair to say that this 20% margin of that whole quarter should be the trough of this year, right?

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**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

Can you elaborate a little bit more on this, Manuel? I don't really understand the question.

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

Yes, sure. I mean, your implicit guidance points to 25.5% or more than that margin for 2022. This is a back-end loaded type of margin. That my point is whether this is going to be a 20% margin throughout the first half of the year and then roughly a 30% margin in the second half of the year or we should not expect such a margin erosion on the first part of the year because of the combination of price hikes, operational leverage, efficiencies, et cetera, et cetera.

**Javier Tintore Segura** - *Fluidra, S.A. - CFO*

Yes. As I was pointing out, Manuel, and you know that we don't want to guide specifically on margins quarter-to-quarter. But our first half, obviously, is the half of the year in which we make higher margins. So what we are saying is we're going to have compression against that -- the margins that we had in 2021 first half, but this doesn't mean that we're going to be running at this 20% levels that you're pointing out.

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

Okay. And in my last question, probably, with the -- it looks like now that price per dollar pool with the price hike from the last 2, 3 years has significantly increased. So did you see any potential acceleration of the do-it-yourself type of business, further competition from their side or something like that?

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

I think at this point -- yes, interesting question. I think at this point, both sides have shown nice increases. So I wouldn't say that there's anything particularly different one way or the other at this point.

**Operator**

We have no further questions on the phone lines. So I'll hand back.

**David Herrerías**

Okay. Thank you, everyone. 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. Thank you very much.

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