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PRESENTATION

David Herrerías

Good morning, and welcome to Fluidra's 2021 Q3 Results Presentation. I am David Herrerías, the new Investor Relations and Corporate Communications Director at Fluidra. It is a pleasure to be presenting our results to you today. Today's presenters will be Mr. Eloy Planes, our Executive Chairman; Mr. Bruce Brooks, our CEO; and Mr. Javier Tintore, our CFO. (Operator Instructions)

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.

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

Thank you, David. Good morning, and welcome to our third quarter 2021 results presentation. We are presenting today a set of excellent results, and I would like to start by saying how proud I feel about the team and their effort. They are the key factor behind Fluidra's success. They are invaluable in these extraordinary times.

In our last presentation in July, we reaffirm our positive views for the company and for the sector. We can now confirm that the 2021 season will be excellent, and the fundamentals of the business remain very strong. As a leading company in the pools sector, we are ready to continue our growth, increasing our margins and expand our cash flow.

Let me share some comments on today's results before Bruce and Javier dive deeper into the figures. As we have shared in our last presentation, the importance of outdoor living and demographic trends have led to record figures quarter after quarter. Today, we are delivering record numbers on the quarter as well as year-to-date. We have achieved superb growth on top of a record Q3 last year. This quarter proves that we are experiencing a step change in the industry, and there is growth over the new elevated base.

Remember that we started to see the acceleration of demand in the second half of 2020. And in Q3 last year, we experienced growth above 25%. On the other side, the growing inflation and some raw material shortages are affecting our gross margin and our production capacity. But we are confident, our pricing capacity, our flexibility on the production level and our extensive network of suppliers is helping us navigate this environment successfully.

We continue delivering when our clients most need it, gaining market share. At the same time, we are leveraging our strong cash generation with value accretive investments. Our teams have been very active on M&A as we have closed 4 acquisitions this year: BuiltRight; Splash&Zen; CMP; and S.R. Smith, that we provide around 10% growth for 2021. Remember that the next year, we will also see growth from these acquisitions as we benefit from the full-year run rate.

In addition to M&A, we continue with our increasing shareholder remuneration with July's dividend payment followed by an equal 1 next week.

As we continue to see a strong demand in the market, and we are confident in our ability to deliver to our clients in this complicated environment, we are updating our 2021 sales growth guidance and maintaining our EBITDA margin guidance. Bruce will give you more details.

The strong fundamentals of our sector combined with the macro trends and our leading platform provide us with an encouraging outlook for the closing quarter of 2021 and beyond. And at this point, I give the floor to Bruce, Fluidra's CEO, who, along with our CFO, Javier, will provide a deeper look at the 2021 third quarter figures.

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

(foreign language) Let me start with comments on our overall performance and highlights for the first 9 months and then turn it over to Javier, 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 2020 and 2021 financial highlights for the first 9 months. In this 9-month period of 2021, sales grew 41% adjusted for currency and perimeter compared to the same period of 2020 to EUR 1.704 billion. The sustained growth, despite a challenging Q3 comparable was driven by all regions and segments, with North America continuing to lead the way. Adjusted for currency and perimeter, EBITDA and EBITA grew 86% and 105% to EUR 451 million and EUR 400 million, respectively. Both measures showed excellent operating leverage driven by gross margin expansion despite increasing cost pressure.

Cash earnings per share grew an outstanding 139% adjusted for currency and perimeter to EUR 1.45 per share. On operating net working capital, we ended the period 3% higher on a currency and perimeter adjusted basis at EUR 300 million, improving the ratio to sales by 178 basis points. Our net debt stood at EUR 933 million, having increased 55% on a currency and perimeter adjusted basis. Our last 12-month leverage ratio slightly reduced to 1.8x despite the increase in net debt due to accretive investments on M&A.

Moving to page 6, let me share some highlights for the quarter. As for business evolution, and as Eloy mentioned, we have delivered very strong growth this quarter on top of outstanding figures in 2020. I'd like to highlight that the growth has accelerated, with September delivering the strongest growth rate in the quarter. We have seen continued strong demand in the Northern Hemisphere as the season winds down, demonstrating confidence that the industry is expecting another positive season in 2022.

We implemented a mid-to-high single-digit price increase October 1, which will principally read through for the 2022 pool season 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 12 months, 1 at the beginning of the last season and another 1 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 margin year-to-date, and we will continue to do this as we look forward.

We are still operating in a supply-challenged environment as we continue to face strong demand, combined with shortage of some components and an unpredictable transportation environment. We're very proud of our supply chain team and how they have delivered. As a testament to our customer-centric approach, not just in sales and marketing, we've been named Vendor of the Year by the 3 largest distributors and/or distributor

groups in North America. Congratulations to all our team as these awards are a reflection of the extraordinary effort to take care of our customers all the way through our value chain.

Let's move to capital allocation. Our excellent cash generation enables us to offer an attractive remuneration policy, combined with accretive M&A. May Shareholder Meeting approved the proposed 90% dividend increase, with a payout of EUR 0.40 per share to be evenly split into 2 payments as part of our approximately 50% cash net profit distribution policy. The first payment already took place in July, and the second one will be paid November 3, for a total of EUR 78 million of outflow.

On the M&A front, we've recently acquired S.R. Smith for USD 240 million, maintaining leverage within our target of approximately 2x debt to EBITDA. This deal is strategically aligned, helping us accelerate our growth in North America with highly complementary residential products and importantly, will increase our exposure to the commercial pool business in the region. This acquisition is expected to be cash EPS accretive already this year.

We're also happy to share that the integration of our recent acquisitions, BuiltRight, CMP, Splash&Zen and S.R. Smith are on track. We continue to monitor the market for additional accretive M&A opportunities, and the pipeline remains strong.

Finally, yet importantly, we're focused on our ESG journey as it is a key part of our values. We are proud of the 7-point improvement in our ESG risk rating from Sustainalytics, moving from 31.7 to 24.6 and positioning Fluidra within the top 10% of our category. We've also climbed 7 positions to reach the seventh place in the Reporta ranking for 2021 among all companies listed in the Madrid Stock Exchange. It's worth pointing out that we have achieved first place in terms of transparency. Again, great recognition of our team's efforts.

Turning now to Page 7, you see the sales evolution by geography. During Q3, global sales grew 24% to EUR 517 million compared with the same period of 2020 on a constant FX end perimeter. To put this into perspective, this is on top of 25% growth achieved in Q3 of 2020.

In the 9-month period, sales grew an impressive 41% versus 2020 when adjusted for currency and perimeter. Southern Europe saw a solid performance with accelerated demand in the quarter, with currency and perimeter adjusted growth of 7% in Q3 and 31% in this 9-month period.

The rest of Europe continued to deliver good results, with constant FX and perimeter adjusted growth of 10% in Q3, driven by outstanding performance in Belgium and the U.K. This region had the toughest comparable with 42% growth delivered in Q3 2020. In the 9-month period, this area saw adjusted growth of 33%.

North America continued its growth in the 9-month period, respectively. The positive demographic trends driving excellent sell-through and M&A boosted the evolution in this strategic region. Acquisitions represented about EUR 98 million of sales.

Rest of the World saw a double-digit sales growth of 12% for the quarter and 20% for the 9-month period on a currency and perimeter adjusted basis. This area is supported by the solid performance in Southern Hemisphere, but still held back by weak commercial business in Asia. This overall performance demonstrates the continued growth or step change 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 75% of our Q3 sales, growing close to 45% for the quarter, supported by demographic trends and acquisitions. Growth was led by filters, pumps, automatic cleaners and heaters. This segment is up 57% for the first 9 months of the year.

Commercial Pool recovered well and performed better in the quarter on an easy comparable with a 36% increase, mainly led by the aftermarket business. This business unit saw a 22% growth in the 9-month period compared to the same period of last year. We have now recovered well above pre-pandemic figures.

Pool Water Treatment grew 21% for the quarter. This business unit saw very nice performance of the water care equipment segment, along with the flattish evolution of chemicals. The segment is up 27% and the 9-month period.

The Fluid Handling business also saw a continuation of strong growth, delivering 22% for the quarter. Year-to-date, this business unit grew 37%. 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 6,000 employees and business partners for their agility, positivity and sacrifices during these challenging times. Moving full speed and 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 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 line. Below EBITA, you have the nonrecurring expense 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 49% that is 51% adjusted for currency and 41% adjusted for currency and perimeter, with all geographies performing nicely. Gross margin reached 53%, 70 basis points higher than prior year, driven by price and positive impact of lean and value initiatives and cost synergies, partially offset by commodity freight inflation, country and product mix. We have seen an acceleration of inflation impacting the quarter, which we expect to continue in Q4, but we are confident on our pricing capacity over the long haul.

Operating expenses of EUR 453 million with an increase of 31%, which is 23% 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.

Provisions for bad debt is almost 0, showing the good industry situation around the globe.

EBITDA reached a record EUR 451 million, with an increase of 82%, driven by the higher sales volume, margin gains and excellent operating leverage. EBITDA margin reached 26.4% with an improvement of 470 basis points. I want to highlight 1 significant point that is not included in this slide. Our last 12-month EBITDA has reached EUR 523 million, breaking the EUR 0.5 billion threshold for the first time in our history.

EBITA reached EUR 400 million, also showing great leverage, increasing by almost 100% and reaching a margin of 23.5%. Below the EBITA line, the amortization, which is associated to M&A decreases 4% despite incorporating CMP's and S.R. Smith's intangible asset amortization.

Nonrecurring expense of EUR 35.8 million showed a significant increase as we have booked a stock-based compensation catch-up adjustment of EUR 22 million for the 2018-2021 period to reflect the overperformance of the company versus the plan. In addition, they are almost EUR 14 million related to the M&A activity that includes the CMP, BuiltRight, Zen&Splash (sic) [Splash&Zen] and S.R. Smith deals.

Net financial result is EUR 30 million, 10% lower than 2020, driven by lower FX impact. Tax rate for these 9 months is 23% due to a one-off tax benefit in the U.S. associated to the Zodiac merger that we have been able to apply in Q2. With this positive impact, we believe that our full-year rate -- tax rate will be around 25%, 2 to 3 points lower than our normal tax rate. As a result of higher volumes and margins, great operating leverage and lower tax rate, net income reaches a record EUR 221 million compared to EUR 77 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 reaches a record amount of EUR 285 million with 130% increase.

Page 10 shows the evolution of net working capital for the group. Operating net working capital reached EUR 305 million, and includes EUR 56 million of acquisitions, which is mainly driven by the incorporation of CMP and S.R. Smith. It represents 14.9% of sales, an improvement of 178 basis points to prior year, which is linked to faster collections and a significant increase in the level of activity. On inventories, the 55% increase over 2020

is 32 points organic and almost 23 points acquisitions, driven again by CMP and S.R. Smith. We continue to invest into inventories for the increased level of activity in this supply-challenged environment, but we continue to gain efficiency as you look at it on an organic basis.

Excellent performance on accounts receivable, driven by better geographical mix and good collection patterns around the world. Accounts payable increase can be split in 19 points organic and 15 points inorganic. The increased level of activity drives this growth. On the dividends, earn-out and other items front, the most significant in November 3.

The following page shows the free cash flow evolution for the first 9 months as well as the net debt. Excellent performance in terms of operating cash flow, reaching -- on the investment section, there is a significant change as we have completed the acquisitions of CMP, BuiltRight, Zen&Splash brands and S.R. Smith for a total of EUR 426 million. And we have invested EUR 86 million in the acquisition of treasury stock as well.

Our net debt reaches EUR 933 million with a leverage ratio of 1.8x compared to 1.9x in 2020. So in summary, record financials for the first 9 months, and we are well positioned to deliver an excellent 2021.

And with that, I will turn the call back to Bruce and Eloy for the closing.

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

Thank you, Javier. Moving on to Page 12, let's talk about our outlook and specific guidance. As discussed in today's call, we've delivered an excellent first 9 months of the year and remain positive for the rest of the year and beyond. The residential pool season in the Northern Hemisphere has been strong, and we feel confident on delivering a solid Q4 despite the challenging supply chain and inflationary environment. Sales data for October is continuing the positive momentum.

Builder backlog stretches into 2022, driven by work-from-home, southern migration and outdoor living trends, with North American new builds still below historical averages. 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. These tailwinds should offset any potential pull forwards experienced in 2020 and 2021. In addition, we continue to see recovery in Commercial Pool in our Southern Hemisphere as well as the benefits of accretive M&A.

All these points confirm that 2021 will be a record year for Fluidra, and we see growth above the step change base in 2022. To offset the stronger-than-expected inflationary pressures on shipping, raw materials, electronic components, we have accelerated the price increase for the new season, already implementing a mid- to high single-digit rate in the Northern Hemisphere.

On the back of this strong demand and our ability to manage this supply-constrained environment, we are upgrading the 2021 guidance once again, upgrading sales growth from 37% to 42%, to 40% to 45%, recommitting to our previous EBITDA margin between 25% to 25.5% despite the challenging and volatile environment. Also maintaining our cash EPS growth between 83% and 93%.

It's important to point out that this guidance should be taken with the following assumptions. Growth rates include executed M&A, which contributes approximately 10% plus growth. We're not assuming any COVID-19 resurgence, shutdowns, no major supply chain disruptions that may lead to incremental inflation. Tax rate of around 25% 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. The M&A pipeline continues to be strong.

And now back to the Chairman to wrap up the prepared remarks before moving to Q&A.

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

Thank you, Bruce and Javier. As you have seen from today's presentation, our Q3 has been strong across all regions. And the market dynamics are encouraging for the last quarter of the year and beyond.

The industry is experiencing a step change supported by new demographic trends. Fundamentals of the business and resiliency of our industry remain strong, as you can see from our performance. We have now accumulated 5 consecutive quarters of double-digit growth.

We keep focus on supply chain, managing the increasing inflationary pressure, shortages of components and transportation issues. Our flexible manufacturing network has adapted to catch up with demand. Our ability to raise price together with our margin improvement programs and our operating leverage has allowed us to increase our margins year-on-year and we'll continue to do so in the future.

Our cash flow generation enables us to remain active on M&A and increase our dividend distribution while keeping the net debt ratio around 2x. Our strategy and investment strategy remain unchanged. We are the global leader in an attractive market with 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 investments, including potential M&A, deliver attractive returns on capital. Let me finish saying that we are proud of our results this year. We are nicely positioned to close another excellent year, and we remain optimistic on the future, committed to our long-term objective.

Thank you for joining us today and for your continued interest. I hope you all stay safe. Now I will turn the call back over to David to begin our Q&A session.

QUESTIONS AND ANSWERS

David Herrerías

Many thanks, Eloy, Bruce, Javier, for your presentations. We will now begin the Q&A session. (Operator Instructions)

Operator, please go ahead with the first question.

Operator

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

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

I've got 3, if that's all right. My first one would be, clearly the strong market demand is seen generally, and you've got exceptional growth again in North America. POOLCORP had signaled strong growth for inventories in year-on-year in Q3. So I wondered if you could give us a sense of what you're seeing in terms of inventory levels in the channel.

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

Okay, George. Let me see if I can talk a little bit about what's happening out there with inventory in the channels as well as -- I think the question is probably a little deeper. I think you're reading into our pace of growth, maybe a little bit versus the pace of POOLCORP.

Yes. So I think the first place I would start is if you looked at POOLCORP's growth, it's really strong, but equipment is even stronger than their growth. I think equipment is running -- if I don't -- correct me if I'm wrong, I think it's close to 40% on a year-to-date basis. And I have to say that our position inside of POOLCORP is running a bit ahead of that. So I think we're in a really good position from a POS perspective.

The next thing I would say is, if you look at the business, I think, historically, there's a timing difference between distribution and manufacturers. And quite frankly, POOLCORP's growth -- you were asking this question a little bit differently. I think a year ago, POOLCORP's growth was ahead of ours in 2020. And now it's balanced back a little bit the other way.

So over a couple of years, I think it's probably fairly normal. But most important, and this goes for beyond POOLCORP, but I think this is a statement for Europe. We see that the inventories are more healthy now in Europe. But when we look in the U.S., inventories are still a little lighter in the channel than we'd like to see. We look at that mainly by a days sales outstanding metric, which really leads to turns.

And so if you do it on a days sales outstanding, the inventory in the channel, particularly in the U.S., is still below pre-pandemic level, while it's getting a little bit more normalized in Europe. Do you want to hit the second one?

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

Yes, on the second question, you've mentioned about build the backlog, clogs already extending into 2022. That's a commentary I've heard from you before, obviously, but I just wanted to know if there was any incremental change in the quarter versus what you're saying at Q2 in terms of the backlog visibility for pool professionals.

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

No. The only color I would add there, George, is we keep talking about it moving to the right. It's at least 6 months now. And the -- I think the continued good news is it's not just a North America thing. We see backlog in Europe, and we also see backlog in Australia.

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

And then my final question would be, could you give us a sense for how demand in connected pool equipment has developed? I think at the CMD, you mentioned that 65% of U.S. new builds included connectivity. And clearly, new build construction in the region has been growing well. So can you give us an update on where you are versus the 2025 targets for IoT, please?

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

Yes. Good question. Connectivity continues to be very hot. I think more and more on new builds, it's becoming expected. Let's say that it's at least 65% at this point in time. So I wouldn't give a new number in the middle of the season like this. But the demand on all our connected products is really strong. I think the other interesting thing, and we launched -- is we're seeing more connected products go in, into the aftermarket. We launched a new robotic cleaner this year that had connection capability, and the sales on that are outstanding. So we're really excited about what's happening in connectivity.

Operator

Our next question comes from Francisco Ruiz from Exane.

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

I have a couple of questions. The first one is regarding the organic growth for Q4 and for next year. I mean with the stock up well at high levels, although they are still at pre-pandemic as you mentioned, with the tough comparison, how could we see the volume growth, excluding the price increases in the coming quarter? Because your guidance could give us an organic growth in the quarter between minus 10% and plus 10%, okay? And in 2022?

And my second question is, given the pricing that you are visiting for the year, how do we see the margin? Because with such a big increase in top line, can we see mathematically margins going down versus this year?

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

Okay. Let me see if I can tease out those two, Paco. So first was a question about demand. A little bit Q4 and then into how do we see 2022 growth, I think. And the second is impact of price as we look into Q4 and beyond. Did you say minus 10% to plus 10% on Q4?

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

If you are using this range of the new rate, 40% to 45%, and that 30% to 35% organic excluding the M&A, so it could be implicitly something like around -- yes, I think it's a minus 7% and plus 12% or something like that.

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

We are looking back on this. We are looking at north -- sort of flattish in the low range to north of 20% in the high end.

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

So anyway, we see, obviously, demand a little bit stronger in Q4 than the numbers that you shared. And I guess where I would remind you is this continues to be a supply challenged environment. The demand is robust. Now you want to start to get towards '22 a bit. And the first place I would start is when you look at Early Buy, which we've often talked about at this time of the year in backlog, I think it points to a very positive start to 2022.

I talked about it in the prepared remarks on what are the real drivers. And obviously, it's a bit premature to get into what exactly the numbers are going to be in 2022. But we continue to be quite bullish that we can continue to build off of this strong step change that we've had. We talked already about new build momentum. Backlog is strong, and I think we'll keep driving the demographics on people moving south, moving to the suburbs, even millennials getting into the housing right now are all really encouraging.

So then you've got the average ticket on the new build that is important. As more and more pools are connected, we see more lights, we see saltwater features on them. So a number of things that are driving in the new build.

Aftermarket, we've talked before. I mean I do think there's some headwinds out there, thinking about things like the Texas freeze and some of the categories that are super accelerated, like heat or above-ground pools, but we've got more pools out there. We've got more usage. Average ticket in this space goes up. I mean you mentioned price. There's material price increase year-over-year, and we can get more specific there, if you like.

And then we continue to gain share. I talked about some of the new products earlier, like our connected cleaner pumps. We've got recovery of commercial and APAC. And last but not least, you've seen us with significant accretive M&A. So again, too early to call 2022, but we feel we feel real positive heading into it.

David Herrerías

The second question was on the outlook for the margin.

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

Yes. I think there's a couple of things going on here as you think about margin. And clearly, the inflation environment has been challenging. But I think our team has done a really -- pretty good job of getting ahead of the challenge here.

With the price increase that we took, it was probably a little bit more than we usually would have taken to start off the season. We were surprised by the level of inflation. So we took the unusual step of taking an additional move as we got into the March-April time frame. And then now we've taken more than 6% and even pulled forward our north -- excuse me, our European price increase from a traditional January time frame to October.

So all these things, I think, put us in a really good position to, at very least, cover off the inflationary pressures that we see. Now we've been -- we've been surprised a bit little on the level of inflation. And so if it continues to accelerate, I think the industry has proven and we've proven that we'll continue to take price to make sure that we can cover that.

Then we're not going to stop on our margin improvement programs. I'm amazed that with all the inflation that's out there, how well our team has done on the lean and value improvement initiatives. This is something that's perpetual for us, and I think it's been a real aid to our performance year-to-date.

So we get it. It's a really volatile time. But fortunately, we're in an industry that takes price and we're going to continue to work on our margin initiatives to deliver our midterm objectives.

Operator

Our next question comes from Iris Zheng from Credit Suisse.

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

Congratulations on good results. I've got a few questions, and I think I will go one at a time. So firstly, I want to follow up on the 2022 question because that's what investors are focused a lot on. And I remember that you used to talk about the confidence of achieving another year of positive growth. And I just want to double check if this is still the case in this quarter, in terms of how you see it going into 2022?

And also you just mentioned about the positive momentum on the early buys and backlog. And I want to just double check, when you say positive start for 2022 from indications from early buys and backlog, do you mean a year-on-year even positive growth on top of what was already very strong versus the beginning of this year?

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

Okay. I think I got that all, Iris, and thanks for joining the call. So first of all, again, I'm not going to give you a specific number for 2022. And Javier is looking at me with daggers in his eyes going, you can't do that yet, Bruce, we haven't even finished the budget. So anyway, I think it's premature to lock into a number. But let's just say that we're still very confident in our midterm guidance. So that doesn't scare us.

Then I think your second question inside of that first one was Early Buy and backlog, how does that compare to where we were at this time last year? And just to be clear, the early buying backlog is stronger at this point this year than it was last year, again, giving a positive signal to 2022.

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

Bruce, and sorry for pressing on the -- yes. We just want to get some kind of indicative -- indications rather than some any precise numbers.

And my second question is on the dynamics between the growth between OE versus aftermarket? And I wonder if you see any kind of different trends when it comes to the growth drivers from the OE versus aftermarket in Q3 versus the...

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

Iris, we didn't like the question, so we made technical difficulties, so we could barely understand it. Actually, I'm kidding. So if you could if you could ask that again, please, because we had a lot of noise in the background there.

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

Yes, sure. Yes, sure. I just wish to ask about the market dynamics when it comes to the OE market versus the aftermarket market. Because we want to kind of double check if we see any weakening or -- especially of trends of those 2 different markets, kind of excluding the more like one-off impact from the Texas situation earlier in the year. More talking about the underlying market dynamics between OE versus aftermarket, if there is any change in kind of the dynamics.

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

Yes. Any significant change, I mean, clearly, the new build segment is capacity constrained. We do see a little bit more capacity coming in, in North America, which is helpful. And so -- I mean, I think that continues to be quite positive. Aftermarket has continued strong post Texas, as you say. So we think we're really through the that little kind of one-off type of thing. And otherwise, we continue to see, from an aftermarket perspective, excellent numbers in heat, excellent numbers in saltwater chlorination, excellent numbers in connectivity.

So -- and then now we're starting to see the beginnings of more push behind variable speed pumps in the U.S. as legislation is going, in fact. So I would say no material change, but certainly nothing that wasn't expected.

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

Okay. That's very helpful. And my last question is on M&A. Because M&A is now becoming a more significant part of the growth. And I wonder what like broadly speaking is the margin level of your M&A targets versus your group level? So I wonder if there will be any M&A impacts on the group margin that we should bear in mind?

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

Iris. I'll take this one. Generally speaking, most of the acquisitions that we have done this year are marginally below the average margin percentage of the group. And obviously, we count here on cost and revenue synergies plan as we integrate them to become within the margin range of the group or even help us drive margins higher as we move into 2022 and beyond.

David Herrerías

Any other questions, Iris?

Operator

I think her line just dropped unfortunately. Our next question comes from Christoph Greulich from Berenberg.

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

I would like to start with some clarification on the Early Buy program for the 2022 pool season. So if I remember correctly, ahead of the '21 pool season and a larger than usual part of the early buys were shifting Q1 instead of Q4. So what is your expectation for this year? And will the Early Buy split between Q4 and Q1 be more similar to the pre-pandemic years or more similar to what we've seen last year?

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

Good question, Christoph, and hello, I guess. Anyway, as far as the Early Buy is concerned, I would say that the pattern is a little bit different this year just because of the scale of the backlog. And frankly, I think as far as the Q1 versus q4, you'll see as much or more into Q1. So not heading back to pre-pandemic and hopefully never heading back because it's been a good thing for our working capital as well.

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

Yes, that's very clear. Then on the pricing initiatives, so the mid-to-high single-digit increases that you mentioned you have implemented for the next pool season, will they already have a full impact on the Q4 revenues? Or are you still having sales in Q4 under the old prices?

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

Yes. I think that's actually one of the trickier things as you look at our Q4 numbers, Christoph. So good question. We put the price increase through on October 1st in the Northern Hemisphere. And at the end of the day, with the level of backlog that we have and the way that the Early Buy is structured this year, I just -- I think we're not going to see as much read-through as we would have originally hoped.

So we feel like we're in a really good position for 2022. But clearly, the inflationary environment has been a little bit tougher than we would have expected. Demand has been a little bit better. And so hence, you see the guidance that we've pulled forward.

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

Yes. And then maybe another word on the cash EPS growth outlook. So you expect a stronger sales growth than before and the same margin. So why is the cash EPS outlook not up? Has anything changed below the EBITDA line in the P&L?

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

So let me -- again, I guess, I'll kind of get into the guidance one more time. So first of all, demand, frankly, was better in Q3 than we were anticipating. So hence, you see the -- and I think our expectations were actually pretty high. So hence, you see the raise in the overall sales number.

I have to say inflation was a bit worse on, let's call it, tough expectations. So really not much room, hence why you see us holding in the margin range. And as I just mentioned, price probably being a little bit slower getting through because of the backlog.

As you look at the cash EPS, I mean we've got increased debt. So we've got some increased interest payments that will happen in that time period. So there's really not a significant enough room for change on the EPS guidance.

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

That's clear. Just my last question, yes, with regards to M&A activity in your factors. So we've seen one of your main competitors in the U.S. recently announcing the acquisition of a pool filter specialist, Pleatco. So was it a situation you also looked at? Or was there not enough of a strategic fit for you?

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

Yes. I think if you look at overall Pentair's business, it probably makes much more sense for them. Because they were, I think, if I remember correctly, around 50%, 60% pool related and the other half was in filtration. They probably tied better to some of Pentair's other businesses. So it was not one that we felt was a good fit for Fluidra.

Operator

Our next question is from Manuel Lorente from Mirabaud.

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

First, a follow-up on prices. So this mid-to-high single-digit price increase for next year pool season, if I understand correctly, it has already been or trying to be implemented in North America, but not in Europe yet? Is that something that we'll have to wait for next year? Or...

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

No, that -- if I led you that impression, I'm sorry to mislead you. No, we have taken the price increase as of October 1 across the Northern Hemisphere, so both in North America and Europe. And in Europe, this is a pull forward. We would traditionally do this on January 1, but we have done it in October. And I think it really better positions us so that we'll get a full read through of the price for the 2022 season.

Clearly, this is a strange inflationary environment that we're all trying to manage through. Again, this is an industry that takes price. There might be some quarter-to-quarter noise in how these things read through, but we remain confident that we'll be able to protect and even grow the margin on an annualized basis.

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

Okay. Great. Understood. So then my second question is on volume dynamics, right? As you perfectly said in a number of occasions, there has been a structural change somehow post COVID in the industry, right? That, as quarters evolve, I tend to identify a kind of a 2-speed sector.

On the one hand, we have North America growing at a massive speed somehow back. On the other hand, Europe, I don't know if it's because we are returning to the normality in a different way or whatever, I have the impression that it's slowing down somehow. Do you have that feeling that there is a certain correlation between the structural megatrend in North America and Europe or the rest of the world?

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

I would say the pace is maybe a little bit different, but the structural megatrends are the same in both Europe and North America. I guess I never thought we'd have to apologize for 30-plus percent growth on a year-to-date basis.

So I look at Europe's situation, and I think it's fantastic. I think the really good news out of the Q3 is that we've got a huge comparable in both regions and specifically in Europe. And so the fact that the business comped over what it was next year, it just gives us more confidence going forward that we had a step change or we're having a step change and that we're building off of that -- that we're building off of that increase. So I think it positions us really well for the future.

In addition, and I made this comment in the prepared remarks, and I'm not sure how it translated. But the thing that we're really encouraged by, and was particularly in Europe but a bit in the U.S. as well and even in Australia and some of our other markets, July was good. August was better than good, and September was even better. And so that was a real pleasant surprise to us because we felt like, of course, there's going to be some people trying to drive volume as beat-the-price. But when you go down into the POS of our distributors and even our own pro centers, to see that same trend says that those macro trends that we keep talking about, we believe are real.

Manuel Lorente - Mirabaud Securities Limited, Research Division - Analyst

Do you think that maybe that is because there is some restocking panic in the industry, in the context of these supply chain disruptions and energy shocks, et cetera?

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

Yes. Again, I'll break it on two different levels. Manuel, I think for sure that the channels want to be stocked going into 2022 season, because they've been in a situation for the last two seasons where they've been fighting for inventory, and they're also very conscious of the supply chain challenges out there.

But I think the second piece is more important. When you start talking about the sell-through at key distributors or in our pro centers, you're talking about going to pool pros that don't stock inventory, that are working on jobs. And so I think that's the robustness of new construction continuing to go and aftermarket demand. So again, encouraging.

Manuel Lorente - Mirabaud Securities Limited, Research Division - Analyst

So probably my final question, and I'm sorry to come back to next year trends. But when you shared with us our -- your medium-term target assumptions, you were outlining somehow a 4 to 8 market growth for those targets, right? And in the context of the current ticketing evolution, it is fair to say that for next year, we will be above those million term growth assumptions for the market, right?

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

Good question, and I'm going to say too early to call. I mean there's a lot of moving parts right now on the dynamics of the market from inflation to new construction, et cetera. What we feel confident is, is that we can continue to deliver into the midterm guidance. How it exactly breaks up, again, I'm going to say too early to call.

Operator

Our next question comes from Janine Ryan from Allied Irish Bank.

Janine Ryan

Congratulations on another great quarter. Two quick questions from me, hopefully. So the first is on the M&A that we've seen so far this year. So I know you've kind of guided that for 2021, we'll be expecting that to contribute about 10% to the growth. Do you have any kind of indication on how we should think about that on a full-year basis? Because I'm conscious of some of those were embedded mid-year, so what you're expecting a full-year contribution from some of those -- from those acquisitions combined to be?

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

Yes. Again, we don't want to talk specifics about 2022. I think we've provided guidance on those transactions. Look, CMP was acquired and has consolidated 10 months in the year. And S.R. Smith, which is the other significant acquisition in the year, we have only consolidated 4 months in the year. So therefore, you're going to have a full year effect on those come 2022.

Janine Ryan

Okay. Great. And then just the second question is, I suppose when we think about the kind of the demographic shifts we've seeing been and all the great underlying trends in terms of particularly in North America, people moving sites, the shift to the suburbs, how is that impacting kind of the segment split between aftermarket and new builds for you at the moment? I know, obviously, aftermarket had been growing, and I know that the ticket sizes are going up. But is it kind of changing the segment split for you at the moment?

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

I'm sorry, Janine, I missed the first half of that question. If you don't mind repeating, so it's basically the dynamics between the aftermarket and new build. Is that right?

Janine Ryan

Yes. I kind of -- particularly in the context of the sort of underlying trends that we're seeing that are driving a lot of the growth, are they kind of giving a particularly strong growth in new builds? And notwithstanding that, I know, obviously, the average ticket sizes are increasing on the aftermarket side, but is that changing the segmental split from your perspective?

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

No, I don't really think it's changing any of the dynamics. I mean new construction continues to be strong. We would expect new construction to continue to grow next year. There's a strong backlog going in. We still see people working from home, even if it's partially now. We still see the overall flight to the suburbs and we definitely see it in the migration to the South. New construction is a particular strength of Fluidra, so that certainly helps us.

And then as far as the aftermarket is concerned, I think people are still not traveling to the full extent. They have cash and are continuing to invest in the outdoor living experience. And so that's also positive for us.

And then I guess the other one that -- what you didn't put in there, but I'll just add is, there are some people traveling again. And so we're seeing the aftermarket in commercial beginning to improve. So again, as we look at 2022, and premature to lay out numbers, but the signals are still quite green for our industry, as I think you've heard from us and many others.

Operator

(Operator Instructions) Our next question comes from Alvaro Lenze from Alantra Equities.

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

Congrats for the good results. Most of my questions have already been answered. I just wanted to know if you could provide us some detail on the -- in the context of the rising shipping costs? How are your flows in imports and exports, whether you import most of your products to any particular region and you export from one region to another? Or whether you are more regionally sourced? And how does that compare to your main peers? I don't know if there are any material differences between the main industry players or whether you all import from the same places to sell in the same places.

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

Okay, Alvaro, I'll try to take that. I'm not sure I've got specific facts for you. But in general, our manufacturing strategy is to really drive the majority of our volume from regional manufacturing. So the majority of our European is fed out of Spain; the majority of U.S. is either fed out of Mexico or the U.S.; Australia, Australia; et cetera, et cetera, right? Now we do have some families of categories that come from lower cost Asia, mainly in the cleaning space, so there's a bit of an overall mix.

I'm not sure that's much different than our peers. I think the thing that's hard for us to factor in and hard to figure out versus any of our peers is we all source components from all around the world. And these components being trapped out in the ports of L.A. or wherever is a challenge. And it's a daily challenge that our supply chain team, I think, has done a really good job with, of fighting through. But I will tell you that it's a daily hand-to-hand combat.

We feel really good about our industrial footprint. We think it's helped us respond maybe better than most during this time, but it's a challenge for us all.

Operator

And there are no further questions.

David Herreras

Okay. Thank you, operator. So this marks the end of today's presentation. Thanks to -- we thank our speakers and participants. And as always, please feel free to reach out to our Investor Relations department for further inquiries. Have a great day.

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