REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FLUI.MC - Q4 2024 Fluidra SA Earnings Call

EVENT DATE/TIME: FEBRUARY 27, 2025 / 9:00AM GMT

CORPORATE PARTICIPANTS

Clara Valera *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Eloy Planes Corts *Fluidra SA - Executive Chairman of the Board*

Jaime Ramirez *Fluidra SA - Chief Executive Officer*

Xavier Tintore Segura *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

CONFERENCE CALL PARTICIPANTS

Jingyi Zheng *UBS - Analyst*

Manuel Lorente *Banco Santander - Analyst*

Francisco Ruiz *Exane BNP Paribas - Analyst*

Tim Lee *Barclays - Analyst*

Juan Canovas *Alantra - Analyst*

Anna Ractliffe *Bank of America - Analyst*

PRESENTATION

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Good morning, and welcome to our full year 2024 results call. I'm Clara Valera, Strategy, Investor Relations, and FP&A Senior Director. Joining me today on this call is our Executive Chairman, Eloy Planes; our CEO, Jaime Ramirez; and Xavier Tintore, our CFO. They will walk you through a few slides on our results, and then they will be available to take your questions. You can follow this presentation in its original English version or in Spanish. Please select your preferred option in the menu at the bottom right-hand side of your screen. (Event Instructions)

The presentation is accessible via our website, fluidra.com, and has also been uploaded to the Stock Exchange Commission this morning. A replay of today's presentation will be made available on our website later today. With that, I hand it over to our Executive Chairman, Eloy Planes.

Eloy Planes Corts - *Fluidra SA - Executive Chairman of the Board*

Thank you, Clara. Good morning, and thank you for joining our full year 2024 results call today and for your interest in Fluidra. Jaime and Xavier will provide more details shortly, but let me start with a few key takeaways. We delivered a strong 2024 performance at the top of our guidance for the year with sales and adjusted EBITDA growing 3% and 7%, respectively.

Notably, for the first time since 2021, we have returned to year-on-year volume growth. We finished the year strongly with sales in Q4 up 9% and growth across all regions. This is an excellent performance outperforming the market in a mixed environment with a resilient aftermarket but lower demand for new build.

We continue to grow margins, driven by the timely execution of our simplification program, which is well on track to deliver the savings expected for the remainder of the plan. We are pleased with the double-digit growth at the net profit level.

Cash generation was strong, consolidating our progress in working capital management and successfully reducing leverage. We are introducing guidance for 2025. While macro and geopolitical uncertainty remains elevated, we are confident we will continue to deliver organic growth alongside further margin expansion. Beyond 2025, we expect to further expand our leadership in a structurally attractive industry with long-term growth underpinned by favorable growth drivers and a recurring aftermarket.

At our Capital Markets Day on April 8, we will share deeper insights into our industry strategy and why Fluidra is well positioned for sustained leadership in the global pool industry, delivering growth and value for all stakeholders.

On the next slide, you can see how over the past five years, we have delivered outstanding performance exploiting our established position to further strengthen our global leading platform. This was achieved in an extraordinary and volatile period whose dynamics I think you are all familiar with. We generated this progress, growth, margin and efficiency, cash generation and capital allocation with a clear focus on delivery and execution.

We have grown revenues at a compounded average growth rate of 9%, expanded adjusted EBITDA margins by 300 basis points and improved return on capital by more than 460 basis points. I'm proud of the team and what we have accomplished to date.

We are a preferred partner for our customers, outperforming our peers and having grown our share in a larger industry. The global installed base of pool has expanded, building the foundation for future aftermarket demand.

We remain focused on driving long-term success by delivering fantastic pool experiences responsibly, offering more connected and sustainable products and creating value for our stakeholders. We look forward to discussing our results with you this morning. And with that, I hand first to Jaime to continue with our presentation. Jaime, the floor is yours.

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

Thank you, Eloy. It is a pleasure to be here with all of you today. Moving to our full year performance on slide 6. I will provide some highlights and then turn it over to Xavier to share more detail on the financial results. Our strong 2024 performance was at the top end of our expectations.

Sales were up 3% year-on-year to EUR2.102 billion. Performance in the fourth quarter was strong with growth across all regions, driven by the 8% higher volumes and positive pricing. Adjusted EBITDA was up 8% year-on-year on constant FX and perimeter to EUR477 million, which represents a 23% margin.

This reflects the strength of our business model and the actions we have implemented with consistent improvement in gross margin, driven by our initiatives to increase efficiency and productivity, together with mix and partially offset by higher OpEx. Xavier will provide more color later.

Going down the P&L, adjusted EPS was up 10% year-on-year. We have managed working capital very well. Operating net working capital to sales in the last 12 months was around 18%, improving 60 basis points versus last year. Cash generation in the period was strong. The ratio of net debt to adjusted EBITDA at the end of December was around 2.4 times, down from last year.

On slide 7, you can see on the right-hand side chart, the return to organic growth with volumes up for the first time since 2021, together with, as expected, positive pricing contribution. We saw an improving sales development throughout the year with a strong final quarter.

North America sales were up 7% year-on-year, a consistent sequential improvement with good sell-through across our customer base. This performance is a testament to our easy to do business with customer-centric approach, our exposure to the Sunbelt and our mid- to high-end market positioning.

In Europe, where we believe we're also outperforming the market, the recovery we started to see in Q3 continued with 5% organic growth in Q4. Trading improved as we progressed through the year in a mixed demand environment with softer markets in France and Central Europe.

Overall, new construction demand was as expected, weaker year-on-year, but this was more than offset by resilient aftermarket demand, share gains and not having the correction of inventory in the channel we faced in 2023, in particular in North America. Beyond financial results, page 8, as Eloy pointed out, we continue to strengthen our global leading platform, which is recognized by our customers. Let me share some of the highlights of the year.

First and foremost, our customer centricity. We have a high-quality innovative product offering with sales from new products launched representing around 20% of total, of which 80% represent products more sustainable than the prior solution. I'm particularly proud we were awarded Vendor of the Year by the top US distributors for the fourth year in a row. This reflects our sharp customer focus, our attention to service and relationships and our continued development of cutting-edge pool solutions to strengthen our product offering.

Secondly, our margin expansion and investment for growth. We made progress to be a more efficient and effective organization, and Xavier will speak in a bit more detail about the simplification program in a moment.

We're investing in our business, both organic and inorganically. In 2024, we announced three bolt-on acquisitions that will help reinforce our leadership in the pool industry. We'll continue to evaluate opportunities as they arise.

Last but not least, sustainability is foundational for future growth. You can see on the slide some of our 2024 achievements with our efforts being recognized by well-known rating agencies. With that, I will turn it over to Xavier to explain the financial results in more detail.

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Thank you, Jaime. Let's turn to page 9 to start with the P&L. Sales of EUR2.102 billion represent a 2.5% increase year-on-year. FX represented a negative impact of 50 basis points and acquisition added 40 basis points of growth. Gross margin reached 56.6%, 340 basis points higher than in 2023, being the seventh consecutive quarter with gross margin higher than the prior year period. We have seen a positive contribution from the simplification program, favorable geographic mix, and pricing read-through despite declines in chemicals. Together with inflation on raw materials and limited impact from inflation in freight.

Operating expenses reached $712 million, up 10%, with enhanced investments in digitalization, increases in labor costs due to higher production volumes and inflation and some increase in provisions and cannot be compensated by the contribution from our simplification program.

EBITDA of $477 million was up 7%, driven by higher gross margin, more than offsetting OpEx inflation and some increased investments. EBITDA margin was 22.7%, 100 basis points higher than 2023. EBITDA of EUR380 million is up 7% with a margin of 18.1%, which is 80 basis points above last year's.

Below the EBITDA line, PPA amortization is down 6% to EUR63 million. Restructuring, stock-based compensation, and other expenses of EUR57 million were up 11% with higher one-off costs from simplification program and lower stock-based compensation.

As we look into 2025, the simplification program comes to an end, and we expect this line to be significantly reduced to around EUR25 million. Net financial result amounted to EUR67 million, 15% lower than last year, driven by lower debt and the successful hedging program put in place in 2022. Tax rate was 26%, similar to the one of 2023. Net profit reached EUR138 million compared to $114 million in 2023, an increase of 21%.

As you know, we track adjusted net profit, a good indicator for Fluidra as we have a significant noncash amortization charge entirely purchase accounting related that impacts our net profit and EPS calculation. Adjusted net profit amounted to EUR233 million, 10% higher than last year.

On the next page, I will share our progress on the simplification program, which is delivering long-term value and structurally strengthening our business. We have made significant progress in 2024, having achieved to date EUR68 million in cumulative savings. We are on track to finish 2025, delivering the targeted EUR100 million savings. This year's incremental savings are driven by global strategic procurement efforts and product design to value initiatives.

Page 11 shows the free cash flow statement as well as the net debt evolution. Free cash flow in the period of EUR85 million that compares to EUR160 million last year. Let's look into the different components. Operating cash flow was $311 million versus $429 million last year, mainly driven by two factors.

On one side, the lower contribution from net working capital as in 2023, we generated significant cash from adjusting our inventory levels. And on the other side, the higher cash taxes paid in the year associated to higher anticipated tax payment in Spain in 2024 and the timing of tax payment in prior years.

In absolute -- in terms of absolute net working capital numbers, we have continued with the excellent execution with 60 basis points improvement, reaching net working capital to sales of 17.6% despite having invested in the last quarter, building higher inventory levels to prepare ourselves for the season.

On the investment front, we have used EUR74 million, EUR20 million less than in prior year when we closed the acquisition of Meranus. On the financing front, we are $23 million better than prior year due to the lower dividend outflow.

Finally, net debt reached EUR1.132 billion, down around EUR41 million compared to the prior year period. Our leverage ratio is 2.4 times versus 2.6 times ratio last year, nicely trending towards our 2 times target. And now I will give the floor to Jaime and Eloy to conclude today's call.

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

Moving to our guidance for next year on slide number 12. We are positive about 2025 and expect sales growth and margin expansion. We anticipate a stable evolution in residential new construction demand as well as in remodel, which can be expected to vary by market with some slightly up or slightly down. This is an improvement compared to the declines in new build we have seen in the last years.

On the other hand, we expect residential aftermarket, in particular, maintenance and repair to grow low single digits. We also expect positive development in our commercial pool business. We have implemented moderate price increases for the 2025 pool season. This, along with the positive contribution from the simplification program, mostly in gross margin, should more than offset inflation in labor and other costs. We continue to invest in growth and digitalization to strengthen our business for long-term success.

Please note that any effects of tariffs on Mexican inputs are not included in our guidance. Next week, we expect to have more information. We have been working on our action plan, which is ready to be implemented in case tariffs go ahead. This plan includes strategic supply chain adjustments to diversify our procurement base for the long term, together with cost saving and efficiency measures as well as commercial plans to offset the impact.

Our guidance is based on the current Euro to US dollar exchange rate of around EUR1.04 and includes the contribution of the M&A deals completed to date. All in all, we are expecting sales between EUR2.140 billion and EUR2.250 billion, adjusted EBITDA between EUR500 million and EUR540 million and adjusted EPS between EUR1.33 and EUR1.48. And now back to Eloy to wrap up the prepared remarks before moving to Q&A.

Eloy Planes Corts - *Fluidra SA - Executive Chairman of the Board*

Thanks, Jaime. Our 2024 performance was strong, returning to growth and improving our margins in a mixed trading environment. The simplification program is well on track to deliver planned savings and drive further margin improvement this year. We continue to build a stronger business with our customers at the center of what we do.

We are encouraged by the solid underlying demand, and we are ready for 2025 with our mitigation plan prepared if tariffs are implemented. Looking into the future, we are focused on accelerating growth, both organically and inorganically, while delivering improving returns on capital over the medium term in an industry with attractive structural growth.

QUESTIONS AND ANSWERS

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Eloy. Jaime and Javier, for your presentation. We now begin the Q&A session. (Event Instructions)

The first question comes from Jingyi Zheng at UBS. Jingyi, please go ahead.

Jingyi Zheng - *UBS - Analyst*

Hi, good morning, and thank you very much for taking my question. I have two questions here. The first one is on your performance in Q4. I wonder what was driving the double-digit strong performance in North America. And if you could give a split of how much of that was pricing versus volume?

And second question is on your guidance. I appreciate the color by end market and the detail on pricing. I wonder if you could give some color on what's baked into the top end and bottom end of your guidance. I just want to understand the bull case and bad case here and maybe how much of that is dependent on the broader macro interest rate environment and the tariff development, please? Thank you.

Yeah. Okay. If we go with the first question, and I guess you take the second one, Xavier. If we go with the first question, we're very pleased with our strong Q4 performance. And that was mainly driven by volume. Out of the 9%, 8% came from volume and 1% came from price. Generally, we're seeing low demand in new pool, but aftermarket continues to be very strong for us. And that's where we continue gaining market share. And also, we have very positive impact in commercial pools.

One important thing to notice is that we follow a lot our sell-through in the market and our sell-in and our sell-through are very connected as we finish the year-end when we see our total year growing 7% and when sell-out from our customers in the mid-single digits. So we feel very good about that. And at the end of the day, a lot of the growth came from gaining market share for us.

Yes. I'll take the second one. I mean the components of guidance as shared by Jaime, but let's get a little bit more into detail. We see positive momentum in all regions in the year as the year has started and as we have built the guidance, in particularly around aftermarket, remodel and commercial pool.

We have implemented some price increases, but we still remain cautious because of geopolitical and economical uncertainty. But getting into specifics, we are expecting new build to be directionally flat. And if you go to the lower end or the higher end of the guidance, I mean, in the lower end, clearly, we are still expecting minor decreases and the higher end is expecting some growth to the tune of, let's say, around 5%.

We expect remodel to do a little bit better than new build. And obviously, aftermarket is going to be resilient to the tune of, let's say, 1% to 2% gains. We continue to execute on all our actions to take market share gains as well. For commercial pool, we expect to continue the positive trend with volumes up between 2% to 5%.

And then on pricing, as we -- as I mentioned during the call, for the group, we expect 1% to 2%, which is going to be a little bit higher in North America, low to mid-single digits and a little bit lower in Europe and rest of the world between flat to 1%.

And then also in order to build that guidance, we have counted on the contribution of the simplification program with the delivery of a little bit north of EUR30 million to reach that total of EUR100 million, some inflation in labor and general cost to the tune of, let's say, 3%. And it's also important, as Jaime pointed out, that we continue to invest for growth and digital and the order of magnitude of those investments are going to be to the tune of EUR10 million to EUR15 million incremental.

As highlighted as well, the assumption for guidance is that the euro-dollar rate is around 1.04, which is what we have seen in the last, let's say, 30 days or so. And the M&A contribution expected coming from the deals is of around 1%. So all in all, guidance reflects this mid-single-digit growth in sales, high single digit in EBITDA and high teens growth in cash EPS on the middle.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Jingyi. Yes. I suppose that's fine with you. Manuel Lorente from Santander.

Manuel Lorente - *Banco Santander - Analyst*

Yes, hi, good morning. My first question is a follow-up probably on the US trends. I think that Jaime mentioned that your sell-in and sell-out was very close by. I don't know if that was mentioned in the US or globally speaking.

And again, whether you can give us a little bit more detail whether the plus 13% like-for-like growth in the US in the fourth quarter is something sustainable or underlying and what might come as well from some restocking benefits that you mentioned previously in your guidance?

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

Okay. Thank you, Manuel. Yes. When we were referring about the sell-in and connection with sell-out, that was mainly the US market, which is where we have what we consider reliable information or good information from our customers.

So we -- as I said before, we're very comfortable with what is going on in terms of the inventory in channel, and we track that on an ongoing basis. We are confident that we will continue with the revenue growth. The 14% or 15% in Q4 was a fantastic result. We see that trend continuing for the second -- for 2025, as you can see in our expectations for growth in the guidance that we have that we just shared with all of you.

Manuel Lorente - *Banco Santander - Analyst*

Okay. And then probably my second question is that, I mean, you have done a pretty good job in order to prepare yourself from the upcoming pool season given volatility or potential volatility in tariffs. In terms of working capital evolutions on coming quarters, we have seen a very significant effort on the fourth quarter. That will imply that the standard jump that we see Q1 versus Q4 will be somehow lower this year than in other years.

And again, whether you can give us some color regarding the cash tax, I mean, EUR100 million cash tax for a company that P&L taxes are more in the range to EUR30 million to EUR50 million looks like a very high number. I don't know, we should expect some reversal this year or?

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

I'll take those two, Manuel. Thank you. If I start with cash taxes, as I said on the call, this is just a temporary effect of some anticipated taxes that we paid in the fourth quarter and also some timing of favorable timing of taxes in prior year. So it's just more of a comparison thing. Over the long run, our cash taxes are going to be fully aligned with what you see on the P&L in terms of taxes, and it's just more of a one-off effect that you see on -- specifically on the quarter, I would say.

If I look at the pattern of net working capital, it's true that we have invested in the fourth quarter in inventory to prepare for the season because we are seeing some good growth trends in the market. And as I said in the call, we wanted to be prepared for that.

As is this going to change the pattern? Obviously, the pattern -- we start the season a little bit better prepared, but Q1 is going to continue to be a quarter of investment. And Q2 and Q3 are cash-generating quarters. Probably our lowest point continues to be around October. September, October is the lowest point in terms of net working capital to sales ratio.

Manuel Lorente - *Banco Santander - Analyst*

Okay. Thank you.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

The next question comes from Christoph at Berenberg. Christoph, please go ahead.

Unidentified Participant

Good morning, and thanks all for taking my questions. It's three from my side, please. Firstly, on the action plan that you mentioned in case of the tariffs in the US, could you provide a bit more color what exactly those action plans entail? And I assume you have run some scenarios. Do you have any numbers you can share with us like worst-case negative impact on the EBITDA that you have assessed?

Then secondly, on the new build outlook, you mentioned that overall, you expect it to be flattish, but you also said there might be some different trends between the regions? Are there any -- can you tell us what regions you're a bit more positive on and which ones you are a bit more cautious? And then also in 2024, how Europe compared to the US in terms of new build activity?

And then lastly, just generally with regard to your revenue exposure to the different segments, aftermarket versus new build. So I think generally, you usually put the numbers like 60% exposure to aftermarket, 30% new build, 10% commercial pools.

Now we have seen, I think, about a 50% decline since 2021 in new build numbers or new build activity. So just wondering if there has been a meaningful shift within your overall revenue exposure on the back of those market trends. Thank you.

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

Okay. So let me go with the first question on the tariffs. Yes. We have been working diligently on this process. And as I said on the call, on the script, our mitigation plans includes, number one, supply chain adjustments on -- to diversify our procurement base. We see an opportunity in that area, number one. Number two, we're working on -- we have plans on cost savings and efficiency initiatives from the perspective of productivity.

And of course, the last one is pricing. We feel confident about that, those plans. The impact that we shared since the beginning on Mexican tariff was around EUR50 million, given the base of manufacturing that we have. And that plan offsets that headwind for us. That's number one.

Number two, our new build between the regions and the opportunity we see -- we see US flat in new build. But if you think about the US coming from a minus 15% in new build, that's a good scenario if we think about 2025.

From the European perspective, we see a slowdown in France, and that's probably the most dramatic for us. And in Central Europe, we also see some slowdown. South Europe is holding up really, really well for us. The bottom line of all this for us is that we -- regarding your third question is outside of the new build, aftermarket residential aftermarket is very resilient, and we continue gaining significant market share in that area.

And also another positive story is commercial pool, where we're seeing good organic growth and good opportunities. I would say that new build continue the 30% number that you mentioned, that's the right number. If that trend continues being flat this year, we're okay with that after -- given that our main focus is gaining market share in aftermarket. And as a total, we included that in the guidance we have, and those numbers fit completely.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Christoph.

Unidentified Participant

Yes, thank you.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

The next question comes from Francisco Ruiz at BNP Paribas. Paco, please go ahead.

Francisco Ruiz - *Exane BNP Paribas - Analyst*

Thank you for taking my questions. So I have three questions, if I may. The first one is on OpEx growth. We have accelerated in the last two quarters. I mean my question is here, what is driven that? And what should we expect for '25?

The second question is on the cost of the simplification plan. Probably I am missing some other items included in that figure. But you commented, Xavier, a EUR25 million impact for next year, assuming that the compensation of the shareholders would be similar to this year. That means a shareholder cost of EUR110 million or above EUR110 million, I don't know if it's the right number or you are still stuck to the EUR100 million that you commented at the beginning of the plan. And last but not least, if you could give us some idea on net debt for the year. Thank you.

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Sure. Thank you, Paco, for your questions. As I mentioned on the call, we've seen a performance in operating expenses a little bit ahead of our expectations. This is where we have seen better performance in gross margin. But operating expenses in 2024 has been impacted by higher production volumes. Remember that 2023 was a year in which we corrected significantly the level of inventory that we had.

We have also seen some inflation. We have done investments in digitalization and technology. And we also had, as we commented in prior calls, some impacts associated to provisions on warranties and things like that. Those are the key drivers on 2024.

For 2025, we should normalize the comparable in terms of production to the volumes that we have built into the guidance. And we expect some labor inflation to the tune of 3% or so -- and then as I mentioned on an earlier reply, we are also investing between EUR10 million to EUR15 million incremental to further accelerate growth and increase our digitalization capabilities. So those are the drivers.

On your second question on the one-off cost for simplification, your math is directionally correct. And we have -- we are spending a little bit over the EUR100 million that I shared with you at the beginning of the program.

The reality is, if you look about the volumes when we build this program, volumes were significantly higher. We are still delivering the EUR100 million of savings despite that volume decline, which means that we have had to execute some additional initiatives to the incremental cost that you pointed out. But super happy with the delivery of the simplification, and we see that in margins.

And then as to net debt, I mean, you can think about with a normalized level of -- with the EBITDA generation that we have guided, net working capital to sales sort of flattish to where we've ended around this 17% to 18%. Cash generation is going to be good. And therefore, assuming that currencies stay at 104 or so, you will see significant improvement in terms of leverage ratio on an organic basis.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Paco. The next question comes from Tim Lee at Barclays. Tim, please go ahead.

Tim Lee - *Barclays - Analyst*

Hi, thanks for taking my question. I would like to understand a bit more about your action on implementing the measures to offset the tariff impact. So the first one that you mentioned was about to adjust your supply chain. So I'm just wondering, first of all, how do you compare yourself with your competitors in terms of your exposure to Mexico or even China in terms of the percentage of sourcing to your US business?

And secondly, if you think about to adjust your supply chain and to diversify your procurement base, are you going to negotiate with your existing suppliers? Are they [hopeful] to diversify their sourcing within your existing suppliers or you need to go to new suppliers to supply your key mills for the US business? Those are my questions. Thank you.

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Thank you, Tim. Yes. Look, in terms of exposures, obviously, it's up to competition to comment on the exposure. But if you think about our sourcing for North America, roughly 50% of what we sell in North America comes from Mexico. Therefore, that exposure that Jaime was mentioning of around slightly below EUR50 million of impact of tariffs.

The second country of supply is China with around 15% and then some other South ASEAN countries with another 15%, the remaining being US for the US, okay? What we have been developing is a combination of negotiation with current suppliers. We have different bases around the world. There's some minor changes to supplier base.

And finally, as Jaime pointed out, there's also commercial initiatives that will take place to protect the P&L. All in all, we feel very confident that with this plan, we will offset the impact of both potential Mexican tariff, if implemented and the Chinese tariff that will be implemented in the coming weeks. So I think that's it. I don't know if that's clear enough for you.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Tim -- Please go ahead. I don't know if you had a follow-up, please go ahead.

Tim Lee - *Barclays - Analyst*

Sorry, I actually just want to compare your company in terms of sourcing with the other competitors. The competitors also have like as high as 50% of their sourcing from Mexico or probably they could be lower in terms of the sourcing.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

(inaudible) it's not for us to comment on everyone's exposure. But from our perspective, we are working hard on our plan to offset the tariff effect, and that's what matters. And we believe some competitors may be exposed than others, but it definitely will affect the whole industry. And if you want to follow up, we are happy to chat to you a bit later. No problem.

Tim Lee - *Barclays - Analyst*

Thank you very much.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you very much, Tim. The next question comes from Juan Canovas at Alantra.

Juan Canovas - *Alantra - Analyst*

Hi, good day. Yes, I have three questions. One, you have mentioned market share gains. I wonder whether you could quantify those or give us some ranges, that would be very useful. Second, regarding the quantification, the simplification program. I mean, we seem to see the benefits at the gross margin level, and then those get diluted at the EBITDA level. So I would like to understand how much of those EUR100 million savings gets down to the EBITDA level. I mean my impression is that some of those gains are being diluted by personnel inflation and other things?

And within that question also, you mentioned that if you get -- if there are tariffs, then you will offset them with some cost savings. Why not going ahead with the cost savings irrespective of the tariffs? And finally, I would like to ask you about the M&A outlook, whether you're seeing more opportunities now than in the past? Or how do you think about that? Thank you.

Eloy Planes Corts - *Fluidra SA - Executive Chairman of the Board*

Okay. You want to start with the simplification one?

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Yes, sure. No problem. Yes, you're absolutely right that in 2024, most of the impact has been in gross margin. If you recall, when we launched the program, we said that there is around 1/3 that we hit fixed expenses and around 2/3 that will hit more on the product size, more variable type of expenses. When we launched the program, we immediately executed some resizing of the business due to the market adjustment. We also closed some duplicated facilities and simplified the organization.

That mainly took place in 2023, while 2024 and 2025 were years in which the impact is going to be more impacted on cost of goods sold as we're looking at procurement, and we are looking at design-to-value initiatives that, again, reduce product costing, therefore, impact gross margin. And we're super happy, as I said, with the performance.

It's true that, as I mentioned in an earlier question, operating expenses have been slightly higher than what we had anticipated in the year as a combination of, as I said, higher production volumes, inflation and some decisions to invest on building some digital capabilities to enhance further growth in the future and therefore, impacting the EBITDA levels.

However, we are happy with the 100 basis points of margin improvement. You also questioned about why are we not taking the cost savings for tariffs. Obviously, this is an ongoing conversation. The situation is very dynamic.

We are talking to our suppliers impacted in Mexico and seeing how we all react together to ensure, as Jaime was pointing out, business continuity. But certainly, I mean, if opportunities arise, we are not a company that doesn't take those opportunities.

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

Yes. We're going after those, definitely. And that's also the level of confidence we have that -- we have a good plan to offset the impact of tariffs. You're absolutely right. It's a very good point. So going back to your first question on market share, it's a combination of multiple things.

Number one, and as I shared before, we've been awarded Vendor of the Year from multiple customers. That means that we're winning with those customers that means that we're gaining within those customers. That's number one. Number two, the information we have on sell-out and sell-through that we see is very encouraging for us, and we know is above our competitors are doing. So this is based also on the positive feedback that we have from our customers, especially in the US, which is where we have some data on sellout.

Outside the US, based on the intelligence we collect and some information, we're seeing that we're growing and we're positive. So that gives us a good confidence that we're gaining market share. You remember, we said that in Europe, we grew 5% in Q4, which is above the average of the market. In fact, the majority of the market is negative. So we're confident that gaining market share is what is supporting our growth in all the geographies. On the M&A, Xavier, do you want to take that?

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Yes, sure. We continue to have to look out for opportunities. We are present in the market. We have a very positive pipeline. And as we say, we always look for strengthening our platform either in terms of building -- buying access to customers, distribution capabilities outside of North America or looking for some products or technologies to reinforce our product portfolio. Still a lot of work, and you will hear from us during 2025 for sure, around completed transactions.

Juan Canovas - *Alantra - Analyst*

Thank you so much.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Juan. The next question comes from Anna Ractliffe from Bank of America. Anna, please go ahead.

Anna Ractliffe - *Bank of America - Analyst*

Hi, thanks for taking my question. I wanted to dig in a little more on the cost savings. The gross margin was really strong in Q4. I was wondering where you think about the ceiling for your gross margin. And maybe will cost savings in the future outside of what you're discussing around cost savings to offset tariffs, will future cost savings focus more on the EBITDA line, just thinking about the margin of the business longer term? Thank you.

Xavier Tintore Segura - *Fluidra SA - Chief Financial, Sustainability & Transformation Officer*

Sure. Thank you, Anna. Yes, we were, as I said, very happy with the performance of gross margin in the year, slightly ahead of our expectations through a combination of, as I said, simplification, geographic mix, pricing, some raw material deflation, which I think was higher than what we had anticipated when we built the guidance. And we've only seen some negatives in terms of freight. Specifically about your Q4 question, there's a significant mix -- geographic mix effect that drives the majority of that impact.

In terms of -- if I understood the second part of your question, in terms of potential cost savings beyond 2025. Obviously, we launched this program, the simplification program in 2023, which ends by the end of 2025, but this is not the end of the opportunity for Fluidra, as we have shared in the past.

And we are working to prepare for the Capital Markets Day, where we will share some of the initiatives that we are planning to execute beyond '25 in order to drive and improve the efficiency. This revolve around operational excellence and globalizing our manufacturing footprint, working on platforms. But again, more to come on April 8.

Anna Ractliffe - *Bank of America - Analyst*

Great. Thanks. We'll look out for the updates on the -- at the Capital Markets Day. And then maybe just a follow-up on the -- share gains. Is there any one area that's standing out either geographically or by products where you're gaining outside the share? Thanks for taking my question.

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

No. We're seeing share gains across, of course the US is probably given the size of the market and opportunity where we're going faster that we're saying this across the majority of the markets. Even when we see in negative market where we're doing way better. So we continued with that trend.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Anna. And we have time for a couple of more questions. The next one comes from Luis from [Odo]

Unidentified Participant

Hey, good morning. Thank you for taking my question. Also revolving around the US market, I think the annual report that you increased there a long term (inaudible) and assumption. I was wondering if you could refer to what part it relates your development, your [posture] to the [sam belt] and what part could you related with the improving outlook for the industry as a whole on the utilization sustainability and so on?

The second question also revolving on the US. I mean are you concern about the US new immigration policies, the potential disruption across the [head] professional sector? Thanks.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Can you repeat the second part of the question, Luis? It was difficult to --

Unidentified Participant

Sure. Yes. I mean it's a sensible question. It's referring to the immigration policy in the US. If it adopts a tougher policy that might affect some of the potential employees in the professional sector. I was just wondering if that is something that could affect your servicing levels or affect the industry as a whole? Thanks.

Jaime Ramirez - *Fluidra SA - Chief Executive Officer*

Okay. Thank you for your question, Luis. On the long-term growth assumption for the US, first of all, we will continue our focus and our share gains in the aftermarket, which is very resilient. That's number one. Second, if we think about new build and the trend of new build in the last year, new build has been declining. And for this year, we're assuming a flat number on new build.

We do believe there is a positive trend that has to come in the US if interest rates continue to go down, construction goes up. And that assumption makes us feel that there is a growth opportunity going forward for the US. And then we also comment on the look on commercial pools.

On the immigration piece, that's a hard question to answer because I guess that's more -- not even a problem for, that's a situation for the country that we don't know what's going to happen. So for us, it's very difficult to say is we don't expect something specific, but I think it's more to come on the immigration piece and how things evolve. I think probably it's too soon to say, and we should wait a little bit more and see what happens in the market. That definitely can impact construction, but who knows.

Unidentified Participant

Thanks.

Clara Valera - *Fluidra SA - Strategy, Investor Relations and M&A Senior Director*

Thank you, Luis. There are no more questions on the line. So this marks the end of today's presentation. We thank our speakers and we thanks to all of you for joining the call today. As always, please feel free to reach out to the investor relations team if you have a further question. Let me remind you, as Eloy mentioned earlier that we will have our capital markets day on the April 8. If you wish to attend, and you have missed that registration link on your inbox, please contact the investor relations team. We very much look forward to seeing your there. Thank you, everyone. Goodbye.