Wellis Group

Investor presentation

Q3 2022

1 December, 2022

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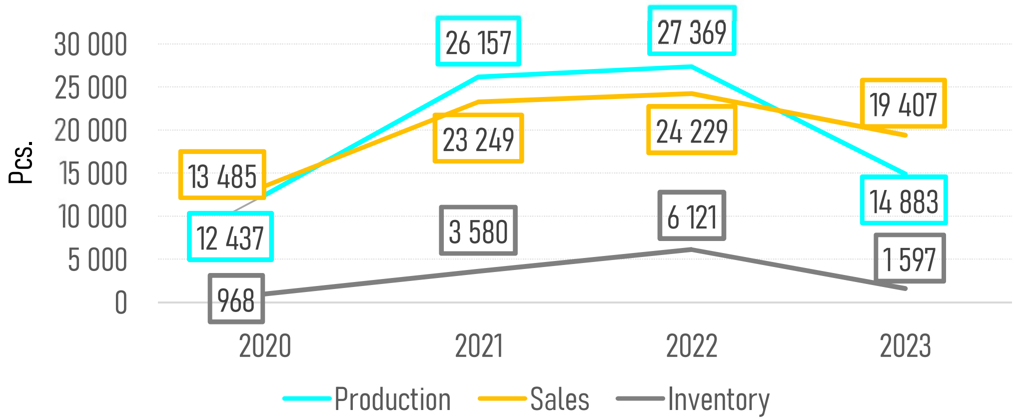
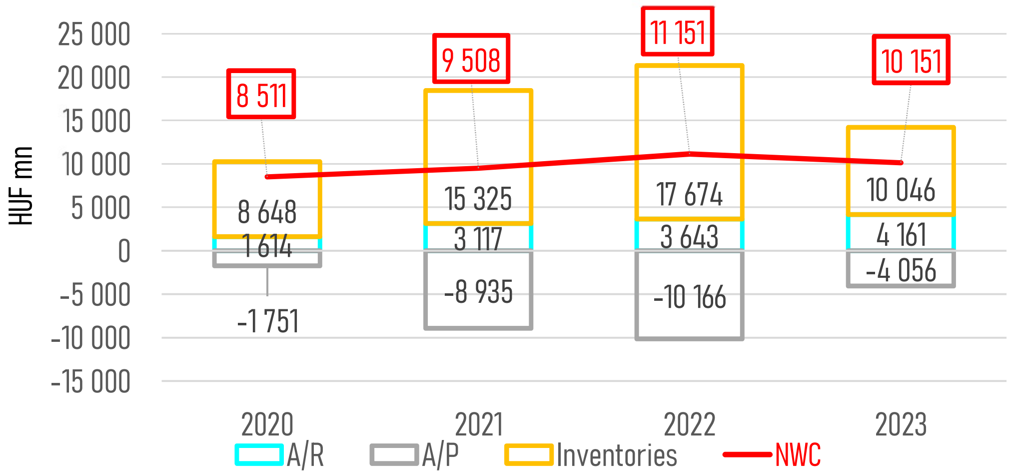
Executive summary

- The global political and economic turmoil forced Wellis Group off the planned business track
- Overall demand for home spa products collapsed in 2022, as a result of growing energy prices, high inflation and lower real discretionary income on its main markets (Western Europe, USA)
- Despite the lower demand Wellis Group managed to maintain its sales volumes and increase its sales revenue as a cumulative effect of price increase and HUF deterioration
- Significant increase of operational costs
- Wellis Group has accumulated HUF 12.8 bn accounts payable by Aug 2022. A/P currently stands at HUF 9.6 bn
- The Group has increased its external financing with HUF 7.7 bn of short term credit facilities from domestic banks.
- Wellis Group started to accommodate to the new environment in Q3 2022. Plant reorganisation and lower production capacities already reflected in decreasing inventory levels and working capital need
- Workforce reduction will start to be financially effective from December 2022
- Scope Ratings downgraded Wellis to B- with negative outlook and its bond to B- in October 2022
- Downsized operation, strict cost control and NWC management together with a new, energy efficient product line will help Wellis strengthen its financials in 2023

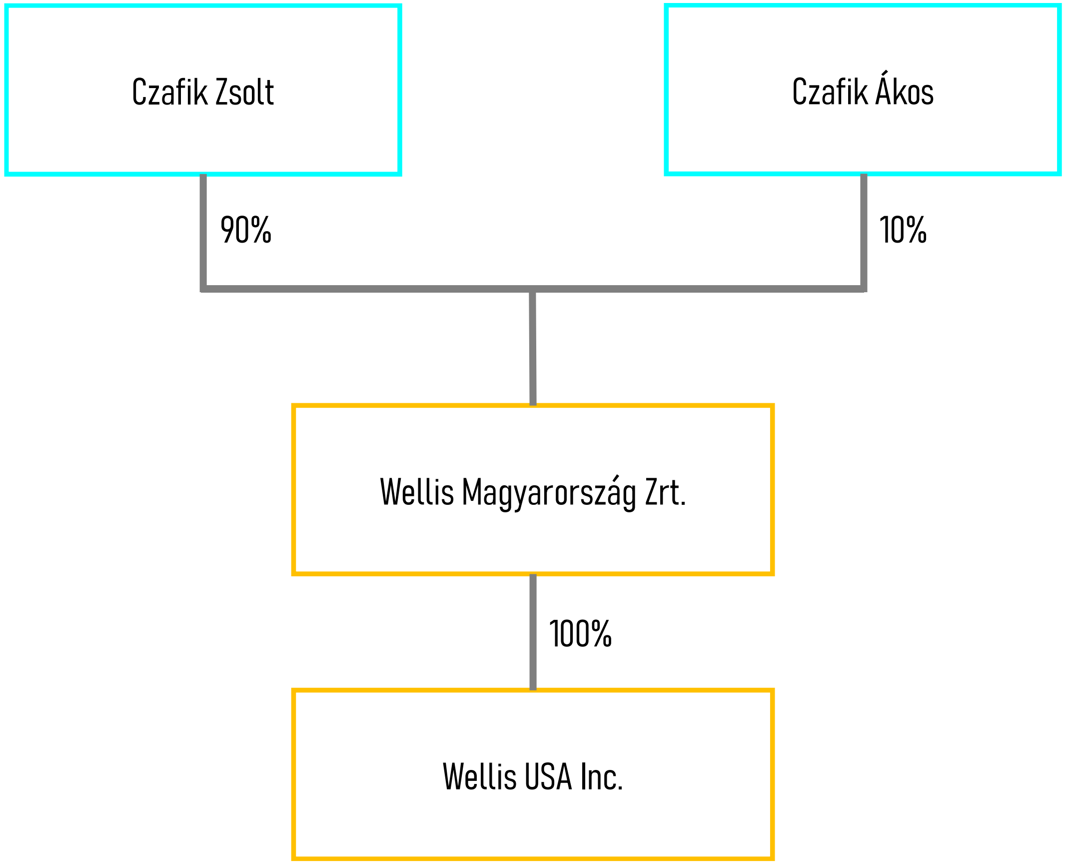
Production and sales



Net working capital



Remarks to the financials in the presentation



- Wellis Hungary Zrt. is directly owned by Zsolt Czafik and Ákos Czafik.
- Wellis USA Inc., registered in the USA, is a 100% subsidiary of Wellis Hungary Zrt. (together Wellis Group or the Group)
- Production, marketing, global sales activities outside the US and general management of the Group is organised under Wellis Hungary
- Wellis USA is solely responsible for the US sales activities
- Financials in this presentation represents three layers:
  - Wellis Hungary standalone figures: third party sales figures both retail and wholesale, intra-group sales to Wellis USA, production, SG&A and financing costs. Prepared under HAS.
  - Wellis USA standalone figures: Sales figures on the US market, COGS from Wellis Hungary, SG&A costs of the US operation. Wellis USA figures in this presentation are converted under HAS.
  - Wellis Hungary consolidated: consolidated figures of Wellis Group, prepared under HAS.

Developments of 2022

Macro

- The post-pandemic bounce back in global economy has significantly increased overall general demand for goods
- Supply chains have broken, global logistics became fragmented
- The supply side lags behind the demand resulting in spiking inflation
- The war in Ukraine boosts energy prices globally, especially in Europe, further pushing CPI
- Central banks fights inflation with increasing rates
- Rate hikes slow down global economy

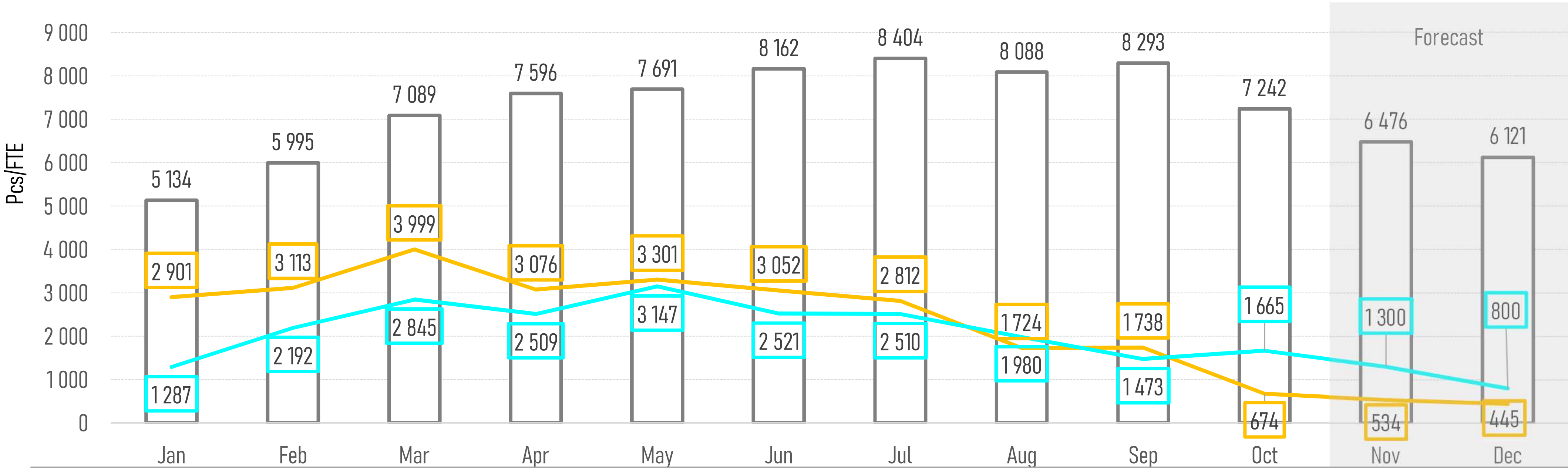
Effects on Wellis

- Increase in almost every operational cost item (raw materials, logistics, energy, labour)
- Decreasing demand for home spa products on main markets (W-Europe, USA)
- In order to strengthen its market positions Wellis changed its payment terms on the US market. This change lifted the inventory and A/R financing need
- Increasing production and longer cash conversion cycle together boosted the net working capital need
- Higher NWC partially financed by suppliers through overdue bills
- Scope Ratings downgrade to B-

Mitigation

- Marketing and sales efforts paid off: flat sales volume on a declining market
- Reorganised production, closing down spa line at Dabas. Swim spa production at Dabas is currently suspended.
- Reducing production at the Ózd facility, change from 3 to 1 shift
- Workforce reduction of total 1 100 employees
- Rationalisation of capex plans, only necessary refurbishment capex after the Ózd plant is finished in Q3 2023
- Additional HUF 7.2 bn NWC financing from domestic banks
- Renegotiated payment terms with major suppliers, securing further raw material supplies
- Proactive communication towards financial and capital markets

Production and sales in 2022



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Headcount	1 515	1 636	1 696	1 707	1 735	1 570	1 499	1 347	1 110	1 270	715	632

- Significant decrease in production capacity adjusting to lower demand
- Higher stock levels are partially explained with a shift in US operation model
- Upward trend of stock levels changed in Oct 2022
- Production capabilities are rationalised, spa production moved to the Ózd facility while swim spas are produced at Dabas (currently suspended)
- Workforce reduction in line with production capacities result in HUF 0.5 bn per month savings in personal expenses only from December 2022 (due to severance payments)

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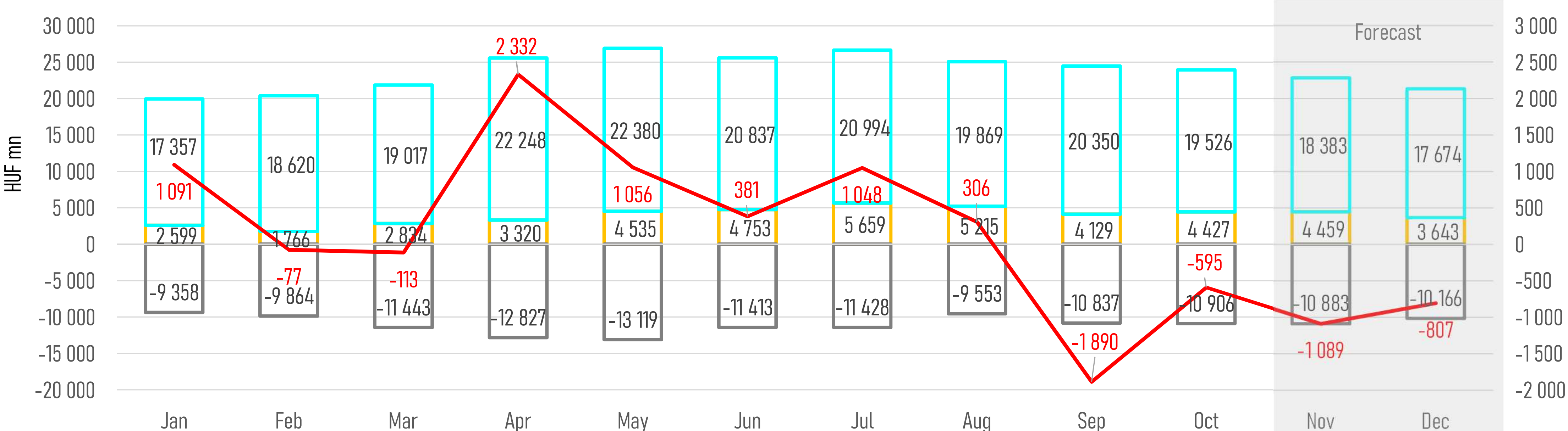
Net working capital in 2022



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Inventory	17 357	18 620	19 017	22 248	22 380	20 837	20 994	19 869	20 350	19 526	18 383	17 674
A/R	2 599	1 766	2 834	3 320	4 535	4 753	5 659	5 215	4 129	4 427	4 459	3 643
A/P	-9 358	-9 864	-11 443	-12 827	-13 119	-11 413	-11 428	-9 553	-10 837	-10 906	-10 883	-10 166
Change in NWC	1 091	-77	-113	2 332	1 056	381	1 048	306	-1 890	-595	-1 089	-807
Total NWC	10 599	10 522	10 408	12 740	13 796	14 178	15 226	15 531	13 642	13 047	11 958	11 151

- Suppliers financing of the Group is significant, peaked in May
- Outstanding invoices and payments terms are renegotiated with major suppliers to ensure continuous supply for future operations
- Intra-group receivables increased due to new US sales model
- Receivables are increasing in line with turnover, peaked in July
- Inventories include raw materials, finished products and commercial goods

Wellis Hungary / Profit and loss

Wellis Hungary P&L (in HUF mn)	2021 10M	Budget	2022 10M	2022 FC	2023 FC
Net sales	31 448	60 339	*46 522*	*49 834*	*39 939*
Variable cost	-23 926	-46 309	*-38 613*	*-41 353*	*-28 851*
Net variable margin	7 521	14 029	*7 909*	*8 481*	*11 088*
Net variable margin (%)	*23.9%*	*23.3%*	*17.0%*	*17.0%*	*27.8%*
Fixed cost	-2 666	-4 823	*-4 302*	*-4 914*	*-4 445*
Other operating result	-163	0	*-703*	*-947*	*-85*
EBITDA	4 692	9 207	*2 904*	*2 620*	*6 559*
EBITDA margin (%)	*14.9%*	*15.3%*	*6,2%*	*5.3%*	*16.4%*
Depreciation	-383	-462	*-660*	*-802*	*-1 325*
Financing result	-152	-250	*-32*	*-65*	*-766*
Profit before tax	4 156	8 494	*2 212*	*1 753*	*4 468*
Pre-tax profit margin (%)	*13.2%*	*14.1%*	*11.7%*	*3.5%*	*11.2%*

- Wellis managed to keep the 2021 sales volume in a decreasing market thus its market share improved. Net sales revenue is increasing dynamically mainly due to price increases on major markets and FX change.
- Despite higher sales, net margin is pressed by increasing labour, energy and raw material costs. Workforce decrease may result in HUF 500 mn monthly savings in December compared to its peak level in May.
- Fixed costs increased mainly due to higher travel costs associated to the US operation, higher rental fees in the US and increased advertising activity
- Fixed costs planned for a higher volume resulted in HUF 1.8 bn lower EBITDA and accordingly 10.3 pp lower EBITDA margin in 2022 10M
- Other operating loss includes higher technology-related scrappage and provisioning following the expanding production
- Depreciation increased after the activation of new investments in the Ózd facility.
- New loan facilities has pushed the interests payable by HUF 90 mn. Despite the new loans the total financing cost decreased due to significant gain on HUF weakening

Wellis USA / Profit and loss

Wellis USA P&L (in HUF mn)	2021 10M	2022 10M	2022 FC	2023 FC
Net sales	615	10 090	11 916	15 112
COGS	-301	-9 043	-10 723	-13 148
Gross margin	313	1 047	1 193	1 965
Gross margin (%)	*51.0%*	*10.4%*	*10.0%*	*13.0%*
Sales, general and administration cost	-214	-1 627	-1 953	-2 242
Other operating result	6	1	1	2
EBITDA	106	-580	-759	-275
EBITDA (%)	*17.2%*	*-5.7%*	*-6.4%*	*-1.8%*
Depreciation	0	0	0	0
Financing result	-1	-1	-1	-1
Profit before tax	105	-581	-760	-276
Pre-tax profit margin (%)	*17.1%*	*-5.8%*	*-6.4%*	*-1.8%*

- Wellis USA is the sales and marketing subsidiary of the Wellis Group, responsible for the US market. Wellis USA started its operation in 2021.
- Wellis USA is a wholesale distribution company, selling the Group's product to US retailers. The current focus is the East Coast of the USA, West Coast sales and marketing will start in 2023
- Wellis USA currently has 10 employees
- The operational model has changed in 2022: the Group has started to develop local inventory instead of shipping pre-ordered products. Billing terms changed accordingly.
- Main cost items are salaries, shipping costs and warehouse rental fees
- As the Group finances its operation through intra-group vendor financing, the financing cost of the US operation is currently shown in Wellis Hungary's accounts.

Wellis Group / Consolidated Profit and loss

Wellis Group Consolidated P&L (in HUF mn)	2021 10M	Budget	2022 10M	2022 FC	2023 FC
Net sales	30 749	60 339	44 834	49 396	43 231
Variable cost	-23 415	-46 309	-38 612	-42 128	-31 461
Net variable margin	7 334	14 029	6 223	7 268	11 771
Net variable margin (%)	*23.9%*	*23.3%*	*13.9%*	*14.7%*	*27.2%*
Fixed cost	-2 710	-4 823	-4 582	-5 250	-4 794
Other operating result	-157	0	-702	-946	-82
EBITDA	4 467	9 207	938	1 071	6 894
EBITDA margin (%)	*14.5%*	*15.3%*	*2.1%*	*2.2%*	*15.9%*
Depreciation	-383	-462	-660	-802	-1 325
Financing result	-106	-250	-33	-66	-767
Profit before tax	3 978	8 494	245	204	4 802
Pre-tax profit margin (%)	*12.9%*	*14.1%*	*0.5%*	*0.4%*	*11.1%*

- Intra-group consolidation has a significant negative effect on Group financials:
  - Wellis Hungary sells the finished good to Wellis USA following its transfer pricing policies
  - This margin is realised on Group level once Wellis USA sells the product
  - During the consolidation process, this margin content is eliminated, resulting in significantly lower EBITDA on Group level
- Hence, the US operation is financed through intra-group receivables and not parent company loans. The financial management of Wellis Group considers changing this model to parent company loans, which may have an effect on Wellis USA P&L
- As the US operation improves its performance, the negative EBITDA effect might grow further in line with the change of inventory. However, the Group does not expect significant change in inventory level.
- The Group has currently cca 2 000 pcs of inventory in the US. The negative effect for 2022 FY consolidated financials is expected to be cca 800 mn HUF on EBITDA level

Wellis Group / Consolidated Balance Sheet

Wellis Group – Consolidated BS (in HUF mn)	2021 FY	2022 10M	2022 FC	2023 FC
Fixed Assets	12 159	15 172	16 042	16 265
Intangible assets	52	134	125	114
Tangible assets	12 107	15 012	15 892	16 126
Financial assets	0	26	26	26
Current assets	22 266	29 932	26 562	23 511
Inventories	15 325	19 526	17 674	10 046
Receiveables	6 354	9 704	8 719	7 564
Cash	587	702	169	5 901
Active accruals	180	296	307	292
Total Assets	34 605	45 400	42 910	40 068
Equity	7 071	5 392	5 351	8 278
Provisions	303	448	398	338
Liabilities	25 819	35 673	34 097	28 421
Long term liabilities	10 896	10 956	10 956	10 956
Short term liabilities	14 923	24 717	23 141	17 465
Passive accruals	1 412	3 886	3 064	3 030
Total liabilities	34 605	45 400	42 910	40 068

- Change in tangible assets reflects the Ózd plant investment. The investment program is expected to be finished in Q3 2023. Total investment value will reach HUF 12 bn.
- Lower than expected sales figures are reflected in change of inventories. Wellis expects the inventory level to consolidate below the 2021 level and reach HUF 10 bn by the end of 2023.
- Equity is expected to bottom in Q2 2023.
- Long-term liabilities include HUF 9.9 bn NKP bond liabilities and further HUF 1.1 bn long-term loan. HUF 3 bn long-term loan was refinancined in June 2022 with short term facilities.
- Total short term credit facilities reached HUF 10.7 bn in July 2022. Wellis intends to use these facilities through 2023.
- Passive accruals include the HIPA investment subsidy in the amount of HUF 2.2 bn YTD and will reach HUF 2.9 bn in line with the investment plan. Accruals will be released in line with the depreciation of the investment.

Wellis Group / Consolidated CF

Wellis Group – Consolidated CF				
(in HUF mn)	2021 FY	2022 10M	2022 FC	2023 FC
EBITDA	*4 547*	*938*	*1 071*	*6 894*
Change in NWC	*-6 932*	*-7 063*	*-6 134*	*-247*
Operating CF	*-2 385*	*-6 125*	*-5 063*	*6 647*
Investment CF	*-7 284*	*-3 673*	*-4 685*	*-1 548*
New loans	*12 503*	*7 793*	*7 793*	*600*
Reimbursement	*-3 195*	*-29*	*-629*	*0*
Interest payment	*-24*	*-362*	*-389*	*-650*
Other change in equity	*46*	*2 512*	*2 556*	*683*
Financing CF	*9 355*	*9 913*	*9 330*	*633*
Change in Cash	*-188*	*116*	*-418*	*5 732*

- Wellis expects significant increase in EBITDA performance in 2023 in line with the softening macro environment
- Working capital financing need has significantly exceeded the profitability of the company in 2022, resulting in negative operating cash flow. Higher profitability and improving NWC management is expected to result in improving operating CF in 2023
- The Ózd plant investment will be finished in Q2 2023. Wellis currently has no further investment plans for the coming years, as the current production capacity exceed 100 th. pcs per year. Maintenance capex will be cca HUF 1.5 bn p.a. in the coming years.
- New loan facilities will reach HUF 7.2 bn by the end of 2022
- Increased interest payments reflect the less favourable financing terms of the new credit facilities.
- Other change in equity includes FX gain on A/P and A/R and the HIPA subsidy of HUF 2.2 bn already received in 2022.

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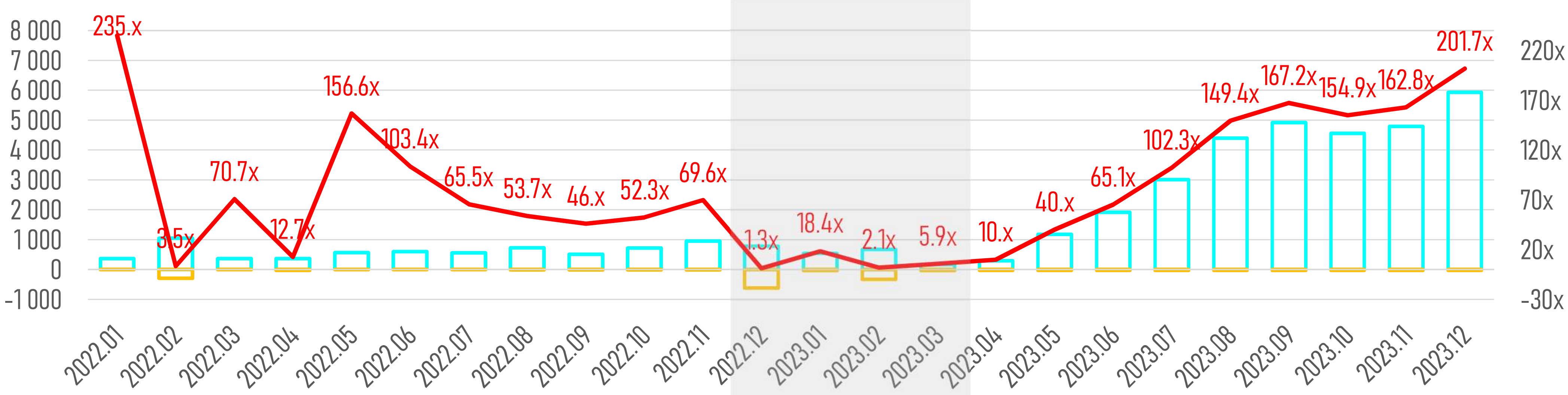
Debt service cover



	2022.01	2022.02	2022.03	2022.04	2022.05	2022.06	2022.07	2022.08	2022.09	2022.10	2022.11	2022.12
Cash available	360	1 046	363	359	563	599	557	725	506	716	950	782
Debt service	-2	-300	-5	-28	-4	-6	-9	-13	-11	-14	-14	-614
DSCR	235.x	3.5x	70.7x	12.7x	156.6x	103.4x	65.5x	53.7x	46.x	52.3x	69.6x	1.3x

	2023.01	2023.02	2023.03	2023.04	2023.05	2023.06	2023.07	2023.08	2023.09	2023.10	2023.11	2023.12
Cash available	542	676	172	293	1 177	1 914	3 008	4 393	4 917	4 556	4 789	5 930
Debt service	-29	-326	-29	-29	-29	-29	-29	-29	-29	-29	-29	-29
DSCR	18.4x	2.1x	5.9x	10.x	40.x	65.1x	102.3x	149.4x	167.2x	154.9x	162.8x	201.7x

Cash available for debt service · Debt service · DSCR (right axis)

- According to current forecast Wellis has sufficient cash to meet its debt service obligations
- New loans are EUR denominated, Wellis has a natural hedge against FX risk from its operations
- The key factor for the coming months is to reach the planned sales volumes

Outlook 2023

- No. of goods sold by Wellis globally to decrease by 30% (mainly in Europe), but at an increased price level due to launch of new products
- Wellis USA keeps sales volume at 2022 level (some 7 000 pcs), sales activity aims to reach the West Coast
- Production capacity properly adjusted to market demand – cash generation back to normal by Q3 2023
- Wellis plans to reach the 2021 profit margin in 2023.
- New energy efficient product line to be introduced (including full range of spa assortment) in Q2 2023
- Production of swim spa to start in Dabas in March 2023
- Maintain costs at year-end 2022 level
- Price decrease of raw materials expected in H2 2023
- Once the global economic climate normalised, the necessary workforce would be available at Ózd
- Chinese competitors may fall out from the EU market due to quality issues and FX volatility
- Wellis investigates the possibility of involvement of a new (minority) equity partner
- No dividend to be paid in the next period

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