# Wellis Group

## Investor presentation

## Q4 2022

March 9, 2023

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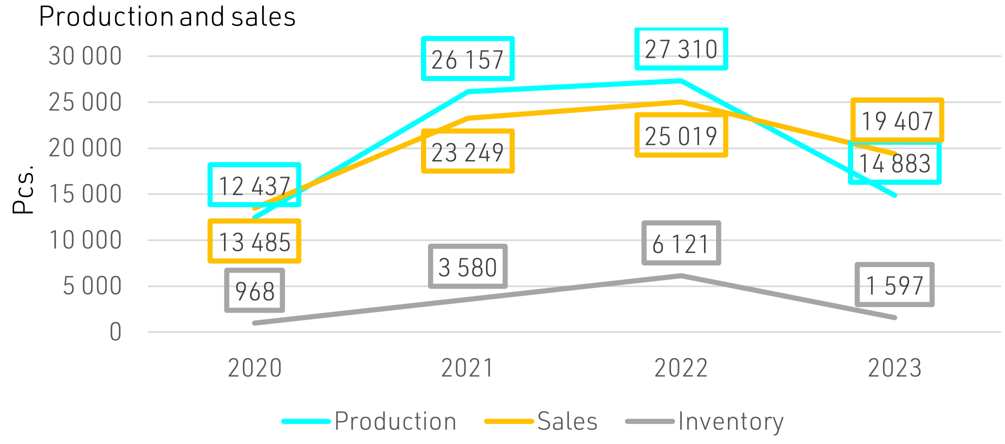
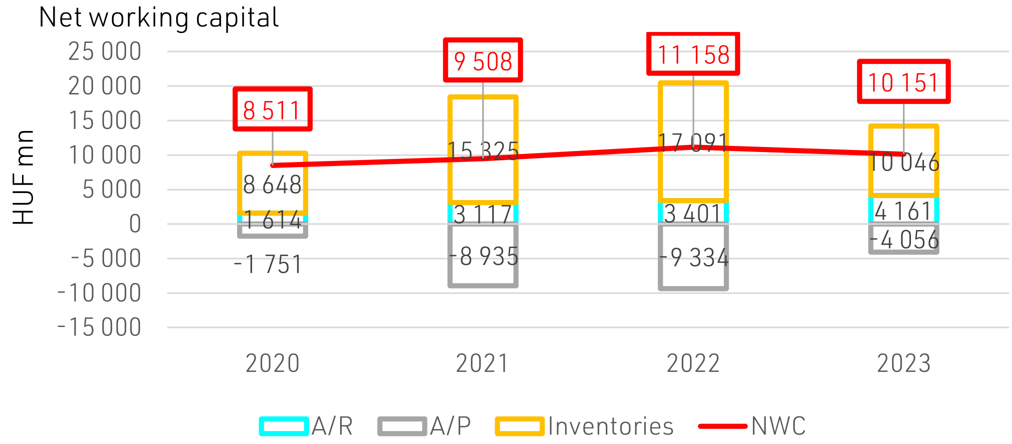
# Executive summary

- The global political and economic turmoil forced Wellis Group off the planned business track
- 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. Wellis sold 4 557 pcs, total sales revenue reached HUF 9.6 bn in Q4 2022. Total sales reached HUF 50 729 mn in 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, cca. 300 items already produced in early 2023.
- The Group has increased its external financing with HUF 7.8 bn of short term credit facilities from domestic banks during 2022.
- Moderate growth strategy with focus on solid profitability and healthy balance sheet structure.
- Working capital financing need has exceeded the profitability in 2022, resulting in negative operating cash flow. Higher profitability and improving NWC management expected to result in improving operating CF in 2023.
- Scope monitoring review has been issued on March 3, 2023: issuer rating is B- with negative outlook, bond rating is B-. No change from previous report.
- Wellis will be capable to reduce debt financing but intends to use the existing facilities.
- Ongoing negotiations with potential new (minority) equity partners, and with currents banks and potential new financiers.



# Developments in 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 and the high energy prices pushed CPI
- CPI seemingly reached its peak in H2 2022 and started to decrease moderately
- Central banks accommodated to decreasing CPI, pulling rate hike expectations
- Rate hikes slowed down global economy: Europe and US showed moderate growth in 2022

## 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- in October 2022.

## Mitigation

- Marketing and sales efforts paid off: flat sales volume on a declining market
- Reorganised production, spa product line closed at Dabas. Swim spa production 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

# Developments in Q4 2022 to date

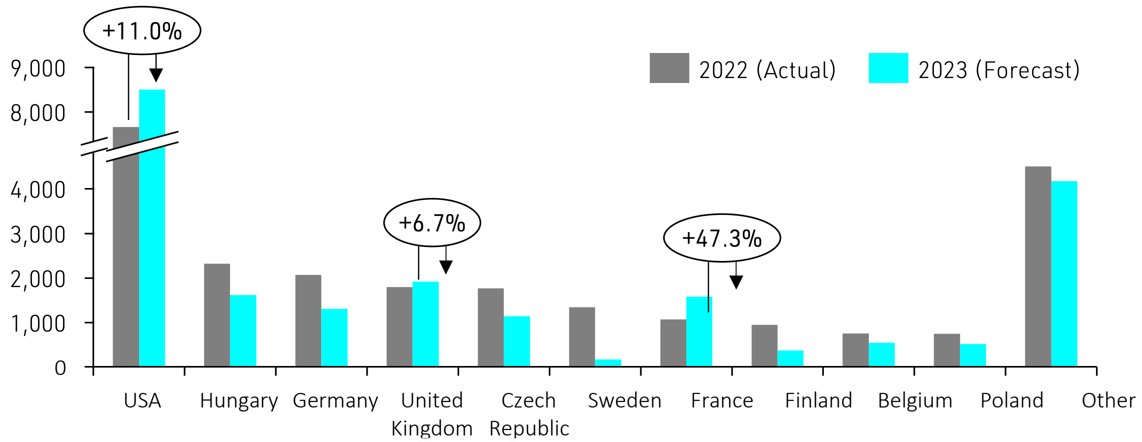
- Wellis sold 4 557 pcs in Q4 2022, total sales revenue reached HUF 9.6 bn.
- Production of new energy efficient product line already started with cca. 300 items produced in early 2023.
- Payment terms renegotiated with the top 30 suppliers.
- Continued strict NWC management.
- Maintain operating costs at year-end 2022 level, January 2023 in line with forecast.
- Wellis hired advisor and started negotiations with potential new (minority) equity partners.
- Ongoing negotiations with current banks and potential new financiers.
- Coupon of bonds paid on Feb 26, 2023.
- Scope monitoring review has been issued on March 3, 2023: issuer rating is B- with negative outlook, bond rating is B-. No change from previous report.

# Key markets

## Main spa markets of Wellis

| Country | # of spas sold by Wellis in 2022 | Market size* (total spas sold) | Market share (%) | % of Total revenue |
|---|---|---|---|---|
| USA | 7,643 | 417,000* | 2% | 26% |
| Hungary | 2,312 | 3,500 | 66% | 8% |
| Germany | 2,073 | 15,000 | 14% | 7% |
| UK | 1,796 | 19,000 | 10% | 6% |
| Czech Rep. | 1,766 | 4,000 | 44% | 6% |
| Sweden | 1,326 | 15,000 | 9% | 5% |
| France | 1,071 | 17,000 | 6% | 4% |

## Top 10 largest markets by spas sold

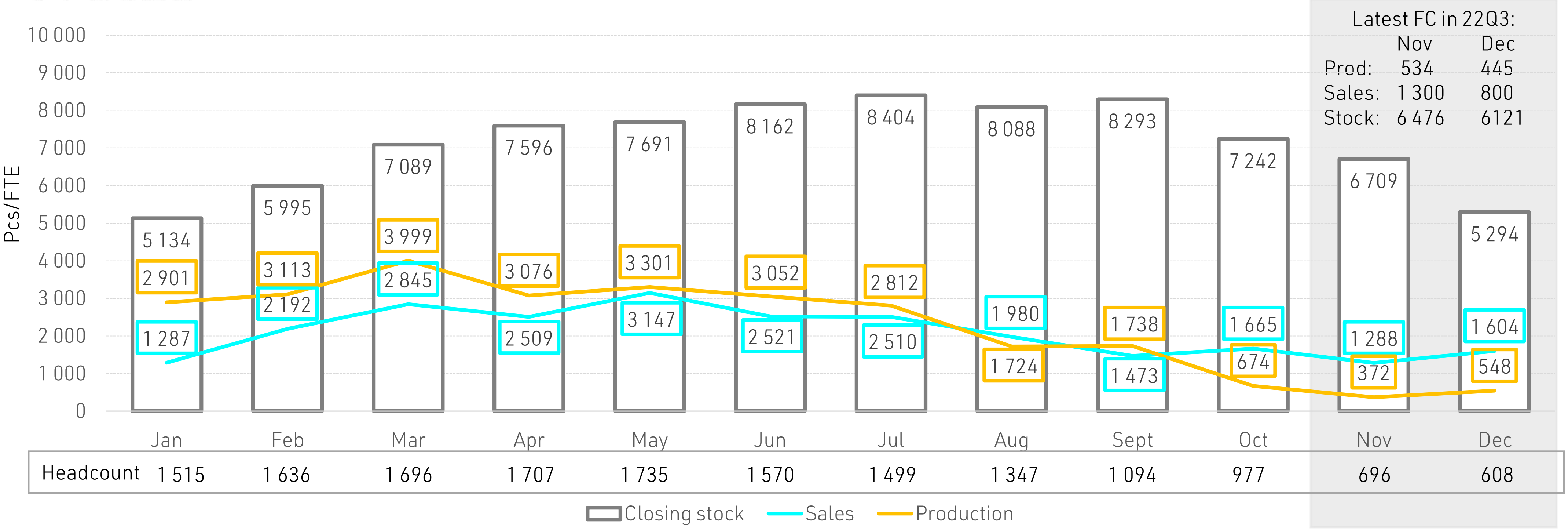



- Global spa market is estimated at USD 5.3 bn in 2022. 65.5% of end-users is residential. Wellis is present in 39 countries and in the US and Canada.
- The largest market is North America, valued at USD 2.1 bn in 2022. The European market was valued at 1.9 bn in 2022.
- The North American market is forecasted to expand driven by growing consumer spending. The European market is expected to grow only at a moderate pace in 2023.
- Technology advancements are also estimated to fuel market growth as manufacturers launch multi-functional spas (e.g. larger size for swimming and various forms of training) with innovative, energy-efficient features.

*Source: Up Market Research – North America, Europe, Asia Pacific and Latin America Hot Tub Market, Economist Intelligence Unit, World Bank*
*Mordor Intelligence – Global Hot Tub Market - Growth, Trends, and Forecasts (2022 - 2027)*

** Market size is based on management estimation and Wellis market intelligence*

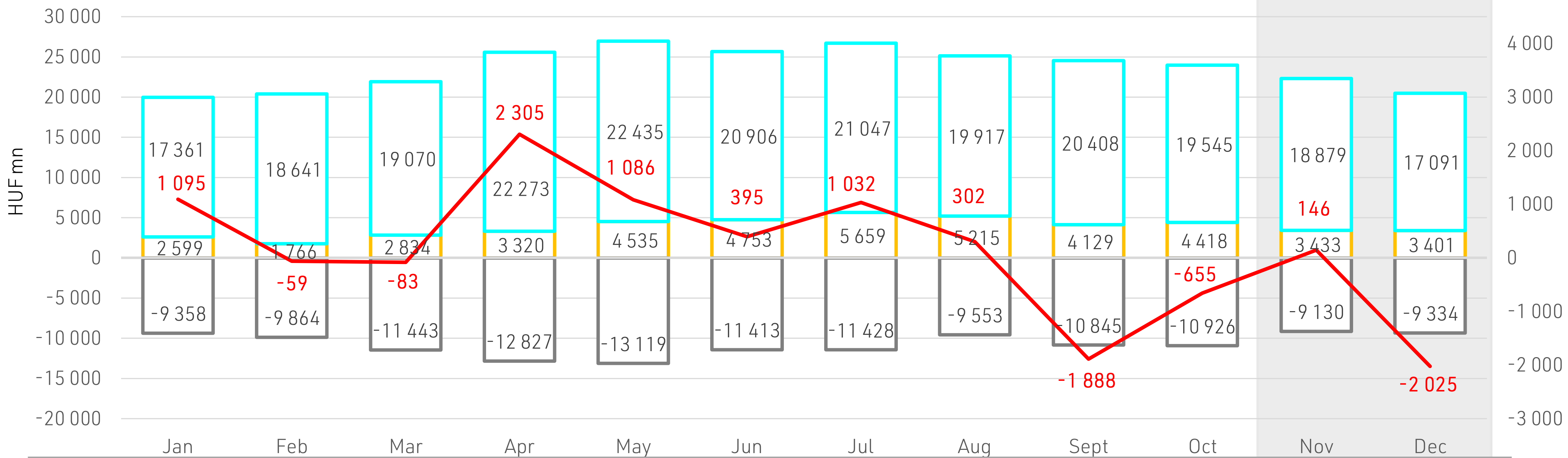
# Production and sales in 2022




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Headcount | 1 515 | 1 636 | 1 696 | 1 707 | 1 735 | 1 570 | 1 499 | 1 347 | 1 094 | 977 | 696 | 608 |

- Significant decrease in production capacity adjusting to lower demand
- Higher stock levels are partially explained with a shift in US operation model
- Production capabilities are rationalised, spa production moved to the Ózd facility while swim spas are produced at Dabas; production to restart in March 2023
- Significant decrease in stock level started from Oct 2022
- Workforce reduction in line with production capacities result in HUF 0.5 bn per month savings in personal expenses from December 2022 (due to severance payments)
- Nov-Dec 2022 production in line with latest forecast. Stronger than expected year-end sales resulted in lower than forecasted inventories

# Net working capital in 2022




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total NWC | 10 603 | 10 543 | 10 461 | 12 766 | 13 851 | 14 246 | 15 278 | 15 580 | 13 692 | 13 037 | 13 182 | 11 158 |

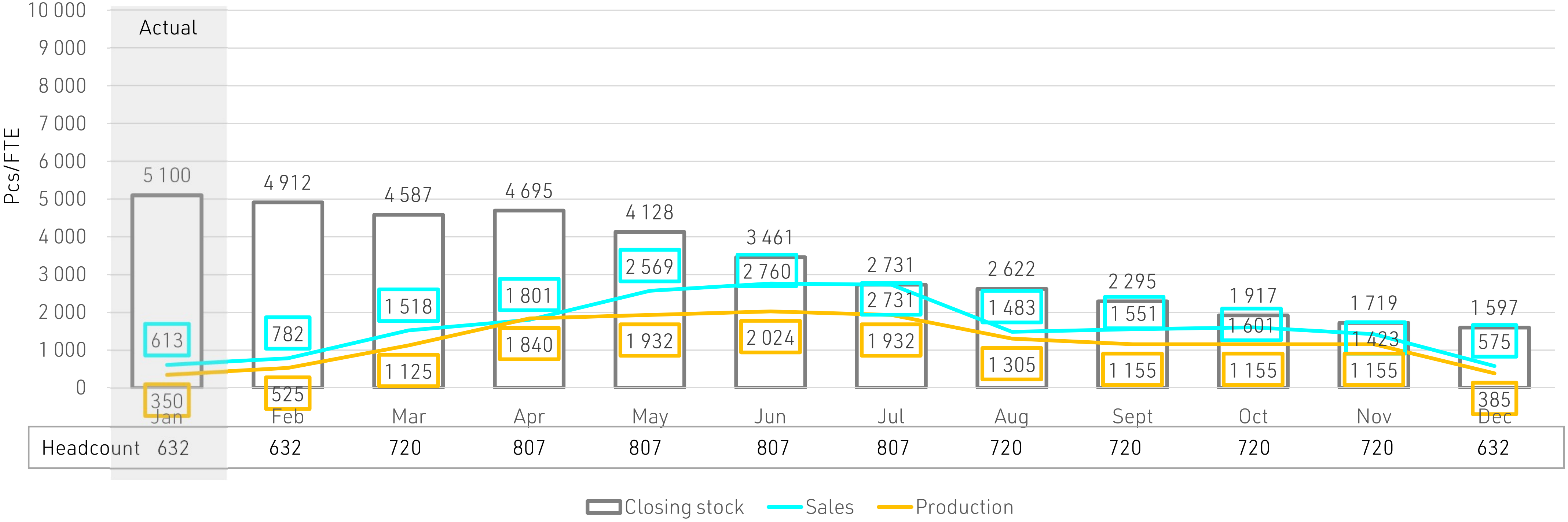
A/R A/P Inventory Change in NWC (M/M, right axis)

- Suppliers financing of the Group has peaked in May 2022, managed by renegotiations throughout H2 2022.
- 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

Latest FC in 22Q3:

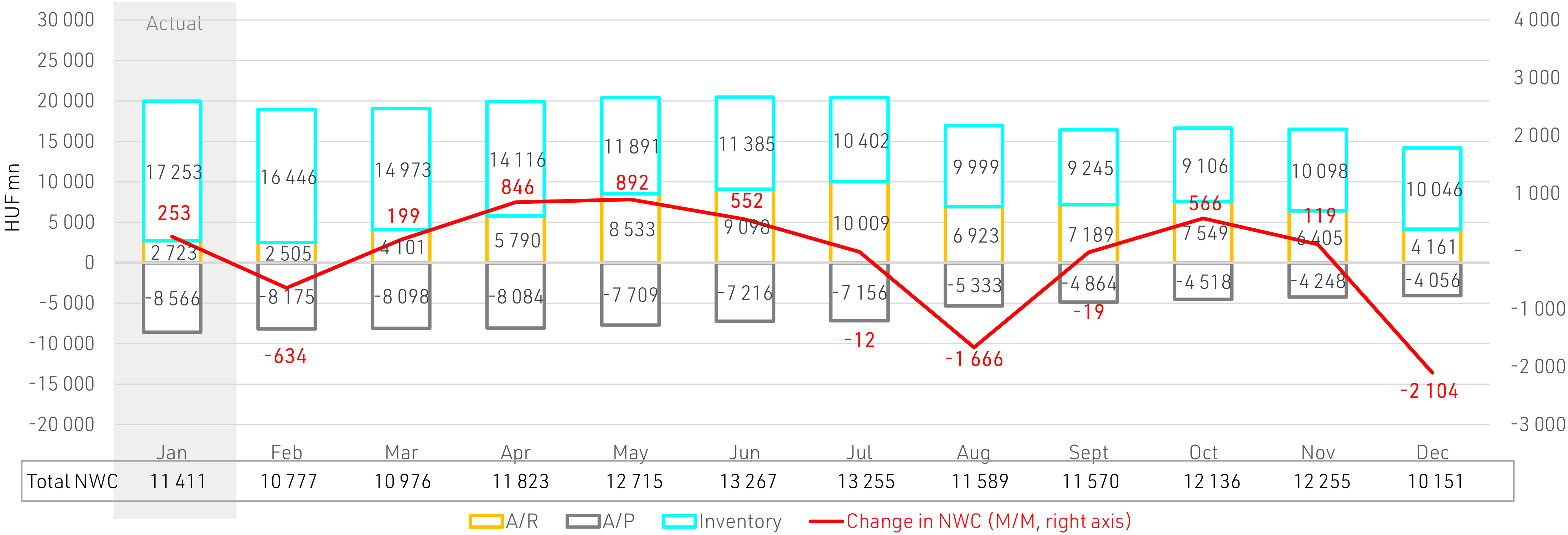
| | Nov | Dec |
|---|---|---|
| A/R: | 4 459 | 3 643 |
| A/P: | -10 883 | -10 166 |
| Inv: | 18 383 | 17 674 |
| NWC: | 11 958 | 11 151 |

# Production and sales in 2023




- Wellis intends to keep its production capabilities on lower level in order to decrease existing stocks.
- Sales is expected to peak between May and September.
- Production is also expected on a higher level during the peak period to keep up with increased sales; partially due to the introduction of a new model range.
- Flat stock level during the peak period in order to smoothly accommodate customer needs. Composition of stock is expected to shift towards the new product line during 2023.
- Stocks will bottom by the end of 2023 in order to minimise NWC financing need. Wellis intends to build inventories back to a healthy level of 2-3 month sales volumes in 2024.

# Net working capital in 2023




| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total NWC | 11 411 | 10 777 | 10 976 | 11 823 | 12 715 | 13 267 | 13 255 | 11 589 | 11 570 | 12 136 | 12 255 | 10 151 |

- Suppliers financing is expected to decrease throughout the year.
- Terms with major suppliers are continuously managed to ensure continuous supply for future operations.
- Receivables are increasing in line with turnover.
- Inventory change is in line with turnover and production, composition shifts towards new product line.

# Wellis Hungary / Profit and loss

| Wellis Hungary P&L (in HUF mn) | 2021 Actual | 2022 Budget | 2022 FC* | 2022 Actual | 2023 FC |
|---|---|---|---|---|---|
| Net sales | 38 992 | 60 339 | 49 834 | 50 825 | 39 939 |
| Variable cost | -29 551 | -46 309 | -41 353 | -42 683 | -28 851 |
| Net variable margin | 9 441 | 14 029 | 8 481 | 8 142 | 11 088 |
| *Net variable margin (%)* | *24.2%* | *23.3%* | *17.0%* | *16.0%* | *27.8%* |
| Fixed cost | -3 813 | -4 823 | -4 914 | -5 299 | -4 445 |
| Other operating result | -765 | 0 | -947 | -753 | -85 |
| EBITDA | 4 864 | 9 207 | 2 620 | 2 090 | 6 559 |
| *EBITDA margin (%)* | *12.5%* | *15.3%* | *5.3%* | *4.1%* | *16.4%* |
| Depreciation | -522 | -462 | -802 | -828 | -1 325 |
| Financing result | -119 | -250 | -65 | -262 | -766 |
| Profit before tax | 4 223 | 8 494 | 1 753 | 1 001 | 4 468 |
| *Pre-tax profit margin (%)* | *10.8%* | *14.1%* | *3.5%* | *2.0%* | *11.2%* |

** Based on 2022 10M actuals, as in Q3 2022 investor presentation*

2022:

- 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 expected to result cca HUF 6 bn savings for 2023
- 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 2.7 bn lower EBITDA and accordingly 8.2 pp lower EBITDA margin in 2022 compared to 2021

Outlook:

- Wellis plans with a moderate growth in top line revenues, focus will be on cost efficiency and deleveraging
- Net margin and EBITDA margin is expected to be significantly above the 2021 level from 2023 onwards due to efficiency increase in the highly automated Ózd facility
- Wellis expects increase in financing cost as Wellis expects higher EURIBOR levels in the future

# Wellis USA / Profit and loss

| Wellis USA P&L (in HUF mn) | 2021 Actual | 2022 FC* | 2022 Actual | 2023 FC |
|---|---|---|---|---|
| Net sales | 891 | 11 916 | 12 335 | 15 112 |
| COGS | -756 | -10 723 | -11 290 | -13 148 |
| Gross margin | 135 | 1 193 | 1 045 | 1 965 |
| *Gross margin (%)* | *15.2%* | *10.0%* | *8.5%* | *13.0%* |
| Sales, general and administration cost | -330 | -1 953 | -2 446 | -2 242 |
| Other operating result | 8 | 1 | 91 | 2 |
| EBITDA | -187 | -759 | -1 310 | -275 |
| *EBITDA margin (%)* | *-20.9%* | *-6.4%* | *-10.6%* | *-1.8%* |
| Depreciation | 0 | 0 | 0 | 0 |
| Financing result | -1 | -1 | -1 | -1 |
| Profit before tax | -187 | -760 | -1 311 | -276 |
| *Pre-tax profit margin (%)* | *-21.0%* | *-6.4%* | *-10.6%* | *-1.8%* |

** Based on 2022 10M actuals, as in Q3 2022 investor presentation*

2022:

- 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.

Outlook:

- Wellis expects moderate growth on the US market due to its highly competitive nature
- Margins are at around break-even, due to the intra-group financing model and the applied transfer pricing principles
- The expected growth on the US market will have a strong supporting effect on the consolidated P&L of Wellis.

# Wellis Group / Consolidated Profit and loss

| Wellis Group Consolidated P&L (in HUF mn) | 2021 Actual | 2022 Budget | 2022 FC* | 2022 Actual | 2023 FC |
|---|---|---|---|---|---|
| Net sales | 38 306 | 60 339 | 49 396 | 50 729 | 43 231 |
| Variable cost | -29 383 | -46 309 | -42 128 | -44 205 | -31 461 |
| Net variable margin | 8 923 | 14 029 | 7 268 | 6 524 | 11 771 |
| *Net variable margin (%)* | *23.3%* | *23.3%* | *14.7%* | *12.9%* | *27.2%* |
| Fixed cost | -3 886 | -4 823 | -5 250 | -5 699 | -4 794 |
| Other operating result | -757 | 0 | -946 | -662 | -82 |
| EBITDA | 4 281 | 9 207 | 1 071 | 163 | 6 894 |
| *EBITDA margin (%)* | *11.2%* | *15.3%* | *2.2%* | *0.3%* | *15.9%* |
| Depreciation | -522 | -462 | -802 | -828 | -1 325 |
| Financing result | -63 | -250 | -66 | -263 | -767 |
| Profit before tax | 3 695 | 8 494 | 204 | -927 | 4 802 |
| *Pre-tax profit margin (%)* | *9.6%* | *14.1%* | *0.4%* | *-1.9%* | *11.1%* |

** Based on 2022 10M actuals, as in Q3 2022 investor presentation*

2022:

- 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.

Outlook:

- 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 cca. 800 mn HUF on EBITDA level
- Wellis expects moderate growth in the coming years, along with significant deleveraging

# Wellis Group / Consolidated Balance Sheet

| Wellis Group – Consolidated BS (in HUF mn) | 2021 Actual | 2022 FC* | 2022 Actual | 2023 FC |
|---|---|---|---|---|
| Fixed Assets | 12 159 | 16 042 | 17 002 | 16 265 |
| Intangible assets | 52 | 125 | 158 | 114 |
| Tangible assets | 12 107 | 15 892 | 16 818 | 16 126 |
| Financial assets | 0 | 26 | 26 | 26 |
| Current assets | 22 266 | 26 562 | 24 123 | 22 511 |
| Inventories | 15 325 | 17 674 | 17 091 | 10 046 |
| Receiveables | 6 354 | 8 719 | 6 787 | 7 564 |
| Cash | 587 | 169 | 245 | 4 901 |
| Active accruals | 180 | 307 | 116 | 292 |
| Total Assets | 34 605 | 42 910 | 41 241 | 39 068 |
| Equity | 7 071 | 5 351 | 4 286 | 8 278 |
| Provisions | 303 | 398 | 399 | 338 |
| Liabilities | 25 819 | 34 097 | 32 499 | 27 421 |
| Long term liabilities | 10 896 | 10 956 | 10 955 | 10 956 |
| Short term liabilities | 14 923 | 23 141 | 21 544 | 16 465 |
| Passive accruals | 1 412 | 3 064 | 4 057 | 3 031 |
| Total liabilities | 34 605 | 42 910 | 41 241 | 39 068 |

** Based on 2022 10M actuals, as in Q3 2022 investor presentation*

2022:

- 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 go below HUF 12 bn by the end of 2023.
- Equity is expected to bottom in Q1 2023 in line with turnover and overall profitability.
- 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 refinanced in June 2022 with short term facilities.
- Total short term credit facilities reached HUF 10.7 bn in October 2022. Wellis intends to use these facilities throughout 2023.
- Passive accruals include the HIPA investment subsidy in the amount of HUF 2.9 bn in line with the investment plan. Accruals will be released in line with the depreciation of the investment.

Outlook:

- Wellis executes a moderate growth strategy with focus on solid profitability and healthy balance sheet structure.

# Wellis Group / Consolidated CF

| Wellis Group – Consolidated CF (in HUF mn) | 2021 Actual | 2022 FC* | 2022 Actual | 2023 FC |
|---|---|---|---|---|
| EBITDA | 4 547 | 1 071 | 163 | 6 894 |
| Change in NWC | -6 908 | -6 134 | -2 279 | -247 |
| **Operating CF** | **-2 362** | **-5 063** | **-2 116** | **6 647** |
| **Investment CF** | **-7 284** | **-4 685** | **-5 670** | **-1 548** |
| New loans | 12 503 | 7 793 | 7 793 | 600 |
| Reimbursement | -3 195 | -629 | -181 | -1 000 |
| Interest payment | -24 | -389 | -392 | -650 |
| Other change in equity | 174 | 2 556 | 225 | 613 |
| **Financing CF** | **9 458** | **9 330** | **7 444** | **-437** |
| *Change in Cash* | -188 | -418 | -342 | 4 662 |

** Based on 2022 10M actuals, as in 2022 Q3 investor presentation*

2022:

- 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 100 000 pcs per year. Maintenance capex will be cca HUF 1.5 bn p.a. in the coming years.
- New loan facilities reached HUF 7.8 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.

Outlook:

- Wellis expects to accumulate significant cash amounts in parallel with building down NWC financing needs.
- Strong cash generation is supported by the almost completed investment cycle and the state subsidies.

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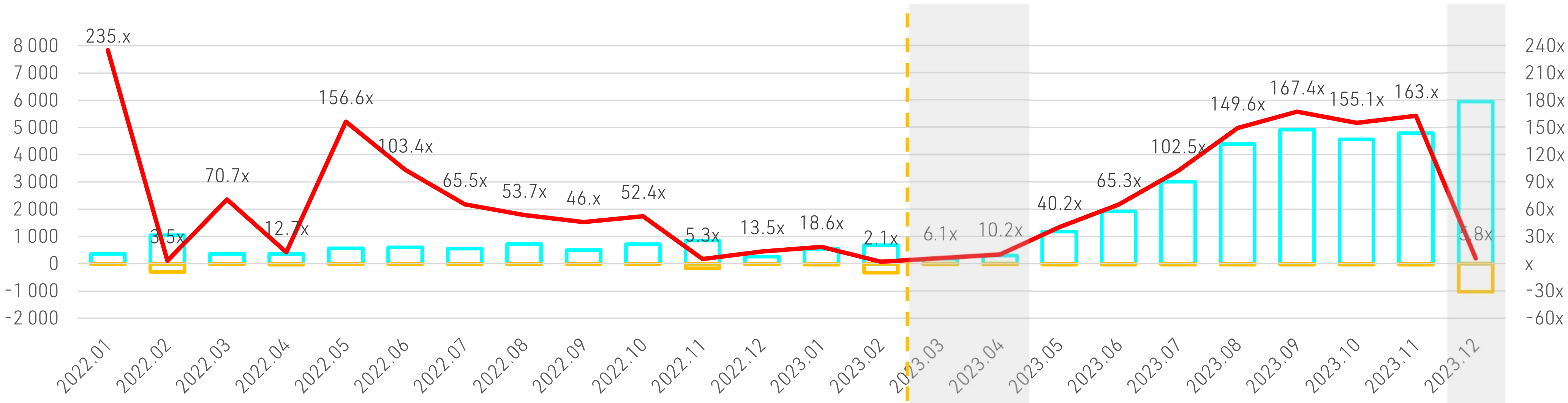
# Debt service cover




| | 2022.01 | 2022.02 | 2022.03 | 2022.04 | 2022.05 | 2022.06 | 2022.07 | 2022.08 | 2022.09 | 2022.10 | 2022.11 | 2022.12 | 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 | 360 | 1 046 | 363 | 359 | 563 | 599 | 557 | 725 | 506 | 717 | 856 | 264 | 548 | 681 | 178 | 299 | 1 183 | 1 920 | 3 014 | 4 399 | 4 922 | 4 561 | 4 794 | 5 936 |
| Debt service | -2 | -300 | -5 | -28 | -4 | -6 | -9 | -13 | -11 | -14 | -163 | -20 | -29 | -326 | -29 | -29 | -29 | -29 | -29 | -29 | -29 | -29 | -29 | -1 029 |
| DSCR | 235.x | 3.5x | 70.7x | 12.7x | 156.6x | 103.4x | 65.5x | 53.7x | 46.x | 52.4x | 5.3x | 13.5x | 18.6x | 2.1x | 6.1x | 10.2x | 40.2x | 65.3x | 102.5x | 149.6x | 167.4x | 155.1x | 163.x | 5.8x |

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

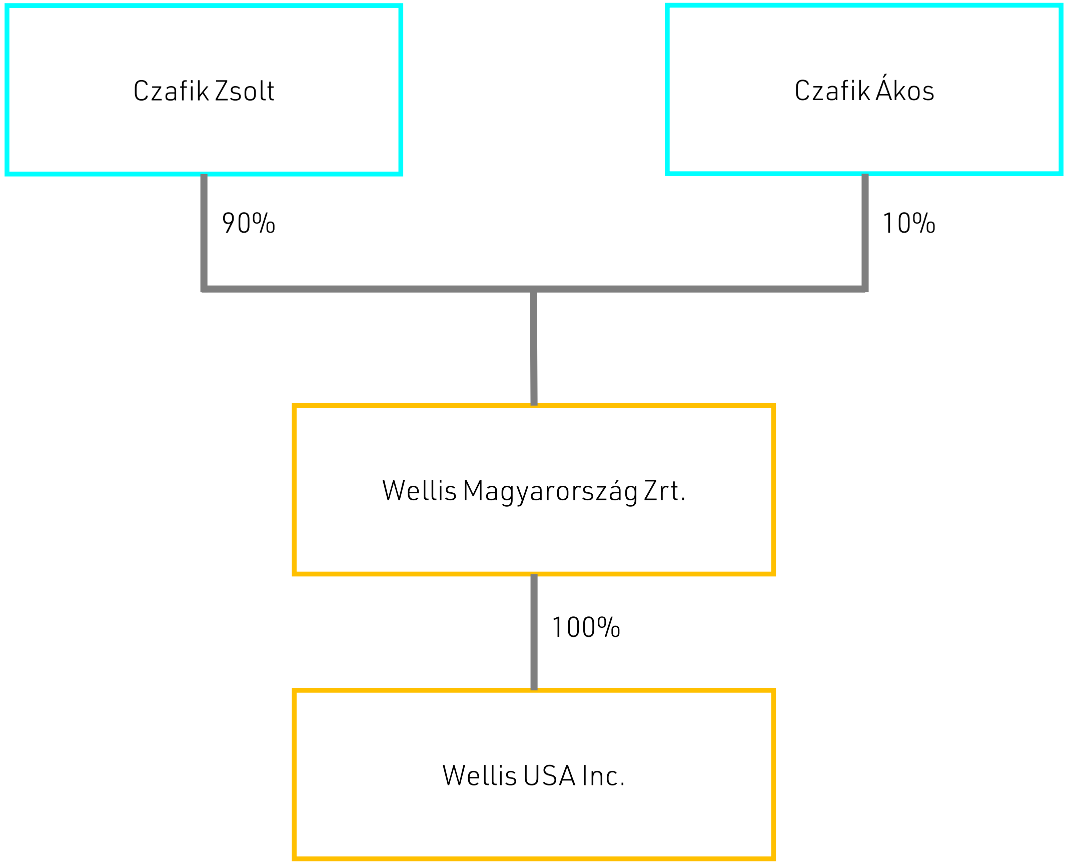
- Bond interest payment of HUF 297 mn was made on Feb 26, 2023.
- Next significant termination in December 2023. Wellis will be capable to reduce debt financing but intends to use the existing facilities if the conditions are favourable.
- New loans are EUR denominated, Wellis has a natural hedge against FX risk from its operations
- The key factor for the coming months is to reach the planned sales volumes and maintain strict cost and NWC control
- Wellis will start to accumulate cash reserve in every month for the following bond interest payment from March 2023 (cca HUF 30 mn per month on a reserve account)

# Outlook 2023

- Returning market is expected from April 2023 driven by the US, UK and France.
- 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 aims to reach the West Coast during the year.
- Production capacity properly adjusted to market demand – cash generation back to normal by Q2 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. Test production already started .
- Continued strict WC management and cost control; rationalised production and inventory.
- Production of swim spa will restart in Dabas in March 2023 as planned.
- Maintain operating costs at year-end 2022 level, January 2023 in line with forecast.
- Price decrease of raw materials, logistics expected from H2 2023.
- Once the global economic climate normalise, the necessary workforce would be available at Ózd .
- Chinese competitors may fall out from the EU market due to quality issues and FX volatility.
- No dividend to be paid in 2023.
- Ongoing negotiations with new financiers (both on debt and equity side).

# Appendix

# 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.

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