



**Senstar Technologies Ltd.**

**Third Quarter 2021 Earnings Call**

**November 16, 2021**

## C O R P O R A T E P A R T I C I P A N T S

**Kim Rogers**, *Investor Relations, Hayden IR*

**Dror Sharon**, *Chief Executive Officer*

**Tomer Hay**, *Chief Financial Officer*

## P R E S E N T A T I O N

### Operator

Hello, and welcome to the Senstar Technologies Third Quarter 2021 Earnings Call and Webcast.

As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to Kim Rogers with Hayden IR. Please go ahead, Kim.

### Kim Rogers

Thank you, Kevin. Welcome to Senstar's third quarter 2021 earnings conference call. I'd like to welcome all of you to the conference call, and thank Senstar Technologies' Management for hosting today's call.

On the call today with us are Dror Sharon, CEO of Senstar Technologies; and Tomer Hay, CFO. Dror will summarize key financial and business highlights, followed by Tomer, who will review Senstar's financial results for the third quarter. We will then open the call for question-and-answer session.

Before we start, I'd like to point out that this conference call may contain projections or other forward-looking statements regarding future events or the Company's future performance. These statements are only predictions and Senstar cannot guarantee that they will, in fact, occur. Senstar does not assume any obligation to update that information. Actual events or results may differ materially from those projected, including as a result of changing market trends, reduced demand and the competitive nature of the security systems industry, the unanticipated and unknown effect of the Coronavirus, including on our operations and our clients as well as other risks identified in the documents filed by the Company with the Securities and Exchange Commission.

In addition, during the course of the conference call, we will describe certain non-GAAP financial measures, which should be considered in addition to and not in lieu of comparable GAAP financial measures. Please note that in our press release, we have reconciled our non-GAAP financial measures to the most directly comparable GAAP measures in accordance with Reg G requirements. You can also refer to our website, at [www.senstartechnologies.com](http://www.senstartechnologies.com) for the most directly comparable financial measures and related reconciliations.

With that, I'd like to hand the call over to Dror. Dror, please go ahead.

**Dror Sharon**

Thank you, Kim. Thank you for joining us today to review Senstar Technologies' third quarter 2021 financial results.

As a reminder, Senstar Technologies is the Company's name following the divestiture of Magal Security Systems. Our NASDAQ ticker is now SNT. Our year-to-date financial statement reflects the Magal contribution to 2021 as net income from discontinued operations.

As for the third quarter and going forward, sales to the former integrated solution division will be included in our revenue as a third party customer. In the third quarter, Senstar revenues increased by 11%. Year-over-year growth was primarily due to a solid performance, especially in the APAC region for Magal's infrastructure contracts with a major Asian airport for an integrated perimeter security system announced in the second quarter. The strength in this region was modestly offset by complications in the U.S. market from filling customers' orders due to supply chain issues and government contract delays due to COVID. These orders remain in our queue for fulfilment as this delay was mainly a timing shift.

Senstar's gross profit rose modestly in the third quarter to \$5.6 million, but gross profit declined to 61%, down from last year 64%. Several factors impacted gross margin this quarter, including higher material cost, component availability and labor costs, which are seen across the board in many industries.

In our second quarter call, I stated that supply chain dynamics were impacting the industry with higher components cost and the shortage of components and material. For the remainder of 2021, we anticipate an increase in some material costs, particularly in semiconductors. We are working to secure the necessary components and mitigate further price increases. As expected, supply chain challenges affects gross margin this quarter and we anticipate this to continue in the fourth quarter of 2021 and potentially into the first half of 2022. That said, we expect Senstar's gross margin to remain above 60% for the full year and in 2022. The year-to-date gross margin is 65%, flat with last year for the same period.

In many regions around the world, we see some business activity starting to return to pre-COVID levels. Travel restrictions are being lifted. In some regions workers are returning to their offices and trade shows have resumed. In the third quarter, we attended several excellent trade shows in the U.S., Europe and the UK, and we're delighted to be hosting interesting meetings again. These events facilitate Senstar's heightened growth as we engage with new customers, increase awareness of Senstar's industry-leading technology.

While positive development are occurring, there are still some factors constraining us in several regions, including new restrictions in EMEA, limitation in the U.S. and the remaining travel controls in APAC. We're encouraged but remain cautious. Resuming trade shows, increasing marketing expenses and business show (inaudible) will cause the operating expense to increase from the low COVID-related levels. Last year, we did not attend trade shows and could not travel to meet with customers. We view the related marketing spend increase this quarter as a growth—as a growth spending and productive investment for the future of our business. Based on our pipeline, the outlook for 2022 looks positive showing growth compared to '21.

Forecast, we remain optimistic that COVID variance over the winter will not disrupt the recovery of the global business conditions. This quarter we enhanced our PIDS offering with our new thermal cameras. This unique, powerful perimeter solution complement intrusion detachment system and integrates with the Senstar Symphony Common Operation platform. We also released our game-changing Fusion Hardware-Software engine, which we anticipate will increase our software sales that benefits gross margin over time. The main value to the end user is the dramatic false alarm reduction. We expect the positive impact of the Fusion engine will begin in 2022.

Net income in the third quarter declined by \$800,000 and EBITDA margin was 12% below the third quarter 2022 margin of 15%. One factor contributing to the low EBITDA margin was the slightly higher operating expense, primarily related to our growth in spending. Our public company expense and amortization are expected to be stable and marketing expenses are anticipated to be flat to down sequentially. As a result, we anticipate Q4 operating income to be positive.

We remain focused on gross revenue from our four key verticals. With the two new highly innovative products launched in time for the busy third quarter trade show season, we are leveraging Senstar's strong industry spending to drive future business. In addition, we have a strategy in place to cross-sell and up-sell products and solutions to our existing customer base.

Lastly, we are adding new distribution channels by leveraging OEMs, system integrators and VARs. This quarter we increased revenue from our four key verticals: Energy, Corrections, Logistics and Critical Infrastructure. Our revenue growth is an outcome of our strategy to continuously enhancing our technology-rich PIDs and our software offering to provide high-value solution to thousands of Senstar customers in hundreds of countries.

To maximize our benefits from the improving business environment in APAC region and sustain our momentum over there, we announced a new Regional Director. I'm pleased to welcome Vance Lau who joined Senstar as a Senior Regional Director in Greater China. Vance came with extensive experience and a successful track record of leadership position at Axis, SAP and within the logistics industry as well. Vance is located in Hong Kong and will be in charge of China, Hong Kong, Taiwan and Macau markets.

We have as well promoted Alex Kong, a very successful regional sales manager based in Malaysia to the position of Senior Sales Director of South Asia and Japan to manage local team and further accelerate our growth in this region, where we do have great success.

Finally, I'm glad to announce that Sean Thompson has joined us as Senior Sales Director of Canada to grow our market and footprint in our domestic market. Sean is coming with a strong track record as a sales executive for the Canadian market at IndigoVision, Chubb, ADT and Telus.

Our global sales team is successfully growing our pipeline in all regions where we have built a presence and regularly convert new opportunities into bookings. This quarter showcases productivity of R&D investments and gives Senstar a competitive advantage in the market. The thermal camera in the Senstar Fusion Engine follow on the heels of version 8 of our Symphony Common Operating platform. This platform is a through SMS, a Security Management System that offers AI analytics, access control, video integration and inputs from our paid products.

The data intelligence and functionality of the Symphony platform combines video surveillance with analytics, security sensors and data for manufacturing the logistics systems. This functionality is achieved by linking inputs from our field product into solutions that enhance the intelligence gathering for the end users. The result is an enhanced surveillance system that provides valuable operational intelligence, thereby increasing the customers ROI. This improved platform raises us to the solution provider category and opens new customer target, higher contract values and stickier revenue streams.

Looking down the road, our product roadmap includes expanding and completing the performance of our current offerings. In early 2022, we plan to release a new short-range FiberPatrol solution.

Our cash balance at the end of the quarter was \$24 million after making the \$40 million cash distribution to Shareholders in September. Though we have not yet closed a deal, M&A remains top of our growth strategy. The few opportunities that could bring innovative technology and essential experience to support

our brand leadership. (Inaudible) will remain vigilant in balancing the allocation of our capital between investment in R&D to drive the future growth, strategic and strategic technology acquisitions at a reasonable valuation.

In closing, I'd like to thank all of our employees around the world for their ongoing commitment to our strategy, to deliver growth, improve our profitability and ultimately delivery shareholder value.

Now I will pass the call to our CFO, Tomer Hay. Tomer, please go ahead and review our financial results.

### **Tomer Hay**

Thank you, Dror.

Our reported revenues for the third quarter of 2021 was \$9.3 million, an increase of 10.6% compared with the reported revenues of \$8.4 million in the third quarter of 2020. The increase was primarily due to increased sales in APAC, which was partially offset by a modest decline in North America and European sales. The geography breakdown as a percentage of revenues for the third quarter of 2021 compared to the year ago quarter is as follows. North America 46%, versus 51%; Europe 24%, versus 33%; APAC 26% versus 13%; and Latin America 4% versus 3%.

Third quarter reported gross margin was 60.7% of revenues versus 64.1% last year. The decrease in gross margin was primarily due to the shift in the mix of products sold during the quarter and macro level business condition related to higher material costs, component availability and labor costs as Dror discussed.

Our reported operating expenses were \$4.8 million, a 10% increase from the prior year third quarter operation expenses of \$4.4 million and in line with the prior quarter. The year-over-year increase in operating expenses was due to primarily an increase in marketing and selling expenses related to travel, trade show and other engagement with customers. Our reporting operating income for the third quarter was \$0.8 million compared to \$1 million in the year ago period. Our reported income from continuing operations was \$44,000 in the third quarter of 2021, compared to \$0.5 million in the year ago quarter.

The Company's reported EBITDA from continuing operation for the third quarter was \$1.1 million versus \$1.3 million in the third quarter of last year. Financial expenses were \$0.1 million compared to—sorry, \$0.4 million compared to \$0.1 million in the third quarter last year. This is a non-cash accounting defect we regularly experienced due to the adjustments of our monetary assets and our liability denominated in currencies other than the functional currency of the operating entity in the Group. As Dror mentioned, Senstar operating leverage and the anticipated ramp up in quarterly revenues, we expect to report positive operating income from continuing operation for the upcoming fourth quarter.

Net loss attributed to Senstar Technologies shareholders in the quarter was \$0.2 million or negative \$0.01 per share versus net income of \$0.6 million or 1% per share in the third quarter of last year. The reported net loss includes a net loss of \$0.3 million from discontinued operation versus net income from discontinued operation of \$0.5 million in the same period last year. (Inaudible) to Senstar operation contribution with the public platform expenses and amortization of intangible assets from historical acquisitions.

For both the third quarter of 2021 and 2020, corporate expenses and amortization expenses were about \$1 million. Cash and cash equivalent as of September 30, 2021 were \$24 million or \$1.03 per share. As of September 30, 2021, assets attributed to discontinued operation were \$2 million with liabilities attributed to discontinued operations of \$4.3 million as compared to assets attributed to discontinued

operations of \$49.6 million and liabilities attributed to discontinued operation of \$25.2 million as of December 31, 2020.

That concludes my remarks. We're happy to take your questions now. Operator?

**Operator**

Thank you. We have no audio questions at the time.

I'd like to turn the floor back over to Management for your further closing comments as there are no questions at this time.

**Dror Sharon**

Okay. Thank you, Operator. On behalf of the Management of Senstar, we'd like to thank you for your continued interest and long-term support of our business. I look forward to updating you next quarter. Have a good day, everyone. Thanks.

**Operator**

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.