



Senstar Technologies Ltd.

**Second Quarter 2023 Financial Results Conference Call and
Webcast**

September 6, 2023

CORPORATE PARTICIPANTS

Kim Rogers, *Hayden IR*

Fabien Haubert, *Interim Chief Executive Officer*

Tomer Hay, *Chief Financial Officer*

PRESENTATION

Operator

Hello, and welcome to the Senstar Technologies Second Quarter 2023 Financial Results Conference Call and Webcast.

(Operator Instructions) As a reminder, this conference call is being recorded.

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

Kim Rogers

Thank you, Kevin. Welcome, and thank you for joining us today. I would like to thank the Management of Senstar Technologies for hosting today's call.

With us on the call today from the Company are Mr. Fabien Haubert, Interim CEO, Mr. Tomer Hay, CFO, and Ms. Alicia Kelly, Vice President of Finance.

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, 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 for the most directly comparable financial measures and related reconciliations.

With that, I will now hand the call over to Senstar Technology's CEO, Fabien Haubert. Fabien, please go ahead.

Fabien Haubert

Thank you, Kim.

Good morning, everyone, and thank you for joining today's earnings call.

I'm delighted to provide an update on the company's performance. Starting with the second quarter of 2023, revenue was largely in line with our expectations, showing accelerated growth in two key geographies. Q2 2023 revenue was \$8.4 million, a 7% decline from the same period last year. Year-to-date revenue for 2023 totaled \$14.9 million compared to \$15.9 million, reflecting a decrease of 6%.

Our gross margin for Q2 stood at 60.7%, up 70 basis points year-over-year and 500 basis points sequentially. This improvement resulted primarily from a shift in product mix. We achieved positive operating income and EBITDA in the second quarter, despite lower revenue, helped by lower operating expenses.

Notably, robust growth emerged from our focus on the EMEA and U.S. regions in Q2, counterbalanced by the absence of a one-time project in Asia that boosted last year's Q2 results. Although the challenging year-over-year comparison obscured our regional progress, we're making headway in pivotal markets like Europe and the U.S. The Asia project's follow-on orders have been slower than expected, causing some variability in APAC sales.

Looking at our performance regionally, the US and European regions were the best performing geographies, representing about 80% of our total revenue in Q2 2023, up from about 63% for the same period last year.

Diving into the numbers a little bit deeper, EMEA shone, increasing 30% versus Q2 last year. Year to date, the region grew by 2% versus the first half of 2022. The outstanding growth in the second quarter was primarily due to a few military projects across Europe and a direct result of our past years investments in DACH, Iberia, Eastern Europe, France and the Netherlands. Senstar will keep investing in Europe to develop its market share mainly in the targeted verticals, which have overcome the COVID challenges and shows a high potential for steady growth.

The U.S. displayed notable growth of 8% in Q2 and an impressive 22% year-to-date, driven by corrections business expansion and large demand in the targeted vertical through the whole region. Senstar is taking steps to reinforce its presence in the correction Industry and to strengthen the US sales team to further boost its presence in our largest territory and improve our market share in Utilities, Energy, Logistics and military projects in the region. The US remains a major market where Senstar expects long term growth, as our high technology offering matches the demand in the whole Region.

The APAC region helped us last year when we had a slow down of corrections orders in the US, which was impacted by lower government funding for projects. Senstar is looking closely at current situation and is looking forward to reinforcing its efforts towards parts of Asia where the demand is currently well sustained. Shifting to our performance in the four key verticals. Collectively, our four key verticals delivered a 22% increase in billings year-over-year and represented about 60% of total billings. Senstar has aligned its resources to focus on the Energy, Utilities, Corrections, and Logistics verticals, leveraging our advanced solutions and brand recognition. These markets require technologically advanced solutions and, as a result, are a good fit for Senstar's sensors and information management software.

Let me comment on Senstar's industry leading product portfolio. We manufacture, customize, and service our offerings, delivering multi-layered security solutions. Senstar products synergize for comprehensive

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facility-level solutions, enhanced by AI and cutting-edge data visualization and video analytics. To this extent, Senstar will communicate shortly on introducing to the market its new generation of sensor's technology. This unique and extremely innovative solution is taking a step forward in solving challenges in intrusion detection.

The Senstar team remains committed to expanding operational capacity, growing market share in key verticals, enriching our product lineup, and boosting sales to existing and future customers.

In conclusion, we remain confident in our strategic direction and the steps we are taking to expand our market share and drive growth. By focusing on high-value vertical markets, offering comprehensive vertical solutions, and investing in research and development, we are positioning ourselves for success. We appreciate your ongoing support.

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

Tomer, please go ahead.

Tomer Hay

Thank you, Fabien.

Our **reported revenue** for the second quarter of 2023 was \$8.4 million (dollars), a decrease of 7.5% compared with reported revenue of \$9.1 million (dollars) in the second quarter of 2022. As Fabien mentioned, the decline was mainly due to a one-time project in the APAC region in Q2 2022.

The **geographic breakdown** as a percentage of revenue for the second quarter of 2023 compared to the year ago quarter is as follows:

- North America (including LATAM) 50% compared to 43%;
- Europe 40% compared to 28%;
- APAC 10% compared to 29%;

Second quarter reported **gross margin** was 60.7% of revenue compared to 60.0% last year.

Our reported **operating expenses** were \$5.0 million (dollars), a decrease of 6.1% from the prior year's second quarter operating expenses of \$5.4 million (dollars). The year-over-year decrease in operating expenses was due primarily to a decrease in general and administrative expenses, which was partially offset by an increase in selling and marketing expenses, compared to the year-ago quarter.

Our reported **operating income** for the second quarter was \$83 thousand (dollars) compared to \$107 thousand (dollars) in the year-ago period.

Financial expense was \$74 thousand (dollars) in the second quarter this year compared with \$109 thousand (dollars) in the second quarter last year.

Net loss attributable to Senstar Technologies shareholders in the quarter was \$211 thousand (dollars) or 1 cents per share compared to net income of \$164 thousand (dollars) or 1 cents per share in the second quarter of last year.

The company's reported **EBITDA** for the second quarter of 2023 was \$290 thousand (dollars) compared to \$460 thousand (dollars) in the second quarter of last year.

Balance Sheet Items

Cash and cash equivalents and short-term bank and restricted deposits were \$11.9 million (dollars), or 51 cents per share, as of June 30, 2023.

That concludes my remarks.

That concludes my remarks. Operator, we'd like to open the call to questions now.

Operator

Thank you. (Operator Instructions)

We have reached end of our question-and-answer session. I'd like to turn the floor back over for Management for any further closing comments.

Fabien Haubert

On behalf of the Management of Senstar, I'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.

Operator

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