



Senstar Technologies

Fourth Quarter and Full Year 2021 Earnings Call

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CORPORATE PARTICIPANTS

Kimberly Rogers, *Hayden IR*

Dror Sharon, *Chief Executive Officer*

Tomer Hay, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Ken Liddy, *Oppenheimer*

PRESENTATION

Operator

Greetings, and welcome to the Senstar Technologies' Fourth Quarter and Full Year 2021 Earnings Call.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Kim Rogers, with Hayden IR. You may begin.

Kimberly Rogers

Thank you, Stacy. Welcome to today's call. I'd like to welcome you all to the conference call and thank Senstar Technologies' Management for hosting today's call.

With us on the call today are Mr. Dror Sharon, CEO of Senstar Technologies; and Mr. Tomer Hay, CFO. Dror will summarize key financial and business highlights, followed by Tomer, who will review Senstar's financial results for the full year and the fourth 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 our 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 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'll now 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' fourth quarter and full-year 2021 financial results.

As a reminder, following the divestiture of Magal Security Systems in 2021, our year-to-date financial statements reflect the Magal contribution in 2021 as net income from discontinued operations. Senstar sales to the former Integrated Solutions division in the second half of 2021, are included in our revenue as a third-party customer.

Financial Summary

2021 was an important year for our company. On June 30th, we completed the divestiture of the Magal Integration Solutions, receiving \$35 million in cash at the closing and rebranded as Senstar Technologies. In September, we returned \$40 million in cash to our shareholders in a cash distribution. With the transition behind us, we are now 100% focused on our products combining PIDS, VMS, Access control and analytics, creating unified and unique solutions for our customers in our four key verticals. As a standalone company, we are leveraging our reputation as a technology leader to capture a meaningful share of new market opportunities.

For 2021, Senstar grew revenue by 5% to \$34.9 million and delivered gross profit of \$22.0 million for an annual gross margin of 63%. Our results in 2021 were impacted by the divestiture of the Magal division, which consumed a significant portion of management's time, and by the COVID pandemic. We estimate that our revenue in 2021 was reduced by around 10% as a result of the impact of COVID globally, which affected the closing of deals, the effectiveness of workplaces and limited client interactions. Although COVID impacted our top line, we managed to keep our operating expenses low and delivered an EBIDTA of 20% for Senstar operation entities.

We ended the year with \$26.4 million in cash and cash equivalents after the \$40 million cash distribution to shareholders that I mentioned earlier and \$25 million cash distribution the year before.

In 2021, we launched several new products, including our Sensor Fusion Engine and our OEM Thermal Camera. These new solutions together with the ongoing products offering run on the latest version of our Symphony Common Operating Platform. In December, our Symphony Platform with our Sensor Fusion engine won the Platinum award from ASTORS' Homeland Security in the Video Surveillance Solution segment. The platform was also named a top 30 security technology innovation by Security Sales and Integration, a leading industry publication.

All this to say that Senstar is well-positioned for expanding market share and returning to growth. We have industry-leading products and solutions, and the global need for our products and solutions continues to grow. We have streamlined our business, focusing on key verticals with a sales pipeline increasing in all our principal geographies.

There are a few factors affecting our business in the current global environment. We have several projects that have been delayed due to COVID and the supply chain disruptions of our customers. Supply chains remain stressed due to several factors, most recently related to the lockdowns in China. Shortages of materials and labor are increasing costs for companies in all sectors, including ours. We monitor all these elements as we plan for the remainder of 2022. Luckily, through very tight control, we don't anticipate a major impact on our 2022 revenue due to lack of material, however, developments in this field may change rapidly.

In the fourth quarter, we felt the effect of a few of these business hurdles. Senstar's revenue declined by 6% year-over-year for the fourth quarter. The decline in our fourth quarter revenue was primarily due to timing. Two large customer projects were postponed into 2022. I am happy to say that one of these projects closed in the first quarter of 2022, and we will provide you with more details shortly. The second project for a large energy company in North America is in the advanced stages of negotiations and is likely to close in the first half of 2022.

Importantly, looking into our growing pipeline, demand for our products remains robust and new business is progressing. Like so many industries, business is taking slightly longer to close. We are navigating the mismatch between supply and demand.

Senstar's gross profit in the fourth quarter was \$5.2 million, and gross profit margin was 58%, down from last year's 69%. This quarter several factors impacted our gross margin, including the mix of products sold, higher material costs, component availability, and labor costs. On our last earnings call, I stated that we expected supply chain challenges to continue in the fourth quarter of 2021 and potentially into the first half of 2022. We have secured the necessary components to manufacture products for customer orders, but things are subject to change on short notice. We have successfully raised our prices, with no negative back-lash from our customers and are trying to mitigate further cost increases to keep gross margin above 60% in 2022.

In recent months, many business activities have returned to pre-Covid levels. We are encouraged by the interest level in our solutions at trade shows and customer meetings. The increase in our marketing activities has led to pipeline growth in our key verticals, and we have several large potential opportunities.

In energy, we are engaging with global energy companies on several opportunities across multiple continents that will help to protect facilities, reserves, pipelines, and oil fields. I referenced one project earlier, and we have two other large projects that we are negotiating. One project is a blanket agreement with a large, multinational energy company, and the other is for an African oil field facility to secure its oil pipelines and pumps.

In logistics, we are in advanced discussions with a global logistics and fulfillment network to provide a solution that will secure communications fiber within its facilities and enable the testing of fiber optics with our FiberPatrol solution. Critical infrastructure and ports are another vertical with multiple opportunities in Europe, Africa, and APAC. We remain cautiously optimistic that COVID variants and geopolitical tensions will not escalate further to disrupt the ongoing recovery of global business conditions.

Our platform is now a true SMS – or "Security Management System" that offers AI analytics, access control, video integration, and inputs from our PIDS products. The enhanced data intelligence functionality of the Symphony platform combines video surveillance with analytics, security sensors, and data from a customer's security, manufacturing, or logistics systems. This superior functionality is achieved by linking inputs from our PIDS products and any other sensor into a solution that enrich the intelligence gathering for end-users. The result is an improved surveillance system that provides valuable operational intelligence—positioning Senstar as a solutions provider that opens new customer targets that can bring bigger contracts with recurring revenue streams.

The Senstar team continuously enhances our offering to improve the value we bring to the thousands of Senstar customers worldwide. The new products and software launched in 2021 and increased awareness created by winning industry awards and praise for our innovation in perimeter security technology are working together to improve our 2022 sales pipeline in Europe, North America, and APAC. We anticipate releasing a new, short-range FiberPatrol later this year.

Our current outlook for the year indicates revenue and pipeline growth compared to 2021. With new, highly innovative products, we are leveraging Senstar's strong industry standing to drive future growth. In

addition, we are cross-selling and upselling products and solutions to our existing customer base in our four key verticals.

Another factor supporting our pipeline growth is our restructured sales organization with six Senior Sales directors (SSDs) closer to the customer with clear performance targets in each of the three key regions. The result is smaller teams working more closely with clients, all under the direct supervision of a senior sales director in the region. Each one of these teams has its own quota and goals. This allows for streamlined customer interaction, which should help us convert pipeline prospects into bookings.

In summary, Senstar has earned an industry-leading reputation in PIDS and now as an established provider of broad solutions, with the ability to combine hardware and software into one platform and deliver innovative technology and software solutions that are gaining industry attention. Global trends are increasing the need for sophisticated security for large, physical assets like oil fields, ports, and manufacturing and distribution facilities. We continue to improve our offerings and refine our business practices to build a better company. Senstar has a strong balance sheet with no debt and a high cash balance. All these factors position the company for continued success and growth.

In closing, I want to thank all our employees worldwide for their ongoing commitment to our strategy to deliver excellence in product and service, improve our profitability, and ultimately deliver shareholder value.

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

Tomer Hay

Our reported revenue for the fourth quarter of 2021 was \$9.0 million (dollars), a decrease of 6.4% compared with reported revenue of \$9.6 million (dollars) in the fourth quarter of 2020. The decline was primarily due to the timing of two customer projects that were delayed beyond year end, one of which closed in the first quarter of 2022, as well as overall market conditions that continue to be impacted by supply chain challenges.

The geographic breakdown as a percentage of revenue for the fourth quarter of 2021 compared to the year ago quarter is as follows:

- North America 41% versus 52%
- Europe 25% versus 28%
- APAC 24% versus 13%
- Latin America 5% versus 6%
- Others 5% versus 1%

Fourth quarter reported gross margin was 58.1% of revenue versus 68.6% last year. The decrease in gross margin was primarily due to a shift in the mix of products sold during the quarter and macro-level business conditions related to higher material costs, component availability, and labor costs.

Our reported operating expenses were \$6.5 million (dollars), an increase of 21.5% from the prior year's fourth quarter operating expenses of \$5.3 million (dollars). The year-over-year increase in operating expenses is due primarily to a reversal of government COVID subsidies received in 2021 that were retroactive, as well as increased marketing and selling expenses related to travel, trade shows, and other customer engagements.

Our reported operating loss for the fourth quarter was \$1.2 million (dollars) compared to operating income of \$1.3 million (dollars) in the year-ago period.

Financial expense was (\$0.4) million (dollars) compared to (\$1.2) million (dollars) in the fourth quarter last year. This is a non-cash **accounting effect** we regularly report due to adjustment to the valuation of our

monetary assets and liabilities denominated in currencies other than the functional currency of the operational entities in the group, in accordance with GAAP.

Our reported loss from continuing operations was \$2.2 million (dollars) in the fourth quarter of 2021 compared to a loss from continuing operations of \$1.2 million (dollars) in the year ago quarter.

The company's reported EBITDA from continuing operations for the fourth quarter was negative \$(0.7) million (dollars) versus positive EBITDA from continuing operations of \$1.6 million (dollars) in the fourth quarter of last year.

Net loss attributable to Senstar Technologies shareholders in the quarter was \$(3.2) million (dollars) or 14 cent per share versus a net loss of \$(0.8) million (dollars) or 4 cent per share in the fourth quarter of last year. The reported net loss includes a net loss of \$(0.9) million (dollars) from discontinued operations versus net income from discontinued operations of \$0.7 million (dollars) in the same period last year.

Added to Senstar's operational contribution is the public platform expenses and amortization of intangible assets from historical acquisitions. The corporate expenses and amortization expenses for the fourth quarter were \$1.4 million (dollars) versus \$1.3 million (dollars) in the fourth quarter of the year before.

Full Year 2020 Results

Revenue for the year ended December 31, 2021 was \$34.9 million (dollars) compared with revenue of \$33.4 million (dollars) in the prior year. The year-over-year increase of 4.7% relates to some recovery in our business which was impacted by the COVID-19 pandemic.

The geographic breakdown as a percentage of revenue for 2021 compared to 2020 is as follows:

- North America 46% versus 53%;
- Europe 26% versus 27%;
- APAC 23% versus 15%.
- Latin America 4% in both periods;
- Others 1% in both periods;

The full year gross profit was \$22.0 million (dollars), representing gross margin of 63.0% versus \$22.1 million (dollars), or gross margin of 66.3% last year. The lower gross margin was primarily due to our revenue mix and some increases in the material costs.

Our 2021 operating expense was \$20.9 million (dollars), an increase of 9.7% compared to \$19.1 million (dollars) last year. Operating income from continuing operation was \$1.1 million (dollars) compared with \$3.1 million (dollars) in 2020. The decrease in operating income was due to lower gross margin contribution and higher operating expenses.

Net income attributable to Senstar Technologies shareholders for 2021 was \$6.4 million (dollars) or 28 cent per share versus \$0.4 million (dollars) or 1 cent per share in 2020. The reported net income in 2021 includes net income of \$8.6 million (dollars) from discontinued operations versus \$0.4 million (dollars) in the same period last year.

In 2021, our EBITDA was \$2.6 million (dollars), representing an EBITDA margin of 7.4%, compared with \$4.3 million (dollars), representing an EBITDA margin of 12.8%, in 2020.

The corporate expenses and amortization expenses for the public platform were \$4.4 million (dollars) versus \$4.0 million (dollars) in the same period of the year before.

Balance Sheet Items

Cash and cash equivalents, as of December 31, 2021, were \$26.4 million (dollars), or 1 dollar and 13 cents per share.

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

Operator

First question comes from Ken Liddy with Oppenheimer.

Ken Liddy

Good afternoon. On previous calls, you talked about planning a merger partner, and that you had some delays due to the COVID pandemic. Could you give us an update on your status with acquisitions?

Dror Sharon

Currently, we have a few in our pipeline, but nothing is in—let's say, in a stage that we can further discuss. We don't have anything in front of us, which is in advanced situation.

Ken Liddy

Is that a status change? It seemed to us that you had some deals that you were close to closing.

Dror Sharon

Can you repeat please, Ken? I didn't hear you.

Ken Liddy

I'm sorry, is that a status change? It seemed like you were close to closing something based on your previous calls.

Dror Sharon

Yes, yes, you're right. We didn't succeed in acquiring the opportunities that we had. Someone offered a much higher number than we did.

Ken Liddy

Are there still some targets that you have that potentially could get closed this year?

Dror Sharon

We are looking, but nothing is mature enough that we can discuss it now, because we don't have nothing in front of us in a mature stage now.

Ken Liddy

Understood. With regards to your warehouse offering for warehouse distributors and—throughout the world. Is there any type of update on larger projects there?

Dror Sharon

On the Logistics side of the business?

Ken Liddy

Exactly. Yes.

Dror Sharon

Yes. As I mentioned in the script, we have a few opportunities. Some of them are very—in a progressed stage. Securing—again, we are securing warehouses and logistics centers worldwide. And this is a vertical that is growing very nice.

Ken Liddy

I understand your backlog isn't going to be quite what it was when you were Magal. But how is the backlog comparing or pipeline of orders comparing this year compared to last year's same time or last quarter at the same time?

Dror Sharon

Well, it's a pretty stable backlog. Compared to Magal, Magal was a project company or Project division and you had the backlog for a year or sometimes more. Since the turnaround between getting a PO until the fulfillment can vary between weeks and days up to 2, 3 months. So backlog is not a parameter too important now. More important is the pipeline. The pipeline is very strong today, the way we see it. And hopefully, we'll be able to grow it and transfer it to real sales.

Ken Liddy

As far as containing costs, is there anything that you can do besides grow revenue to offset some of the cost increases? I understand you're raising prices a bit. Are you confident that you'll be able to return to positive EBITDA in coming quarters?

Dror Sharon

Again, for the operation, Senstar—the Company Senstar itself, the EBITDA is very nice. As I mentioned, it was around 20%. Gross margin is above 60%. We are targeting to keep it above 60%. Again, as I said, we don't see a major hit due to material shortage, because we are managing it very tight with our suppliers and subcontractors. It looks like, again—nothing is stable today, but it looks like we can support our 2022 targets as we see it today.

Ken Liddy

Okay. Thanks for taking my calls.

Operator

There are no further questions. I would like to turn the floor over to Dror Sharon for closing remarks.

Dror Sharon

Thank you. On behalf of the Management of Senstar, I would 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—good day and keep safe. Thank you. Bye-bye.

Operator

This concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.