



**Senstar Technologies**  
**Second Quarter 2022 Earnings Call**  
**September 22, 2022**

## CORPORATE PARTICIPANTS

**Doron Kerbel**, *Company Secretary*

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

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

## CONFERENCE CALL PARTICIPANTS

**Barry Pasternak**, *Private Investor*

## PRESENTATION

### **Operator**

Greetings. Welcome to Senstar Technologies' Second Quarter 2022 Earnings Call.

Please note this conference is being recorded.

I will now turn the conference over to Doron Kerbel, Senstar Technologies' Company Secretary. Thank you, you may begin.

### **Doron Kerbel**

Thank you, Operator.

Welcome to our second quarter earnings conference call. With me today are Mr. Dror Sharon, CEO of Senstar Technologies, and Tomer Hay, CFO. Dror will summarize our key financial and business highlights, followed by Tomer who will review Senstar's financial results for the second quarter. We will then open the call for the question-and-answer session.

Before we start, I would 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 the information. Actual events or results may differ materially from those projected, including as a result of changing market trends, reduced demands and competitive nature of the security system industry, the unanticipated and unknown effect of the coronavirus, including on our operations and our clients, as well as other risks identified in our 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 Regulation 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 would now hand over the call to Dror.

Dror, go ahead, please.

**Dror Sharon**

Thank you, Doron.

Thank you for joining us today to review Senstar Technologies' second quarter financial results.

In 2022, we have closed several large projects in our key verticals. We have successfully landed significant recent customers' win that we cannot announce, since our customers requested us to keep it confidential. In the Americas, we have closed wins with new customers, including critical infrastructure sites such as ports, airports, and power plants. In EMEA, we have also been successful in critical infrastructure vertical across several countries and have secured wins with a large logistics facility and a high profile government site. APAC has been a productive region, as well. A large airport has deployed our PIDS and software solution in two terminals. We will be rolling out to an additional terminal and then upgrading equipment purchased over five years ago with our updated product. We have also closed the power company project and have a longstanding contract with corrections facility customers, upgrading its systems with new Senstar products.

However, in the second quarter, we experienced delays due to several factors that caused new business to take longer to close, particularly in the U.S. where many projects are tied to federal funding. As a result, second quarter revenue declined by 10% to \$9.1 million. Notably, we have not lost business and we continue to expect the world in our favor in the coming months.

Last year, we received subsidies from the Canadian Emergency Wages Subsidy Program to approximately \$0.6 million in the second quarter, which expired in the third quarter of 2021. This has impacted the year-over-year comparison to cost of goods sold and operation/operating expenses. Additionally, higher prices impacted the cost of goods sold, despite mitigating some of the increase by raising our prices.

On the prior call, we stated that we expected supply chain challenges to continue into the first half of 2022. As a result of having secured the necessary components and built inventory to meet anticipated demand, we have been able to manufacture products for customers' order and mitigate further cost increases. This, combined with raising our prices, has allowed us to maintain a gross margin above 60% in 2022.

With price increase taking effect, and absence of subsidy payment after Q3 2021, we expect a more normalized run rate of expenses going forward.

One vertical we are particularly excited about is the energy sector. Securing energy production and storage facilities is a global concern, and we are experiencing increased interest in our advanced solutions. Currently, we are in final contract negotiation with an international energy company with several opportunities across multiple countries to help to protect facilities, reserves, pipelines, and oilfields. One

project is a blanket agreement with a large multinational energy company, and the other is for an African oilfield facility to secure its oil pipeline and pumps. The blanket agreement deal would significantly boost our brand power and raise awareness of Senstar within the energy sector globally.

In logistics, we are in advanced discussion with a global logistics and fulfillment network to provide the solution that will secure communication fiber with its facility and enable the testing of fiber optics with our FiberPatrol solution. We anticipate these deals to close in the second half of 2022.

Senstar has embodied a culture of continuous improvement, leading to a string of new products over the past year. Our new solutions, like our Sensor fusion engine and FiberPatrol sensor detection, are gaining industry attention and are significant growth drivers. The latest products and the software we launched in 2021 and year to date, along with increased awareness created by winning industry award and prizes 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 two new products later this year.

We entered Q3 with good business momentum and several new contracts expected to be closed. The Senstar pipeline is growing with deals from all verticals and geographics. For the remainder of 2022, our pipeline is robust with several large orders in the process of closing. We continue to win significant contracts in the energy vertical, critical infrastructure, and logistics. EMEA and APAC are strong regions where we have closed new business in the critical infrastructure, energy, and logistics.

New solutions, like our Sensor fusion engine and FiberPatrol sensor detection, are gaining industry attention and will be future growth drivers. In addition, we are cross-selling and upselling products and solutions to our existing customers based on our four key verticals. We see good business momentum for the remainder of 2022 and anticipate higher revenue and EBITDA margins in 2022.

We ended the second quarter with a cash and cash equivalents of \$17.9 million. The decline in cash in the first six months of 2022 was primarily for working capital purposes, specifically investment in inventories and the increase around accounts receivable, in addition to significant reduction in other accounts payable.

In addition, we continue to invest in research and development. Our customers and industry analysis are recognizing our product innovation. This use of capital is working and our innovative solution will be our most significant growth lever in the future. As a result of this investment, we have built a comprehensive extremely innovative offering.

Another vital growth lever for Senstar is our brand and our brand is getting stronger, enabling us to close deals with large global companies in our key verticals. We believe that our brand will get stronger in the future.

Our sales growth lever is our distribution, and we have also invested here. This year, we have enhanced our sales team and built new relationships with partners and customers in regions where we did not have an establishment presence. As we look at Senstar's three growth levers, product, brand and distribution, we have investments and expanded our capabilities. We are activating each of the levers to achieve our long-term objectives for growth and profitability.

As we continue to close deals in our pipeline with product performance and innovation, Senstar's key verticals play a critical role in global and regional economics. As we have seen in the past two years, restructuring the delivery of goods, energy production, and the supply or the (inaudible) of disruption in critical infrastructure have a tremendous ripple effect on the economy. As a result, there is an increased sense of urgency to protect those valuable assets from intruders or potential harm. We also provide innovative and robust border security solutions that have become increasingly relevant in recent

geographical disruptions. Senstar plays an essential role in protecting high-risk assets in high-security markets by providing a comprehensive suite of proven integrated technology solutions. We have been doing this for over 40 years. Our products can be found in thousands of critical infrastructure, logistics, correction and energy sites worldwide.

In summary, Senstar has a strong balance sheet with no debt and high cash balance. We are using our cash to create value with a focus on growth. Our team is excited by the success we are having with our product suites and the increasing capability of our brand. All of those factors position the Company for continued success and growth.

In closing, I would like to thank our global team for their commitment to excellence in product and services and for the hard work in advancing our business. Senstar remains committed to leveraging our product innovation, brand strength and the global footprint and, ultimately, increasing shareholders' value.

Now, I would like to pass the call to our CFO, Mr. Tomer Hay.

Tomer, please go ahead and review the financial results.

### **Tomer Hay**

Thank you, Dror.

Our reported revenues for the second quarter of 2022 was \$9.1 million, a decrease of 9.7% compared with the reported revenues of \$10.1 million in the second quarter of 2021. As Dror discussed, the decrease was primarily due to new business taking longer to close, particularly in the U.S. The geography breakdown as a percentage of revenues for the second quarter of 2022 compared to the year ago quarter is as follows: North America, 41% versus 46%; Europe, 28% versus 22%; APAC, 29% in both periods; and Latin America, 2% versus 3%.

The second quarter reported gross margin was 60% of revenues versus 69.8% in the year ago quarter. The decline in gross margin was primarily due to the challenging comparables. The second quarter of 2021 included subsidy granted to our Canadian subsidiary as part of the Canadian Emergency Wages Subsidy plan that were allocated partially to the cost of goods sold. Additionally, cost of goods sold was impacted by higher price, despite our mitigating some of the increases by raising prices.

Our reported operating expenses were \$5.4 million, an increase of 11.2% from the prior year second quarter operating expenses of \$4.8 million. Similar to the increase in cost of goods sold, the year-over-year increase in operating expenses is primarily due to a portion of the Canadian subsidies being allocated to operating expenses in the prior year quarter.

The increase in operating expenses was also driven by an interest in travel and sales-related expenses. Our reported operating income for the second quarter was \$0.1 million compared to \$2.2 million in the year ago period. The financial expenses were \$0.1 million in the second quarter of this year compared to \$0.2 million in the second quarter of last year. This is mainly a noncash accounting effect we regularly reported due to adjustment to the valuation of our monetary assets and liabilities denominated in currencies other than functional currency of the operational entities in the group, in accordance with the GAAP.

Our reported income from continuing operation was \$0.4 million in the second quarter of 2022 compared to \$0.7 million in the year ago quarter. The Company reported EBITDA from continuing operation for the second quarter was \$0.5 million versus \$2.5 million in the second quarter of last year. Net income attributed to Senstar Technologies shareholders in the second quarter was \$0.2 million, or \$0.01 per

share, versus net income of \$11.8 million, or \$0.51 per share, in the second quarter of last year. The reported net income in the second quarter of last year included net income of \$11.1 million from discontinued operation. This compares to a net loss of \$0.3 million from discontinued operation in the second quarter of 2022.

Added to Senstar operational contribution are the public platform expenses and amortization of intangible assets from historical acquisitions. The corporate and amortization expenses for the second quarter were \$1.2 million versus \$0.5 million in the second quarter of prior year.

Cash and cash equivalent as of June 30, 2022, were \$17.9 million, or \$0.77 per share.

That concludes my remarks.

Operator, we would like to open the call to questions now.

**Operator**

Thank you. Our first question is from Barry Pasternak, Private Investor. Please proceed.

**Barry Pasternak**

Hello, gentlemen.

My question is regarding the onetime dividends that were paid in December 2020 and September 2021. It has been almost two years since the first dividend payment. Are we still waiting for the Israeli Tax Authority to make a decision regarding the tax treatment?

**Tomer Hay**

Thanks for the question.

I can tell you there is a long struggle with the tax authorities. They were waiting for some kind of calculations. They received it. It is a back-and-forth, and now they are just waiting for 2021 tax returns to be filed in order to combine the decision of both of them. So yes, it is a struggle. Everybody is involved as much as we can. We are pushing and, hopefully soon, we will get some results in the upcoming month to months, I do not know. But we are struggling and pushing with all what we can.

**Barry Pasternak**

Okay. So, but the 2021 tax return has to be filed before a final decision is made?

**Tomer Hay**

That is why they are waiting. Yes. They decided to hold; they want to examine what are the numbers that will become after the divestiture of the project division, because they know there is an impact there.

That is why they do not want to use the assessments. They want more detailed numbers based on those results. But I hope we are getting there, much more positive than what was in the previous call. So, hopefully at the next investor call I will be with more information.

**Barry Pasternak**

Okay, okay, thank you.

**Operator**

There are no more questions. I would like to hand the conference back over to management for closing comments.

**Dror Sharon**

Thank you, Operator.

On behalf of the management of Senstar, I would like to thank you for your continuous interest and long-term support of our business. I look forward to updating you next quarter, in around three months.

Have a good day, and thank you.

**Operator**

Thank you. This does conclude today's conference. You may disconnect your lines and have a pleasant day.