



**Senstar Technologies Ltd.**

**First Quarter 2023 Financial Results Conference Call**

**June 6, 2023**

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

**Kim Rogers**, *Hayden IR*

**Fabien Haubert**, *interim Chief Executive Officer*

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

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

### Operator

Greetings, and welcome to Senstar Technologies First Quarter 2023 Financial Results Conference Call. (Operator instructions).

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Kim Rogers of Hayden IR, Investor Relations firm for Senstar Technologies. Thank you. You may begin.

### Kim Rogers

Thank you, Kristin. I'd like to welcome everyone to the conference call and thank Senstar Technologies Management for hosting today's call. With us today are Mr. Fabien Haubert, Interim CEO of Senstar Technologies, and Mr. Tomer Hay, CFO.

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, uncertainty regarding the duration and extent to which our future results of operations and overall financial performance may be impacted by the effects of the COVID-19 pandemic that are still unpredictable in some regions and could be significant, 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 now like to hand the call over to Fabien. Fabien, go ahead, please.

### Fabien Haubert

Thank you, Kim.

Good morning, everyone, and thank you for joining today's earnings call. I'm pleased to provide an update on our company's performance and strategic direction. This is my first call in the role of Interim CEO, and I am delighted to be speaking with you today.

I want to begin by assuring our investors that as we move forward, we remain committed to our strategy, building upon the foundation we have previously constructed to grow Senstar and expand upon our solid position in the PIDS market. Our primary focus continues to expand operational capacity and grow our market share in our four key verticals, enrich and expand our product offering, and increase sales to existing customers.

Starting with a look at the first quarter of 2023, revenue was in-line with our expectations and reflects the seasonality of our business.

Gross margin for the first quarter was primarily impacted by product mix. A high-margin contract in Europe last year was not repeated this quarter. We invested in our Sales and Marketing, as well as R&D, to support future product launches.

One of our top objectives is to expand our market share within high-value verticals while maintaining strong gross margins. We have deliberately shifted our focus away from commoditized markets, recognizing the importance of sustaining profitability and maximizing value for customers. To further scale our business, we concentrate on the high-value vertical markets of Energy, Utilities, Corrections, and Logistics. These markets seek high-value solutions and present attractive growth opportunities where Senstar already has an established presence and brand recognition. We aim to expand our scope in these verticals by offering comprehensive solutions that leverage our Sensors and information management software.

We are targeting these verticals because they are characterized by a significant appetite for complex security solutions, and they provide incremental opportunities to sell adjacent solutions that can increase the customer's lifetime value to us. An example is logistics, where we provide PIDS solutions and we are developing adjacent solutions like our Workflow engine. Another example is oil field security, where we secure the production or processing facilities and can offer additional solutions for Pipeline protection based on our Fiber Patrol solution range.

We take pride in our global footprint and our ability to understand the evolving needs of our customers. We see ample room for market share improvement. Our steady growth and profitability demonstrate our ability to differentiate from commodity products in the market. In the first quarter, we achieved significant growth in the US for the first time since the COVID-19 pandemic began.

The US and Europe typically represent over 70% of our total revenue. This quarter, the contribution from these two regions was about 80% due to the strong performance of the US from growth in Corrections, one of our target verticals. In Europe, we were awarded a strategic contract in Q1 in one of our best-performing verticals. We are advancing new business opportunities in the US and Europe with the potential to scale our business in our targeted verticals. We also have opportunities in these verticals in other markets in the Americas, including Canada and Mexico.

On the product front, we continue to prioritize R&D investment. Product innovation has been a key growth driver for Senstar. We are actively developing next-generation sensors to drive innovation, evolving our video analytics and advanced vertical solutions. Our next-generation sensors and solutions portfolio aligns directly with market demand. We are shifting our research and development efforts from customization to products driven initiatives, allowing us to stay at the forefront of technological advancements.

Our success is based on our ability to deliver innovative security and risk management solutions backed by deep industry knowledge and maintaining a leading edge for our comprehensive platform. Our platform is differentiated by its ability to take information from separate systems and transform it into actionable information presented in a unified interface on our Senstar Symphony platform. We use AI and the most up-to-date data visualization and video analytics to maximize the effectiveness of customers' security systems.

From a personal standpoint, my objective is to achieve significant turnover growth in our four key verticals, representing a substantial portion of our overall turnover. To support this goal, we are fortifying our sales force to acquire new customers. Further reinforcing our commitment to expanding our market presence.

Now, let's turn our attention to the first quarter. Given that the first quarter is typically our seasonally weakest quarter of the year, we achieved results close to our Q1 expectations and on par with the previous year. Notably, we experienced strong growth in the United States, driven primarily by the Corrections vertical. EMEA and APAC regions were lower than Q1, 2022, which is attributed to the successful completion of exceptional projects in Q1 2022. While our margins were in line with our plan, they were lower than the exceptional Q1 2022 margins figures. This is attributed mainly to the mix of solutions deployed during the quarter.

In conclusion, we are 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 and look forward to updating you on our progress in the coming quarters.

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

Tomer, please go ahead and review the financial results.

### **Tomer Hay**

Thank you, Fabien.

Our **reported revenue** for the first quarter of 2023 was \$6.4 million (dollars), a decrease of 5.0% compared with reported revenue of \$6.8 million (dollars) in the first quarter of 2022. As Fabien mentioned, the decline was primarily due to the exceptional Q1 2022 project in the EMEA and APAC regions.

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

- North America (including LATAM) 62% compared to 45%;
- Europe 31% compared to 38%;
- APAC 6% compared to 16%;
- Others 1% is both periods;

First quarter reported **gross margin** was 55.7% of revenue compared to 65.8% last year. The decrease in gross margin was primarily due to a shift in the mix of products sold during the quarter.

Our reported **operating expenses** were \$5.3 million (dollars), an increase of 3.6% from the prior year's first quarter operating expenses of \$5.1 million (dollars). The year-over-year increase in operating expenses is due primarily to an increase in selling and marketing expenses compared to the year-ago quarter.

Our reported **operating loss** for the first quarter was \$1.7 million (dollars) compared to an operating loss of \$0.7 million in the year-ago period.

**Financial income** was \$40,000 thousands (dollars) in the first quarter this year compared with **financial expense** of \$239,000 thousands (dollars) in the first quarter last year. This is mainly 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.

**Net loss attributable to Senstar Technologies shareholders** in the quarter was \$(1.9) million (dollars) or 8 cents per share compared to a net loss of \$(1.1) million (dollars) or 5 cents per share in the first quarter of last year.

The company's reported **EBITDA** for the first quarter of 2023 was negative \$(1.4) million (dollars) compared to negative \$(0.3) million (dollars) in the first quarter of last year.

Balance Sheet Items

**Cash and cash equivalents**, as of March 31, 2023, were \$14.7 million (dollars), or 64 cents per share.

That concludes my remarks.

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

**Operator**

Thank you. We will now be conducting a question-and-answer session. (Operator instructions).

Gentlemen, it appears we have no questions at this time. I would now like to turn the floor back over to you for additional comments.

**Fabien Haubert**

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 day.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.