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Senstar Technologies

Fourth Quarter 2023 Financial Results

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CORPORATE PARTICIPANTS

Fabien Haubert, *Chief Executive Officer*

Alicia Kelly, *Chief Financial Officer*

Kim Rogers, *Hayden IR*

CONFERENCE CALL PARTICIPANTS

Ted Libby, *Oppenheimer*

PRESENTATION

Operator

Greetings. Welcome to the Senstar Technologies Fourth Quarter and Full Year 2023 Results Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

(Operator instructions)

Please note this conference is being recorded.

I will now turn the conference over to your host, Kim Rogers of Hayden IR. You may begin.

Kim Rogers

Thank you, Shanali. I would like to welcome all of you to the conference call and thank Senstar Technologies Management for hosting today's call. With us on the call today are Mr. Fabien Haubert, CEO of Senstar Technologies; Ms. Alicia Kelly, CFO; and Mr. Tomer Kay, prior CFO of Senstar Technologies. Fabien will summarize key financial and business highlights, followed by Alicia who will review Senstar's financial results for the fourth quarter and full year 2023. We will then open the call for a 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 change in 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 for the most directly comparable financial measures and related reconciliations.

With that, I will now hand the call over to Fabien. Fabien, please go ahead.

Fabien Haubert

Thank you, Kim.

Thank you for joining us today to review Senstar Technologies' fourth quarter and full-year 2023 financial results. As outlined in our press release last month, Senstar successfully **completed its process of redomiciling from Israel to Canada,** marking a pivotal moment for the company.

This strategic move enables us to streamline our corporate structure and empower our Canadian team to lead Senstar forward. With this transition, I assumed the role of CEO, and Alicia Kelly stepped into the position of CFO, succeeding Tomer Hay, who will remain in an advisory role continuing to support and close out the final activities of the redomiciliation. I extend my heartfelt gratitude to Tomer for his dedication to Senstar. Tomer has been instrumental in the successful completion of the redomiciliation. His contribution over many years of service has positioned Senstar for growth. We are energized to embark on this new phase of Senstar's journey, and I am eager to guide our team toward sustained growth and profitability.

I would like to begin my review of 2023 and the fourth quarter by drawing your attention to a few key messages I want investors to understand about our financial results.
First, while full-year and Q4 revenue declined year over year, mostly due to a nonrecurring African project, quarterly revenue and profitability improved throughout 2023. From Q1 to Q4, revenue rose from $6.4 million to almost $9.0 million, operating expense as a percent of revenue fell from almost 83% to 54%, and profitability improved from a net loss of $1.9 million in Q1 to net income of $0.4 million in Q4.
Second, the decline in 2023 revenue was mostly due to large projects in Asia and Africa, which did not renew in 2023, and weakness in the Canadian market, while the US was flat year over year. On a positive note, we experienced strong growth in Europe and Latin America in 2023.

And lastly, in the fourth quarter, we made notable progress in several regions:

- **In Europe, one of our largest markets, revenue rose by 20%** in the fourth quarter due to investments in Germany, France, Iberia, Eastern Europe and Benelux. Market demand in Europe is strong, especially in the Utilities and Energy sector, particularly for renewable energy production sites. We will continue investing to reinforce our position in these high-growth segments in the coming years since we believe they are highly scalable and align with Senstar's capacity to differentiate.
- Furthermore, **APAC, our third largest market, demonstrated a commendable 18% growth in Q4 2023** compared to the previous year's fourth quarter, primarily driven by transportation, utilities, and energy projects. In the prior quarters of 2023, APAC year-over-year comparisons were negatively impacted by a large, one-time project that did not recur. Going forward, we expect to see the region's true performance without this headwind.

- **Lastly, South and Latin America**, a smaller portion of our business, **reported tremendous growth** primarily as a result of our efforts to reposition in this region, driven by wins in the Corrections and Utilities verticals. These successes strengthen our position in these verticals, where we are driven to increase our market share.
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Looking at the revenue contribution from our four key verticals, r**evenue increased with major wins from** Corrections, one of our strongest categories. Going forward, we intend to increase market share in these high growth verticals globally, with a keen focus on our international key accounts. To better achieve this goal, we executed a **strategic reevaluation of our overall investments and global presence** at year-end 2023 to **optimize our organization and footprint to best match our growth strategy and improve our profitability.**

In addition, in Canada and the United States, regions where we faced challenges in 2023, **we made changes to the team and, in the case of the US, added new leadership**. As we exit 2023, we expect improvements in these regions, bolstered by strong demand from our key verticals in these important markets.

Switching to margin performance, gross margin was 58% for the full year compared to 61% in 2022 due to unfavorable product mix and post-COVID component cost increases, particularly in the first quarter. Better cost control and price adjustments occurred throughout 2023 and in Q4, enabled a gross margin that was roughly on par with the previous year's Q4 gross margin. We plan to manage gross margins closely, with the goal of achieving a target 60% gross margin.

Looking ahead, we will **continue investing and maximizing our resources to grow our market share** across key regions while intensifying efforts to excel in the utilities, corrections, energy, and logistics verticals. Our strategic focus on business development will be instrumental in achieving these objectives and driving sustained success in the coming year.

In the U.S., our recently appointed VP of sales is focused on setting and implementing a growth strategy in the region, mainly focused on the verticals we are targeting.
In Europe and Africa, we are committed to continue growing our market share by actively deploying our resources.

In APAC, without the headwind that hurt us in 2023 and the realignment of our focus in the region, we are targeting growth in our targeted verticals. The appointment of a new local leader in Q4 2023 will assist us in completing our repositioning in the region and developing a sustainable growth strategy.

Switching to look at products and solutions…
During my time at Senstar, improving our solutions has been a top priority, and with our sustained investment in R&D, we have made big strides. Last year, we **introduced an exciting new product, the MultiSensor**, a product that will further differentiate Senstar in the marketplace. The MultiSensor is to be launched in Q2 2024

The MultiSensor is our new AI-based intrusion detection system that uses an embedded sensor fusion engine to intelligently synthesize data from multiple sensing technologies providing full intrusion situational awareness and reducing false alarm rates close to 0%. The system includes short-range radar, PIR, accelerometer, high frequency vibration, and image sensors.

I am delighted with the reception of the MultiSensor by customers and the industry. The MultiSensor received the ASTORS' Homeland Security 2023 Platinum award for the Best Intrusion Detection and Prevention Solution, underscoring our opinion that this groundbreaking new system is unlike anything else on the market.

In 2024, we will focus on improving our bottom-line results, with the intention of returning to topline growth, increasing gross margin, and now with better cost optimization, improving our business efficiency and scale.

Senstar's solutions protect important assets and installations around the world in a wide range of applications, and we aim to strengthen our global presence in our key regions. Our newest product, the MultiSensor, supports this long-term goal. The market reception is extremely encouraging, and as we approach the general market release of MultiSensor later this year, we anticipate building a pipeline of orders. Longer term, we see the MultiSensor playing an important role in expanding our addressable markets.

In closing, I want to express my gratitude to the Senstar employees for their ongoing commitment to deliver excellence in our products and services.

Now, I will pass the call to our CFO, Alicia Kelly. Alicia, please go ahead.

Alicia Kelly

Thank you, Fabien.

Before I begin my financial review, I, too, would like to join Fabien in wishing Tomer success on the next leg of his journey. Working alongside Tomer for nearly five years as VP of Finance has been an extremely fulfilling experience. Tomer's dedication, expertise, and strategic guidance have been invaluable in steering our financial operations. I have benefited professionally and personally from his experience and guidance. I extend my deepest gratitude for his contributions and wish him all the best in his future endeavors.
Fourth quarter Results

Our reported revenue for the fourth quarter of 2023 was $8.9 million (dollars), a decrease of 9.8% compared with reported revenue of $9.9 million (dollars) in the fourth quarter of 2022. As Fabien discussed, the decrease was primarily due to **softness in the United States** and Canada due to large non-recurring energy and utility projects generated in Q4 2022. A decline was also seen from a large project in Africa that was sold in partnership with Magal Israel in Q4 2022.
The geographic breakdown as a percentage of revenue for the fourth quarter of 2023 compared to the year ago quarter is as follows:

- North America 36% versus 47%
- Europe 36% versus 27%
- APAC 14% versus 10%
- Latin America 11% versus 4%
- Other 3% versus 12%

Our reported operating expenses were $4.8 million, an increase of 2.2% compared to the prior year's fourth quarter operating expenses of $4.7 million. The increase in operating expenses is primarily due to one-time exceptional expenses necessary to streamline the business for our future business requirements and our redomiciliation to Canada, partially offset by a decrease in general and administrative expenses compared to the 2022 period.

Reported operating income for the fourth quarter was $262,000 (dollars) compared to $917,000 (dollars) in the year-ago period. The decline in operating income was primarily due to lower revenue.

Financial income was $34,000 (dollars) compared to $277,000 (dollars) in the fourth 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 income attributable to Senstar Technologies shareholders in the quarter was $433,000 (dollars) or $0.02 cent per share versus $3.5 million (dollars) or $0.15 cent per share in the fourth quarter of last year.

The company's **reported EBITDA** for the fourth quarter was $450,000 (dollars) versus $1.2 million (dollars) in the fourth quarter of 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 $0.7 million (dollars) versus $1.2 million (dollars) in the fourth quarter of the year before.
Full Year 2023 Results

Revenue for the year ended December 31, 2023, was $32.8 million (dollars), compared with $35.6 million (dollars) in the prior year. The year-over-year decrease of 7.8% relates primarily to a decline in the APAC region, where overall sales declined by $2.7 million, or 41%, due to lower sales from transportation and utility projects. North America revenue declined slightly, due to a 37% decline in Canada, with a large utility sale not repeating in 2023 and flat sales year-over-year in the US. These declines were partially offset by 11% growth in Europe, with sales expanding in all our key verticals, and South and Latin America, which grew 65% year-over-year as Senstar benefited from sales in corrections, logistics, and energy projects.

The **geographic breakdown as a percentage of revenue** for 2023 compared to 2022 is as follows:

- North America 45% in both periods;
- Europe 35% versus 29%;
- APAC 12% versus 18%;
- Latin America 7% versus 4%;
- Others 1% versus 4%;

Gross profit in 2023 was $18.8 million, or 57.5% of revenue, compared with $21.5 million, or 60.5% of revenue, in 2022. The decrease in gross margin was primarily due to revenue mix in the first quarter of 2023 and some increases in material costs. We have taken the appropriate measures to improve gross margin going forward.

Operating expenses in 2023 were $20.1 million, an increase of 0.5% compared to the prior year's operating expenses of $20.0 million. The increase in operating expenses is primarily due to one-time exceptional expenses necessary to streamline the business for our future business requirements and our redomiciliation to Canada, partially offset by a decrease in general and administrative expenses compared to the 2022 period.

Operating loss was $1.3 million (dollars) compared with operating income of $1.5 million (dollars) in 2022. The operating loss was primarily due to a lower gross margin on lower revenues.

Net loss attributable to Senstar Technologies shareholders for 2023 was $1.3 million (dollars) or negative $0.06 cent per share versus net income of $3.8 million (dollars) or $0.16 cent per share in 2022. The reported net income in 2022 includes a net loss of $198,000 (dollars) from discontinued operations.
In 2023, **our EBITDA was a loss** of $348,000 (dollars), compared with positive EBITDA of $2.9 million (dollars) in 2022.

The corporate expenses and amortization expenses for the public platform were $2.9 million (dollars), versus $4.5 million in 2022. The year-over-year change is attributable to a decline of $1.1 million in Corporate expenses and a decline of $0.5 million in Intangible Assets amortization from purchase accounting assets.

Cash and cash equivalents, as of December 31, 2023, remain healthy with a $14.9 million (dollars), or $0.64 cents per share (same level as last year).

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

Operator

Thank you.

(Operator instructions)

Our first question comes from the line of Ted Libby with Oppenheimer. Please proceed with your questions.

Ted Libby

Hi, good morning. I just wanted to know with the MultiSensor, are you expecting that to be a substantial growth driver in 2024, 2025?

Fabien Haubert

Hi, thank you for your question. It's clearly the intention. The MultiSensor has two basic goals. One is to provide a higher range technological solution in our key verticals, so basically provide an advanced solution and provide further value; and number two, to expand our addressable market by addressing it as a single unit to secure critical spots of non-critical infrastructure, so yes, in a word it's our intention and we'll do our best efforts to that in 2024, but mainly 2025 and future years.

Ted Libby

As far as the first half of the year, are you seeing likely growth of the top line in the first half of 2024?

Fabien Haubert

We're not providing forward-looking statements in terms of future expectations, especially for such a short term, but clearly we hope that the MultiSensor will be a major driver to help us getting growth in the second part and mainly—the second part of 2024, but mainly 2025.

Ted Libby

What verticals is the MultiSensor most suited for?

Fabien Haubert

Without getting into too many details, the solution basically is meant to provide a higher end situational awareness and reducing totally false alarms. The first place we're going to use it is our existing vertical markets, which are the four ones we're targeting: corrections, utilities, energy and logistics, on top of which we work a lot as well on airports and military and borders. But on top of this, we expect to address much broader verticals like industrial, like cell towers, like critical spots within typically universities (inaudible), hospitals (inaudible), logistics, retail and so on, because it would be sold as a single unit and industrial application, so the goal will be to broaden the verticals we're going to search outside of our existing verticals, so within the verticals but to gain market share outside of it.

Ted Libby

Would you say that the MultiSensor—I've been involved with your Company for many years and it seems you've had great success with technology, not such great success with growing revenue. Would you say that the MultiSensor is something that sets itself apart from other innovative products that you've had in the past?

Fabien Haubert

Yes, we believe that—we've put a lot of effort to come with a strong evolution, something that the market didn't have. We've been searching for what would be the next technology that could replace some of this and bring in something more, so we will keep trying to secure perimeters per se, number one, in critical infrastructure where we foresee growth is sold as a single unit to basically secure spots which are not in full perimeter detection, where today we're not selling (inaudible). We hope and we strive to have the MultiSensor securing some spots, replacing other additional technology today, and it's indeed expanding tremendously our addressable market.

Ted Libby

In the past, you've had some optimism in the energy markets and some wins here and there over the last five years. Is that a market that looks promising currently?

Fabien Haubert

The energy market, we split it between the different production of energy, basically traditionally it was oil and gas, and this depends a lot on the international situation on the barrel. We see now heavier growth in sustainable energy plants, solar farms and others, and indeed we're working hard to take market share in this ever-growing market, which has already occurred in Europe, and we're going to work very hard to getting market share in North America and Americas in general there, that could sustain indeed our growth.

Ted Libby

Given the geopolitical turmoil for the world right now, are military uses or bases and borders looking like areas of growth for the Company?

Fabien Haubert

Yes, it is. I cannot comment too much on that because we're working on some projects which indeed we have confidentiality, but yes, it might provide some opportunities.

Ted Libby

As far as your move from Israel to Canada, how much of an expense was that in the fourth quarter, approximately?

Alicia Kelly

We're not providing a specific answer to that at this point in time.

Ted Libby

Do you expect to save money ongoing from the move?

Alicia Kelly

Yes, absolutely, and that was one of the things that we considered in making the move; but most importantly, it provides the nucleus of our business in the place that we currently reside, which is mostly in Canada, and where most of senior management resides at the moment.

Operator

(Operator instructions)

It appears there are no further questions at this time, and I'll now turn the call back over to Fabien Haubert for closing remarks.

Fabien Haubert

On behalf of Senstar Management, I would like to thank our investors for their interest and long-term support of our business. Have a great day.

Operator

Thank you. This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.

Alicia Kelly

Thank you.

Fabien Haubert

Thank you.