Zodiac Pool Solutions S.à r.l.

Narrative Report for the quarter ended 31 March 2018

Delivered pursuant to Section 5.4 of the credit agreements of the Zodiac Group

ZODIAC®

FAMILY OF BRANDS | **Heritage of Excellence**

Zodiac Pool Solutions S.à r.l.
Narrative Report for the 6 Months ended 31 March 2018

General Information

Zodiac Pool Solutions S.à r.l. ("ZPS" or "the Company") and its subsidiaries (together "Zodiac" or the "Group") are a global manufacturer of residential pool equipment and connected pool solutions. ZPS is the parent company of the Group, comprising the consolidated subsidiaries detailed in the scope of consolidation. The Group operates on a fiscal year ending September 30.

ZPS is a private limited liability company (*société à responsabilité limitée*), organised for an unlimited duration, and existing from 22 November 2016 under the laws of Luxembourg, with registered office at 14, rue Edward Steichen, L-2540 Luxembourg, Grand Duchy of Luxembourg, and registered with the Luxembourg Register of Commerce and Companies (*R.C.S. Luxembourg*) under number B210786. The Company's corporate purpose is the acquisition of participations, in Luxembourg or abroad, in any company or enterprise, and the management of such participations.

On 20 December 2016, affiliates of Rhône Capital L.L.C. (the "Shareholder") acquired all of the shares of ZPES Holding S.A.S. (formerly known as Zodiac Pool Holding S.A., the "Predecessor Company"), from ZM Luxembourg SCA, a company affiliated with The Carlyle Group (the "Acquisition"). The Predecessor Company, together with its subsidiaries, are referred to as the Predecessor Group.

From 20 December 2016, the Shareholder has controlled ZPS and the Group through several affiliated holding companies.

Basis of Preparation

Zodiac's unaudited interim consolidated financial statements as at and for the six months ended 31 March 2018 have been prepared in accordance with *IAS 34 Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). All International Financial Reporting Standards ("IFRSs"), interpretations (IFRICs, SICs) originated by the IFRS Interpretations Committee applicable for the period ended 31 March 2018 have been applied. The unaudited interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements. IAS 12 requires accrual for income tax, current and deferred. Zodiac has historically updated income tax accruals on an annual basis. Due to the Acquisition, financial information that relates to the period prior to 20 December 2016 is reported on a pro forma basis. Pro forma in this respect means that the financials have been derived from the consolidated financial statements of the Predecessor Company without giving regard to the effects of the subsequent Acquisition closing.

The Group has various entities that are duly formed and registered in the following countries: Luxembourg, France, Germany, Italy, Spain, Portugal, Finland, United States of America, Canada, Australia, New Zealand, South Africa and China; together they form the consolidated reporting group of Zodiac. The Group's consolidated financial statements are prepared in US dollars (USD), the presentation currency of the Group. Except where stated otherwise, all figures are presented in millions of USD for the sake of clarity. Due to rounding differences, figures in tables may differ slightly from the actual figures.

The Group's business is organised by geographic region into the following three operating segments: Americas, which is primarily the US and Canada; Europe, with primary operations in France, Germany, Spain, Italy, and Portugal; and Southern Hemisphere (SoHem), with operations in Australia, South Africa and New Zealand. Operating segment performance is primarily assessed by reference to net sales and EBITDA (as defined below). Group management costs are managed on a centralised basis and are not allocated to operating segments for segment reporting purposes.

Selected Definitions

Consolidated Adjusted EBITDA ("EBITDA"): represents the Group's operating result before depreciation, amortisation, impairment losses, and unusual and non-recurring adjustments, as defined in Zodiac's credit agreements. EBITDA-based measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of the Group's operations in accordance with IFRS.

Net Working Capital: represents inventory plus trade accounts receivable minus trade accounts payable plus other operational receivables and minus other operational payables.

Currency Exchange Rates

The principal exchange rates used for the translation of the financial statements of the Group's main subsidiaries are as follows:

	Average rate for 3 months ended:		Average rate for 6 months ended:	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
EUR	0.8358	0.9320	0.8309	0.9330
CAD	1.2644	1.3290	1.2674	1.3289
AUD	1.2875	1.3306	1.2864	1.3266
ZAR	13.0142	13.6959	12.7863	13.5689

	Balance sheet closing rate as at:	
	31 March 2018	30 September 2017
EUR	0.8116	0.8470
CAD	1.2901	1.2440
AUD	1.3015	1.2769
ZAR	11.8667	13.5050

Zodiac Pool Solutions S.à r.l.
Pro Forma Consolidated Balance Sheets
(in USD millions unless otherwise stated)

	At 31 March 2018	At 30 September 2017
ASSETS		
Non-current assets		
Goodwill	647.7	644.3
Intangible assets	608.5	610.3
Tangible assets	25.2	24.6
Other financial assets	0.8	0.9
Deferred tax assets	23.2	23.1
	1,305.4	**1,303.2**
Current assets		
Inventories	104.0	92.6
Trade and other receivables	248.3	85.1
Current income tax receivables	3.0	3.2
Derivative financial instruments	10.1	1.3
Cash and cash equivalents	18.2	51.7
	383.5	**233.8**
Total assets	**1,688.9**	**1,537.1**
EQUITY		
Share capital and premium	571.7	572.0
Other reserves	(7.8)	2.0
Retained earnings/(accumulated losses)	14.7	(17.1)
Equity attributable to owners of the Company	**578.6**	**556.9**
Non-controlling interests	0.9	0.8
Total equity	**579.5**	**557.7**
LIABILITIES		
Non-current liabilities		
Debt	632.5	632.8
Employee benefit obligations	1.7	1.6
Provisions	18.1	16.4
Other non-current liabilities	1.0	-
Deferred tax liabilities	206.1	205.9
	859.4	**856.8**
Current liabilities		
Debt	113.4	5.9
Provisions	1.4	1.3
Trade and other payables	132.7	114.2
Current income tax liabilities	2.2	0.7
Derivative financial instruments	0.5	0.6
	250.1	**122.6**
Total liabilities	**1,109.5**	**979.4**
Total equity and liabilities	**1,688.9**	**1,537.1**

Zodiac Pool Solutions S.à r.l.
Pro Forma Consolidated Income Statements
(in USD millions unless otherwise stated)

	Quarter Ended		6 Months Ended	
	31 March 2018	**31 March 2017**	**31 March 2018**	**31 March 2017**
Net sales	172.2	140.0	313.6	234.4
Cost of sales	(100.7)	(83.5)	(184.9)	(143.1)
Gross profit	**71.4**	**56.5**	**128.8**	**91.4**
Selling expenses	(21.2)	(14.2)	(39.7)	(26.3)
General and administrative expenses	(16.5)	(38.7)	(32.7)	(101.9)
Research and development expenses	(5.4)	(3.8)	(11.1)	(7.6)
Other income/(expenses), net	(1.1)	(0.5)	(1.3)	(0.9)
Operating profit/(loss)	**27.3**	**(0.6)**	**44.0**	**(45.4)**
Finance expense	(9.1)	(7.4)	(19.4)	(32.9)
Profit/(loss) before income taxes	**18.1**	**(8.0)**	**24.6**	**(78.3)**
Income tax (expense)/benefit	(8.2)	5.3	(8.5)	13.6
Profit/(loss) attributable to:	**9.9**	**(2.8)**	**16.2**	**(64.7)**
Owners of the Company	*9.9*	*(2.8)*	*16.2*	*(64.7)*
Non-controlling interests	*0.0*	*0.0*	*0.0*	*0.0*

Zodiac Pool Solutions S.à r.l.
Pro Forma Consolidated Statements of Cash Flow
(in USD millions unless otherwise stated)

	Quarter Ended		6 Months Ended	
	31 March 2018	**31 March 2017**	**31 March 2018**	**31 March 2017**
Cash flows from operating activities				
Profit/(loss)	**9.9**	**(2.8)**	**16.2**	**(64.7)**
Adjustments for:				
Income tax expense	8.2	(5.3)	8.5	(13.6)
Share-based payment expense	0.7	0.7	1.4	0.8
Depreciation and amortisation	9.3	8.9	18.3	13.7
Impairment of fixed assets	0.3	0.1	0.5	0.6
Finance expense	9.1	7.4	19.4	32.9
Changes in working capital:				
Inventories	(4.4)	18.9	(10.2)	15.2
Trade and other receivables	(97.8)	(43.3)	(166.7)	(76.5)
Trade and other payables	13.4	17.2	19.3	(9.3)
Other assets and liabilities	1.0	(34.1)	1.8	(2.7)
Cash from/(used in) operating activities	**(50.2)**	**(32.2)**	**(91.7)**	**(103.6)**
Income tax paid	(4.0)	(5.2)	(3.9)	(5.4)
Net cash from/(used in) operating activities	**(54.2)**	**(37.4)**	**(95.6)**	**(109.0)**
Cash flows from investing activities				
Investments in fixed assets	(4.9)	(3.4)	(8.7)	(6.1)
Business combination	-	-	(10.5)	(1,216.8)
Other financial assets	-	(0.1)	0.1	0.1
Net cash from/(used in) investing activities	**(4.9)**	**(3.5)**	**(19.1)**	**(1,222.8)**
Cash flows from financing activities				
Capital contribution / (reduction)	(0.2)	-	(0.2)	572.0
Proceeds from/(repayments of) debt	69.6	31.9	104.8	738.6
Interest paid	(11.8)	(12.6)	(22.7)	(30.9)
Other financing activity	(0.9)	0.1	(1.4)	16.3
Net cash from/(used in) financing activities	**56.6**	**19.4**	**80.5**	**1,295.9**
Net increase/(decrease) in cash and cash equivalents	**(2.5)**	**(21.5)**	**(34.2)**	**(35.8)**
Cash and cash equivalents (beginning of the period)	**19.8**	**38.3**	**51.1**	**54.3**
Foreign exchange gains/(losses) on cash and cash equivalents	0.6	0.5	1.0	(1.2)
Net cash and cash equivalents (end of the period)	**17.9**	**17.3**	**17.9**	**17.3**

Second Quarter 2018 Highlights

- Net sales in the second quarter of 2018 amounted to $172.2 million, compared to $140.0 million in the second quarter of 2017, an increase of 23%.
- EBITDA increased to $42.2 million, compared to $30.5 million in the second quarter of 2017.

Second Quarter 2018 Overview

Net sales in the second quarter of 2018 increased by $32.2 million, or 23% compared to the second quarter of 2017, following the decision made by the Group to change the timing of its US Early Buy program. During previous years, orders occurring under Zodiac's Early Buy program were placed, and most were shipped, in August and September. In order to better align the program with industry practices, the timing of the program was changed for the 2017/2018 pool season. Pursuant to the terms of Zodiac's 2018 Early Buy program, orders were required to be placed in October 2017, and are being shipped between October 2017 and February 2018. The shift allows Zodiac's customers to better anticipate product needs for the subsequent season, and reduces Zodiac's net sales seasonality and net working capital requirements. Europe sales grew at a 26% rate year-over-year. SoHem sales increased by 18% compared to the previous year.

Gross profit in the quarter increased by $14.9 million, a 26% increase over the second quarter of 2017. As a percent of net sales, gross profit increased from 40.4% to 41.5%. All three operating segments contributed to the gross margin increase, with net sales driving fixed cost leverage and improving gross profit percentage.

As the Early Buy alignment translated into significantly increased shipments during the second quarter, EBITDA increased by $11.7 million to $42.2 million, an increase of approximately 38% from the $30.5 million in the second quarter of 2017. March 2018 last twelve months EBITDA is $2.0 million higher than the previous year, at $119.4 million.

Reconciliation of profit/(loss) to EBITDA

	Quarter Ended		Year-to-date	
(in USD millions)	**31 March 2018**	**31 March 2017**	**31 March 2018**	**31 March 2017**
Profit/(loss)	**9.9**	**(2.8)**	**16.2**	**(64.7)**
Income tax expense/(benefit)	8.2	(5.3)	8.5	(13.6)
Finance expense	9.1	7.4	19.4	32.9
Operating profit/(loss)	**27.3**	**(0.6)**	**44.0**	**(45.4)**
Other (income)/expenses, net	1.1	0.5	1.3	0.9
Non-operating expenses (1)	2.4	2.7	4.6	49.8
Depreciation and amortisation	4.0	3.6	7.7	7.0
Purchase accounting adjustments (2)	5.3	22.2	10.6	26.7
Share-based payment expense	0.7	0.7	1.4	0.8
Pro forma cost savings and other (3)	1.6	1.5	2.2	2.7
EBITDA	**42.2**	**30.5**	**71.7**	**42.6**

(1) For the quarter ended 31 March 2018, relates to integration costs in relation to the merger with Fluidra

(2) For the twelve months ended 31 March 2018, includes primarily amortisation of acquired intangibles, which are included in depreciation and amortisation in the statement of cash flow

(3) In the three and six months ended 31 March 2018, primarily includes run rate cost savings related to value improvement projects and the full year impact of the Grand Effects business acquired in October 2017

Quarterly Operating Segment Results

	Americas			
(in USD millions)	**Q2 2018**	**Q2 2017**	**YTD 2018**	**YTD 2017**
Net sales	117.9	95.7	225.6	157.6
EBITDA	34.6	25.1	68.1	37.5

Net sales for the Americas operating segment increased by $22.2 million, or 23%, in the second quarter of 2018 following the change of the Early Buy program. Gross profit as a percent of sales increased by almost 1 percentage point in the quarter compared to the prior year. The increase in net sales was primarily related to the decision made by the Group to change the timing of its US Early Buy program. The higher net sales and gross profit, offset by an increase in operating expenses, were the primary drivers of the resulting $9.5 million increase in EBITDA in the second quarter. Operating Expenses are up vs. previous year, primarily as a result of sales and engineering headcount investment.

	Europe			
(in USD millions)	**Q2 2018**	**Q2 2017**	**YTD 2018**	**YTD 2017**
Net sales	37.6	29.9	49.9	40.3
EBITDA	9.0	7.6	5.3	5.0

Net sales for Europe increased by $7.7 million, or about 26% compared to the second quarter of 2017, supported by growth in Iberia and Italy, offset by lower performance in France and the dehumidification business in Germany. Gross profit percentage increased slightly in the second quarter compared to the prior year, primarily as a result of favourable product mix and foreign exchange rates. The increase in EBITDA in the quarter, compared to the second quarter of 2017, resulted from higher sales and gross margin coupled with contained operating expenses.

	SoHem			
(in USD millions)	**Q2 2018**	**Q2 2017**	**YTD 2018**	**YTD 2017**
Net sales	16.8	14.2	38.1	35.9
EBITDA	1.5	0.8	5.6	5.3

SoHem net sales increased to $16.8 million in the second quarter of 2018, or approximately 18% compared to the second quarter of 2017. SoHem gross profit percentage increased slightly compared to the same quarter of 2017, driven primarily by changes in foreign exchange rates, price increases and efficiencies on freight costs. Operating expenses increased by $0.4 due to increased selling and administrative expense. The increase in net sales and gross margin, combined with stable operating expenses across the business, translated into an increase in EBITDA of $0.7 million in the quarter.

Balance Sheet and Cash Flow

As of 31 March 2018, Zodiac had $18.2 million of cash and cash equivalents, and $113.4 million of short-term borrowings and debt outstanding, primarily made up of $107.4 million of asset-based lending facility drawings.

Zodiac's debt totalled $745.9 million at 31 March 2018. Debt increased by $70.1 million during the second quarter. Scheduled principal repayments on the first lien term loan were offset by amortisation of debt issuance costs, and the increase in total debt was the result of the Group drawing $107.4 million on the asset-based lending facility to finance seasonal working capital increases.

(in USD millions)	**At 31 March 2018**	**At 31 December 2017**
First lien credit facility	513.5	514.8
Second lien credit facility	150.0	150.0
Asset-based lending facility	107.4	36.6
Other debt	0.9	1.5
Total debt	**771.8**	**702.9**
Unamortised debt issuance costs	(26.0)	(27.1)
Debt, current and non-current	**745.9**	**675.8**
Current portion of first lien credit facility	5.2	5.2
Asset-based lending facility	107.4	36.6
Current portion of other debt	0.8	1.4
Debt, current	**113.4**	**43.3**
Debt, non-current	**632.5**	**632.6**

Net cash outflows from operating activities totalled $54.2 million during the second quarter of 2018, compared to $37.4 million in the second quarter of 2017. Cash utilisation consisted primarily of a Net Working Capital increase of $46.5 million, driven by normal seasonal growth and higher trade receivables in the Americas as a result of the Early Buy alignment and higher inventories. Net cash inflows from financing activities consisted primarily of increased borrowings of $69.6 million under the asset-based lending facility, offset by $1.3 million of debt principal and $11.8 million of interest payments.

Subsequent Events

On 26 April 2018, the Group acquired for cash the 10.51% stake in Zodiac Pool Systems Italia S.r.l that it did not previously own and became the sole shareholder in the company.

Correction to Q1 2018 EBITDA

In the Narrative Report for Q1 2018, which was distributed to lenders on February 28, 2018, the company erroneously included in EBITDA $1.5m of adjustments related to the purchase of Grand Effects in October of 2017. As a result of this error, EBITDA for the first quarter of 2018 was reported as $31.0m. The correct figure was $29.5m. The company remained in compliance with all lending covenants at the corrected EBITDA level.

Zodiac Pool Solutions S.à r.l.
Other Information

Scope of Consolidation

As at 31 March 2018, all Group companies are fully consolidated subsidiaries.

Entity	Country	% Interest at 31 March 2018
Zodiac Pool Solutions S.à r.l.	Luxembourg	100.0
ZPNA Holdings SAS	France	100.0
Zodiac Pool Solutions LLC	U.S.A.	100.0
Zodiac Pool Systems LLC	U.S.A.	100.0
Cover-Pools Incorporated	U.S.A.	100.0
Zodiac Pool Systems Canada, Inc.	Canada	100.0
ZPES Holdings SAS	France	100.0
Zodiac Pool Solutions SASU	France	100.0
Zodiac International SASU	France	100.0
Zodiac Pool Care Europe SASU	France	100.0
Zodiac Swimming Pool Equipment (Shenzhen) Co.	China	100.0
Zodiac Pool Ibérica, S.L.U.	Spain	100.0
Zodiac Pool Care South Africa Pty Ltd	South Africa	100.0
Zodiac Pool Care Portugal, Unipessoal, Lda.	Portugal	100.0
Zodiac Pool Systems Italia S.r.l.	Italy	89.49
Zodiac Pool Deutschland GmbH	Germany	100.0
SET Energietechnik GmbH	Germany	100.0
Zodiac Pool Solutions Pty Ltd	Australia	100.0
Zodiac Group Australia Pty Ltd	Australia	100.0
Zodiac Group (N.Z.) Limited	New Zealand	100.0
Dormant entities:		
AquaMar Wasserbehandlung, Chemikalien und Geräte GmbH	Germany	100.0
Marine Investment Finland Oy	Finland	100.0
Pool Resources Pty Ltd	Australia	100.0

Disclaimer

Data included in this Narrative Report for the 3 months ended 31 December 2017 are unaudited and preliminary in nature. This release does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States or any other jurisdiction. Various statements contained in this document constitute "forward-looking statements" as that term is defined by United States federal securities laws.

Words like "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "objectives", "outlook", "probably", "project", "will", "seek", "target" and other words of similar meaning identify these forward-looking statements. By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we operate.

The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated results or events: negative or uncertain worldwide economic conditions; volatility and cyclicality in the markets in which we operate; volatility in the costs and availability of raw materials; operational risks inherent in pool industry, including disruptions as a result of severe weather conditions, natural disasters; our dependence on major customers; competition in the industries in which we operate; our ability to develop new products and technologies successfully; our ability to implement our business strategies successfully; our ability to realise benefits from investments, joint ventures, acquisitions or alliances; environmental, safety and other regulatory requirements, and the related costs of maintaining compliance and addressing liabilities; litigation or legal proceedings, including product liability claims; enforceability of our intellectual property rights; fluctuations in foreign currency exchange and interest rates; information technology systems failures, network disruptions and breaches of data security; our ability to recruit or retain key management and personnel; relationships with our workforce, including negotiations with labour unions, strikes and work stoppages; political or country risks, or dislocations in credit and capital markets; decreases in the fair value of our business and potential impairments or write-offs of certain assets; the adequacy of our insurance coverage; and changes in our jurisdictional earnings mix or in the tax laws of those jurisdictions.

We caution readers not to place undue reliance on any forward-looking statements contained herein, which speak only as of the date of this document, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.