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PRESENTATION

Operator

Good morning. And welcome to our Q3 results call. I'm Clara Valera, and I joined Fluidra earlier this month as Investor Relations and Business Development Director. Joining me today on this call is our Executive Chairman, Eloy Planes; our CEO, Bruce Brooks; and Xavier Tintore, our CFPO.

They will walk you through a few slides on our Q3 results, and then they will be all available to take your questions. For your information, Bruce is connecting into this call from a separate location, so please bear with us today if we experience any delays with the line. You can follow this presentation in its original English version in Spanish. Please select your preferred option in the drop-down menu at the bottom right-hand side of your screen.

(Operator Instructions) The presentation is accessible via our website fluidra.com and has also been updated to the Stock Exchange Commission. A replay of today's presentation will be made available on our website later today. With that, I hand over to our Executive Chairman, Eloy Planes.

Eloy Planes Corts - Fluidra, S.A. - Executive Chairman

Thanks, Clara, and welcome to the Fluidra family. Good morning to you all, and thank you for your interest in Fluidra and for taking the time to join us this morning. Today, we are presenting our Q3 results, and Bruce and Xavier will provide more details shortly. But first, let me summarize a few points I wanted to get across to you this morning.

As we communicated to you last week, the correction of inventory in the channel is having an effect on our performance in the second part of the year, and we expect it to continue in the first quarter of next year. I would like to remind you that we serve today a bigger market, driven by an expanded installed base with more than 1 million additional pools added in the last 3 years with higher value.

Despite the current economic climate, my leadership team, my Board and myself, we are very confident that all our work to strengthen and position the group for long-term success is in excellent shape. We entered this common period with precise initiatives and with vigilance, but also with confidence. Fluidra is significantly stronger business than in 2019.

We have gained share in North America, becoming the #2 in this market, and we have broadened our product portfolio. As a testament of this, we have been awarded Vendor of the Year by the third -- by the three largest U.S. distributors partners for the second year in a row. In Europe, the integration of Fluidra generated sales synergies above our expectations, and we have further expanded our distribution network organically and inorganically.

We operate today in more than 40 countries, and we are the #1 or 2 in countries that represent more than the 80% of the global market. Additionally, we have strengthened our digital footprint and enhanced our scoping commercial pool. We are a clear leader in our industry. We continue to build a stronger Fluidra, making ourselves an even more reliable business partner; offering connected and sustainable products; becoming more efficient and reducing our cost base through our simplification program.

Our ongoing efforts are focused on optimizing our performance for our customers, employees and shareholders. We look forward to discussing our results with you this morning. And with that, I hand first to Bruce to continue with our Q3 presentation.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Good morning. Thanks, Eloy, and thank you all for participating today in this conference call. Moving to Slide #5. Let me start by adding details to the higher-level update we shared with you last week with comments on our overall performance and highlights for the first 9 months and then turn it over to Xavier to provide some more details on the financial results.

I will then return to provide some color on our outlook. The numbers you see on Slide 5 are the 2021 and 2022 financial highlights for the first 9 months of the year. Sales grew by 15% compared to a very strong prior year period to EUR 1.967 billion, driven by price, acquisitions and currency. This growth more than offset the volume slowdown due to the correction of inventory in the channel, mainly in the U.S. and softer demand in Northern Europe.

Adjusted for currency and perimeter, sales grew by 3%. EBITDA is broadly flat compared to a very strong prior year period with an unfavorable product and geographic mix and higher costs. We are seeing an improvement in price versus inflation despite mix impacts in the third quarter as we accelerated price read-through in North America.

Going down the P&L, cash EPS is lower year-on-year as a result of a one-off tax benefit effect from the Zodiac merger in Q2 2021. The slowdown in volumes is also influencing our inventory levels. Operating net working capital to sales in the last 12 months was around 26% and at the end of September compared to 15% last year. Our inventory doesn't age and will correct it in the coming quarters.

The ratio of net debt to last 12 months EBITDA, at the end of the quarter, was around 2.4x, temporarily above normal levels. We expect to delever in 2023 once our inventory levels normalize. Moving to Slide #6. You can see a breakdown of sales geographically, both for the third quarter and year-to-date. As you can see, following strong growth in the first half of 22%, sales in the third quarter were flat year-on-year and down 9% when adjusted for FX and perimeter.

In Southern Europe, softness in the French market is partially offset by the better performance in the Mediterranean area. -- where the tourist season has been positive, both in Residential and Commercial Pool. This region saw a 7% decline in the quarter but a 10% growth year-to-date on an FX and perimeter basis. Rest of Europe is negatively affected by the energy crisis and the macro and geopolitical environment weighing on consumer sentiment as well as the inventory correction.

Adjusted for FX and perimeter, this area was 27% down in Q3 and 14% in the 9-month period. North America recorded a positive growth driven by the acquisitions made in 2021. Organically, this region had a tough comparable of 60% growth in the prior year period with inventory correction impacting performance. This area declined 10% in the quarter and was flat year-to-date once adjusted for FX and perimeter.

The destocking process is stronger in North America as we are pure manufacturers. Sell-through performance during the quarter grew mid-single digit. The 2022 Early Buy campaign in North America is being finalized. The last full campaign was in 2019, pre-pandemic. So we're coming back to normal buying patterns. This campaign in the U.S. is a nice thermometer for the next season. We're closing numbers, but the anticipated figure is positive.

Rest of the World sales evolved positively year-to-date, led by Australia, our main country in the area. The Southern Hemisphere is now starting their summer season. Adjusted for FX and perimeter, growth was 11% and 18% in the quarter and in the 9-month period, respectively. With that, I'll turn it over to Xavier to explain the financial results in more detail before I return to share our outlook.

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Thank you, Bruce. Let's turn to Page 7 and take a look at the P&L in some more detail. Sales growth of 15% during the period can be broken down in 6 points from currency, 7 points from inorganic growth and 3 points of growth at constant perimeter. The organic growth is a combination of close to 10% price and volume going down 7% as we are impacted by the correction of inventory in the channel.

Gross margin reached 51.2%, 180 basis points lower than prior year. We have seen a continued acceleration of pricing read-through with price minus inflation representing 220 basis points of increased margin, while mix driven by product and region represents minus 400 basis points.

Operating expenses reached EUR 551 million, with an increase of 22%, which is 6% if we adjust for perimeter and currency, impacted by higher logistics and transportation costs as well as investments in marketing, IT and R&D. Acquisitions represent 11 points of the OpEx growth.

EBITDA reached EUR 456 million with an increase of 1%, driven by acquisitions and currency that offset the negative margin contribution and increased expenses. EBITDA margin reached 23.2%, which is 320 basis points lower than in the prior year. EBITDA achieved EUR 395 million, down 1% and reaching a margin of 20.1%.

Below the EBITDA line, the amortization increased to EUR 55 million, driven by the intangible assets from the acquisitions completed during 2021. Nonrecurring expenses of EUR 18 million are 48% down on the prior year due to lower stock-based compensation and M&A activity versus a year ago. They also include around EUR 2 million of costs associated to the simplification initiative.

Net financial results amounts to EUR 71 million, EUR 41 million higher than last year due to EUR 20 million of unfavorable FX impacts, mostly noncash, the EUR 12 million write-off of noncash fees generated in the refinancing carried out in January, and the remainder being higher interest expense on a higher debt.

Tax rate is at 27% versus a 23% tax rate in 2021, which benefited from a one-off impact related to the Zodiac merger. Net profit reached EUR 179 million compared to EUR 221 million in 2021, down 19% as a result of additional amortization, the higher financing costs and a higher tax rate.

As you know, we track cash net profit a good indicator for Fluidra as we have a very significant amortization entirely purchase accounting related that impacts our net profit and EPS calculation. Cash net profit is EUR 260 million, down 9% on the prior year, which is better than the development on the net profit due to the noncash nature of some of the financing costs and higher amortization.

The following page shows the free cash flow statement as well as the net debt evolution. Free cash flow for the first half has been a use of EUR 175 million versus a use of EUR 288 million in 2021. However, the components of this cash usage are very different year-to-year. If we look at the operating cash flow, the company has generated EUR 63 million versus EUR 317 million in 2021, mostly driven by the increase in working capital.

If we zoom into it, this is entirely driven by investments in inventory, which is impacted by perimeter, inflation, longer in transit times as well as the impact of the volume slowdown generated by the correction of inventory in the channel. We estimate that the normalization of our inventory level will now require approximately 3 quarters.

On the investment front, we have used EUR 392 million less cash in 2022. The key driver of this improvement is the organic activity executed during 2021 as we completed the SRS, CMP, Bill rate and tailored acquisitions. On the financing front, we have used EUR 26 million more cash than in the last year, driven by the increased dividend paid in July.

I would also like to point out that we completed the 3.5 million share buyback program last September, investing EUR 60 million. Finally, net debt reached EUR 1.325 billion, up EUR 391 million, driven by currency, the investment in inventories and the acquisitions completed last year. Our leverage ratio is 2.4x that compares to 1.8x in 2021. And with that, I will give the floor to Bruce and Eloy for guidance and closing comments.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Thanks, Xavier. Moving to Slide #9. You can see the full year 2022 guidance that we already shared with you last week. We expect current demand trends to continue into Q4 as the destocking peaks and continues into Q1 next year. Helped by the positive price read-through, we currently expect the gross margin will recover to more normal levels despite the high inflation and some product and geographic mix dilution.

We continue to work to adjust the cost base to the current trading environment. Q4 is the seasonally weaker period in our business, and revenues are expected to be lower as a result of the inventory correction effect. All in all, we are expecting a level of sales around EUR 2.4 billion, EBITDA over EUR 500 million and cash EPS above EUR 1.30.

Moving to Slide 10. As we shared with you last week, I wanted to provide some color as early as possible, albeit in an environment, which you will appreciate has less visibility than usual. As you know, we'll provide guidance in the full year results presentation in February. As we have said, Fluidra is a stronger company than in 2019, despite the ongoing inventory correction in the channel.

In the last 3 years, more than 100 -- excuse me, more than 1 million pools have been added to the total park. As you know, a new pool today will feed the aftermarket tomorrow. Our broader perimeter together with the more than 25% of price implemented in this time period, provides us resilience even with a weaker demand for new construction next year.

Keep in mind that there is pent-up demand for remodeling and the backlog on premium new pools is still good. Moreover, Commercial Pool remains strong as a result of recovery of tourism and pent-up demand. Thanks to the good price readthrough, we expect gross margins to recover. Remember that in our industry, demand has been historically price inelastic.

Pricing for 2023 was implemented October 1, with mid-single-digit increase for North America and low single digit for Europe. Last but not least, as you know, we announced in our Q2 results, the implementation of our simplification program that will deliver savings evenly split over the next 3 years for a total amount of EUR 100 million through capturing cost benefits by redesigning our products, which will enable greater specialization and globalization of our procurement model, streamlining our operations by rationalizing our footprint and reducing structure overlaps and simplifying our organization to adapt to the current business outlook. And now back to the executive Chairman to wrap-up the prepared remarks before moving on to Q&A.

Eloy Planes Corts - Fluidra, S.A. - Executive Chairman

Thanks, Bruce. Moving to Slide #11. I would like to summarize a few key takeaways. As we highlighted last week, we are seeing the short-term effect of the inventory correction in the channel coupled with a weaker macroeconomic environment, which is impacting our performance in the second half of the year. Nevertheless, I would like to emphasize that today, we are a stronger business serving a much bigger market.

Fluidra has a strong balance sheet, and our capital allocation framework is consistent. And we are taking focused action on improving profit and cash generation. We have an experienced management team to lead us through this phase. The company today is well positioned to lead the pool and wellness market, delivering improving returns on capital over the midterm, thanks to our customer-centric approach.

Quality and service are key in the industry and they are the reason our clients choose Fluidra, we have the broadest product portfolio and geographical footprint with leading market positions in the most relevant countries, and we decided several years ago to put our focus on sustainability, efficiency and connectivity of pools. We are a global leader in these critical fields as well. Thank you all for your participation. Now we opened the Q&A turn, Bruce, Xavier and myself, we are ready to take your questions. Thank you.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Many thanks, Eloy, Bruce and Xavier, for your presentation. We now begin the Q&A session. Go ahead, Harry.

QUESTIONS AND ANSWERS

Operator

The first question here is from Andre Kukhnin of Credit Suisse.

Andre Kukhnin - Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst

I'd like to start just on the inventory normalization. You said 3 quarters to complete. Could you give us some numbers around it in terms of how much of that inventory buildup was -- how much was worked through during Q3 already.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Andre, are you talking in the channel or for Fluidra?

Andre Kukhnin - Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst

In the channel.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Yes, I can help you there. I think on a simplified kind of high-level basis, we have estimate the effect of the built-up inventory at the end of June was around EUR 300 million, EUR 350 million. EUR 200 million of that really built in 2021 and another EUR 100 million to EUR 150 million that we recalled at the end of July, which was really built inside of 2022. So in our mind, some correction has already happened in Q3.

With the visibility we have, we expect the destocking to have the biggest in peak -- impact in Q4 and into Q1 in a smaller effect with all the caveats that come with a really high-level estimate is this will also depend on how demand develops in this uncertain economic environment. What I would say is we think about EUR 100 million came out in Q3. About EUR 150 million will come out in Q4, and that would leave between EUR 50 million and EUR 100 million or about EUR 75 million in Q1 of 2023. So as you could expect, with that as the ordering pattern normalizes Q1 2023 as a really tough comp.

Andre Kukhnin - Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst

Indeed, yes. That's really helpful. And just a second one, I wanted to dig into a little bit more is on the cost side. If we think about your energy cost inflation and labor cost inflation for next year, would that be covered by the price increase that you've implemented, that you just talked about low single digit in Europe and mid-single digit in the U.S.?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Yes. Andre, let me take that one. Yes, I think as we look at 2023, with pricing read-through impact, remember that we didn't reprice the backlog in North America plus the incremental pricing that we are implementing for 2023 with the current inflationary environment we believe that the energy cost lever and so on will be well covered.

Bruce Walker Brooks - Fluidra, S.A. - CEO

And Andre just to add a last point to that. I mean this is with all the information that we have today. I would just add on that this is an industry that takes price if we're up for some reason, might have a short-term impact, but we'll take more.

Andre Kukhnin - Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst

Right, right. I was just trying to think that, is there a scope for pricing to offset the new inflation, which is energy and labor, while raw materials are coming down to help that kind of gross profit margin rebuild? Or is that too ambitious?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Well, I think like Xavier said, we feel like we're in a pretty good position on this based on the inputs that we have today. So we do expect our margins to recover over time -- our margin percent recover overtime.

Andre Kukhnin - Crédit Suisse AG, Research Division - Mechanical Engineering Capital Goods Analyst

And very last one, and hence, just carry on from that, the sort of 1/3 of the EUR 100 million of the simplification savings that you target for 2023, that should then be incremental, right?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Andre, that's certainly going to help us increase our margins. Part of that will go into gross margin, and part of it will go into OpEx as well. But the combination of the increased expected gross margin, as mentioned by the pricing implementation and the simplification effort on top of that should help us recover our EBITDA margins as we look at 2023.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Harry, please go ahead with the next question.

Operator

Certainly, our next question is from the line of George Featherstone from Bank of America.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

First question for me would be on the visibility that you have with your channel partners. I just wondered if you could give some context in that, certainly the relationship with POOLCORP because it would appear looking at kind of the messaging that inventory levels are still pretty high. Obviously, you talked about normalization, but how does that conversation happen with Fluidra in practice?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Sure, George. I'll take that one. Visibility with POOLCORP is really strong. We get sell-through data from them almost real time. And get a pretty good look at the inventory. I mean we get data week-to-week, but really on a monthly basis. And I think the feedback that we're giving you on inventory in the channel is pretty consistent. With our other distribution partners in the U.S., the data is -- it doesn't flow quite as quickly, but we still have pretty good visibility. What we don't see is true sell-through to the user. We see it to the pool pro if it's through distribution like POOLCORP, but we don't see that sell-through to the user.

And what caught us off guard a bit we've talked about last week was just that to protect the business, much of the builders and really everybody along the supply chain, tried to protect themselves because of the volatility in the overall chain. And so we saw inventory pickup in areas that we didn't -- or historically wouldn't have had any. So that's in North America. As you go to Europe, being a distributor, we have excellent information on the Pulse kind of market by market for us. But then we're in a similar position to the states where we're the manufacturer and therefore, don't have as high visibility to other distributors or retailers or additional pool pros. Does that answer the question, George?

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Yes. Then I'd just like to turn to drop-through on the decline in volumes. Clearly, it's quite severe in the third quarter. How should we think about it going forward?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

I think that based on the guidance, you can see that the Q4 impact is also on a stand-alone basis. It's also, I would say, severe due to the magnitude of the correction in the top line. Clearly, we haven't been able to act quickly on the cost basis as we were taken a little bit by surprise. Now as we have indicated, we've increased the size of our simplification program, and we are taking action within the quarter. You've noticed that we have indicated that part of the onetime cost associated to simplification have already taken a hit into Q3. So -- I mean, over the medium term, we are confident, as I have said earlier that margins will recover and will look to a more normalized pattern.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Okay. And then my final question would be just on leverage. I just wonder if you think the ratio to EBITDA has peaked at this level or given that we could see some further headwinds in EBITDA in the coming quarters. And you also mentioned that inventories for Fluidra might take some time to unwind and convert the cash, could we see this leverage ratio extend further? And then on top of that, what would be the outlook for distributions in that context?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Sure, George. As we have indicated, we are going through some temporary inventory correction effect that will take, I would say, the next 3 quarters. And therefore, I think what we will see is an increased leverage ratio in the coming couple of quarters, although, again, we believe that this is just a temporary situation. Our inventory doesn't really age, and it's just a question of time to go through the process of adjusting the balance sheet. And in terms of, again, distribution or capital allocation policies, I think we have a clear financial policy. We're working towards that one -- this is a temporary situation. And I would say that our policies remain intact at this point.

George Featherstone - BofA Securities, Research Division - Research Analyst & Associate

Okay. Is there a certain leverage point that you would maybe look to scale back the dividend?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

We don't see that at this point with current information that we have. But obviously, as you know us, you have been following us and we have acted accordingly to protect the company in situations like that in the past. So...

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Harry, please go ahead with the next one.

Operator

Our next question is from the line of Miguel Gonzalez of JB Capital.

Miguel González - JB Capital Markets, Sociedad de Valores, S.A., Research Division - VP

Yes. You said in the presentation that product mix and region represented a negative impact of 40 basis points, sorry, year-to-date. So I wonder how this collected margin for now more thinking of next year. I mean, in the last 2 years, I guess, you had a higher demand for high price and high margin credits, as pumps, heater so on coming from the new bill basically. So during a recession, what is going to hold up better is, I guess, maintenance, so demand for low price and margin [presence]. So I don't know if maybe based on your backlog or maybe your experience in past recession, you could give us your view on a potential decline of, I don't know if the average ticket or margin in the coming year because of this product mix?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

I think we are seeing this significant mix effects due to the nature of the inventory correction also a very long, let's say, summer season in Southern Europe, which has increased the level of chemicals that we have been selling that, as you know, are commodity carry lower margins. As we look at 2023, we clearly don't see those mix effects continuing as we expect a more, let's say, natural geographical mix and natural quarter-to-quarter situation. I would say that as to new build and aftermarket, there's really not a lot of -- not a very significant margin difference between new bill and aftermarket as you are pointing out in the question or as I understand that you suggest in the question. Actually, if I look at the overall aftermarket, margin is slightly higher than new build. So from overall perspective, I think as we look at '23 and beyond, mix shouldn't be playing a negative growth, maybe slightly positive.

Miguel González - JB Capital Markets, Sociedad de Valores, S.A., Research Division - VP

All right. This is very helpful. Yes. Another quick one maybe on my side on working capital. Working capital, I've seen our sales remain high this quarter because of higher inventories. How -- so we think of this in the mid- to long term. So we expect to come back about 20% historical levels or maybe below this threshold?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Yes, we are having, Miguel, as I pointed out in the prepared remarks that we're having this temporary effect due to the inventory correction and as well as the fact that we wanted to protect our full growth in this supply challenge environment that we lived in, in 2021 and early '22, So it's a temporary effect. We believe it's going to take around the next 3 quarters to correct. And therefore, by the end of the next year, we should be on a normalized level that would be around the point even a little bit slower than the ratio that you highlighted.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Harry, please, go ahead with the next one.

Operator

Certainly, our next question is from the line of Christoph Greulich of Berenberg.

Christoph Greulich - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

The first one is regarding the 2019 to '22 sales bridge that you have provided in the presentation. So, I assume that the volume part reflects the unit growth also the increase in the average ticket size, apart from what is pure price inflation. So basically, the shift to what's the more value-added products like the variable speed pool pumps and the IoT-enabled equipment. So just wondering if it's possible to quantify how much this trend has added to the volume growth since 2019? And then do you see any risk of a reversal next year due to down trading?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

We don't have -- your [precision] is right. I don't have the full details between the breakdown of those two components that you're pointing out, but we don't feel that there is a risk on having this down plate that you are suggesting. We believe that the mix will continue to be as consistent as we have seen over the last couple of years. No major change there.

Bruce Walker Brooks - Fluidra, S.A. - CEO

And just a reminder, Chris, on variable speed, that was legislation that went into the U.S. in the back half of '21. So frankly, that one is going to continue strongly, and we continue to see strong demand for connected products.

Christoph Greulich - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Great. Then a question on your general commercial approach towards the pool professionals. So now that you expect a stronger more resilient aftermarket next year compared to the new build market. Does that change in any way your commercial approach? Any kind of new initiatives in order to try to capture market share, specifically in the aftermarket?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Well, that's a good question, Christoph. It's actually maybe more emphasis put on to the aftermarket. But after we went through the GFC last time, it took us a few years, but we could see that the companies that higher aftermarket percentage performed better. And so in 2015, in North America, we put a specific commercial approach there with specific resources for the aftermarket, et cetera, et cetera. And it's proven to be very beneficial for us, and we're going to continue to lean in on that approach. You might say doubled down on that approach because, clearly, the aftermarket is key during those times. Now our strength had always been new build. So we did not -- we didn't really change our ratios in the last couple of years since we were able to, I think, pick up some share in new construction. But aftermarket is a focus. Aftermarket is an area where we've picked up about 1 point of share a year for the last several, and we'll continue to push there.

Christoph Greulich - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Great. And then just a quick one, a final one. On the quarterly cash interest paid, so that has basically has increased quarter after quarter this year. Is that purely FX? Or is there anything else that we have to keep in mind?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

The P&L FX is the most significant driver of change, Christoph. And this is just, again, a temporary effect. We -- if you look at the overall cash interest paid, it's increased a little bit basically on higher debt and also higher interest rates. So -- but not on material. The biggest change in the P&L is just FX.

Christoph Greulich - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

I get that point. But just looking at the cash interest paid, it seems like still a bit of a step-up in Q3 compared to what you reported for Q1 and Q2. So that is driven, you're saying by higher net debt and higher interest. So how should I think about that?

Xavier Tintore Segura - Fluidra, S.A. - Chief Financial & Transformation Officer

Higher debt and higher interest.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Harry, please go ahead with the next one.

Operator

(Operator Instructions) Our next question is from the line of Alvaro Lenze from Alantra Equities.

Alvaro Lenze Julia - Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst

The first one, maybe treat since the profit warning, there have been a couple of peers that have released their Q3 results, and they have mostly reiterated their guidance, their outlook seems a little bit more upbeat than yours whether you could comment -- I know that it's difficult to comment on other competitors or industry peers' views, but if you could see whether -- say, whether you're more cautious view is due to a different impact of the inventory correction in Fluidra or maybe due to geographical exposure? Or do you think that you just have different views on the industry?

Bruce Walker Brooks - Fluidra, S.A. - CEO

Yes, I'll take that one, Alvaro. I mean, first, as I read, let's call it, the largest distributor, which is POOLCORP I think our comments are very similar. It just impacts the different spot than we are in the process. They don't have the same impact on margin when price increases go, they go straight through to them. Their benefit in the first half of the year. It took us a while to get the price through on the backlog then turns around in the back half of the year. And then from an inventory perspective, I think we're very consistent, I think, from a new pool construction, we were pretty much in the same neighborhood.

So actually, I read that through as being very similar from the other peers that reported. Again, I felt like the look at the new construction, the aftermarket and all was pretty similar for North America. Again, I don't know what their backlog is. So maybe that impacts a little bit differently, the timing of sell-through or sell-in. And then I think your last point is also the right one. Clearly, the geography impacts, and I do believe that we're looking at a tougher position in Europe economically than in the States right now.

Alvaro Lenze Julia - Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst

Okay. My second question would be on the inventories. You mentioned that you have seen already some reduction through the channel in inventories this quarter. I know that information is scarce given the fragmentation of the other distribution channels. But looking at the inventories and also your competitors and your own, they are all either flat or increasing quarter-on-quarter. So how confident are that inventories have already decreased significantly across the distribution chain because -- is that on the end of the pool professional that would have reduced their inventories? Or where are you seeing this reduction?

Bruce Walker Brooks - Fluidra, S.A. - CEO

I think it comes from a couple of spots. One, I do believe that there is some reduction of the inventory levels in the pool pros. Further, the distribution channel has taken down their coverage ratios. And so therefore, that reads strongly in the orders that we saw in Q3 or the shipments that you saw in Q3. So I would say those are the primary points.

Alvaro Lenze Julia - Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst

Okay. And last question on my side. You mentioned that the signs that your feedback -- or the feedback you're getting from the Early Buy for the next season are positive. Well you could elaborate a little bit more on that? Because we have a couple of years where the Early Buy has been not normal, so to speak. So whether these positive messages are regarding the price and the feedback from the pool professionals or in comparison to 2019, if you could add some more color, that would be very helpful to look 2023.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Sure. I'll take that one as well, Alvaro. So Early Buy season is almost done, really ends in North America at the end of October and Early Buy is much more play in North America than it is in other markets around the world. So first of all, it does return us to a more normalized cycle as you hinted, we didn't have a full or even an Early Buy to some extent in 2021 or 2020. And we're pleased with how it's going so far. Now we've given you some early thoughts on 2023, and we'll provide more guidance, obviously, next February. With that caveat, if you adjust for perimeter and price, we're actually nicely ahead of 2019. I'm encouraged by that because especially when you consider the destocking that we're going through. So I think it's a nice positive signal as you look forward.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Harry, I hand over to you. I believe there are no more questions?

Operator

That's right. We have no further questions being registered at this time.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Okay. Great.

Bruce Walker Brooks - Fluidra, S.A. - CEO

Just one -- can I just make one closing comment, I guess, before we go then. So I mean, clearly, we're in a tougher economic environment than we've seen in recent years. And as a management team, we're confident that we are ready for it with our initiatives and vigilance. And we'll, of course, keep you updated of progress and if anything changes. So I appreciate your questions and your attention today.

Clara Valera - Fluidra, S.A. - IR & Business Development Director

Thank you, Bruce. This marks the end of today's presentation, and we thank our speakers and participants. As always, please feel free to reach out to the Investor Relations team for further queries.