



**Senstar Technologies**

**Third Quarter 2022 Earnings Conference Call**

**December 22, 2022**

## CORPORATE PARTICIPANTS

**Kim Rogers**, *Managing Director, Hayden IR*

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

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

## CONFERENCE CALL PARTICIPANTS

**Norman Rabinowitz**, *Private Investor*

**Mike Distler**, *AMX*

## PRESENTATION

### Operator

Greetings, and welcome to the Senstar Technologies Third Quarter 2022 Earnings Call.

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

I would now like to turn the conference over to your host, Kim Rogers of Hayden IR. Thank you. You may begin.

### Kim Rogers

Thank you, Melissa.

Welcome to our third quarter earnings conference call.

With me today are Mr. Dror Sharon, 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, 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 this 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 Dror. Dror, please go ahead.

**Dror Sharon**

Thank you, Kim.

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

Our third quarter revenue increased by 5% to \$9.7 million, compared to last year's third quarter. Our bookings were particularly strong in the quarter, compared to last year, despite longer sales cycles across the industry. Strength in our Canadian and European businesses is balancing contract award delays for government projects tied to federal funding in the U.S. and the effect of prolonged lockdowns related to COVID, which present similar challenges in the Asia-Pacific region. While it's frustrating to see projects postponed, I'm happy to say we are not seeing any orders canceled and we are optimistic about the opportunities that are in our pipeline. We have a strong backlog of revenue that we expect to deliver the majority of it over the next 12 months and several large projects that have advanced negotiations that we expect to close in the coming months.

Let's dive into the regional performance details.

The U.S. is down due to delays in federal budgets related to correctional facilities. Corrections, the vertical delivering the most growth previously, has been the hardest hit by the federal government budget delay, as the current administration redirects correction facility spending away from infrastructure. These are contracts that have been awarded but not closed, primarily due to an extended closing cycle, that I referenced earlier, causing the revenue from those projects to shift into further quarters. The U.S. has been an active region for us in the energy sector. We recently closed on a new project to provide perimeter security for an important oil and gas reserve facility. We are in the final negotiation stage with the large U.S. oil and gas provider, but anticipate closing shortly, to become the main supplier of our goods to their facilities worldwide. In addition, to help boost our U.S. sales, we are investing in marketing to other key verticals that we are focused on growing.

APAC is another region that has been helped by market conditions. The zero COVID policy and related lockdowns in China has impacted the greater APAC region and has been a headwind for Senstar year to date. On a positive note, we expanded our business with a large Asian airport that we announced in June 2021, with two large follow-on orders. The initial contract included an integrated perimeter security system and included a multilayer intrusion detection system featuring fence-mounted and buried sensors, and a software platform for security management integrated with the facility's existing cameras and security infrastructure. The APAC region is starting to open slowly and we are optimistic of a rebound in 2022.

The EMEA region is positive news this quarter, starting with the closing of the large oil and gas project, which we are currently fulfilling. In addition, a large (inaudible) project for a customer in Europe, that was awarded in 2019, is now moving forward and fulfillment has begun after a long slowdown due to COVID. We expanded our European sales capabilities with the appointment of the new Regional Sales Manager who is responsible for Spain, Portugal and Italy. This executive has already established a great track

record of developing market opportunities in North and South America, and brings strong field sales engineering and regional sales management experience to the position.

Senstar remains well positioned in Canada, our home market. This year, we have added sales people to the Canadian region to maximize our home court advantage. The increased focus has delivered nice returns, as Canada delivered solid performance again in Q3. We landed several large projects in the critical infrastructure vertical, specifically for our utility facilities. The correctional vertical has also contributed to our steady fast growth in Canada year to date.

On the marketing and brand development front, we participated in numerous trade shows and industry events in the third quarter in all of our regions. We reconnected with our existing customers at these events and focused on developing our pipeline. Higher and more engaged attendees, compared to last year, enable us to identify new opportunities and meet with new prospective customers.

Backlog remains solid at the end of Q3. While our backlog is not growing at this time, we are replenishing it at a steady rate with bookings that approximate the revenue recognized as work is completed.

Last year, we received subsidy from the Canadian Emergency Wages Subsidy Program of approximately \$0.4 million in the third quarter. This subsidy expired in the third quarter of 2021. This has impacted the year-over-year comparison in this quarter and the year to date results of the cost of goods sold and operating expenses.

Regarding product and production, Senstar continued this improvement to the Senstar Symphony Common Operation Platform with the release of Version 8.4 and our new fiber solution is also continuing to test (phon) internally. We are getting positive feedback from customers on our fusion solution, which links our PIDS devices with our software, and is currently running at a few sites in the beta versions. We plan to release two new products in the fourth quarter or early—or the first quarter of next year.

We ended the third quarter with cash and cash equivalents of \$15.2 million. This compares to \$26.4 million as of the end of 2021. The use of cash in the first nine months of 2022 was primarily for working capital purposes; specifically, investment in inventories and increased accounts receivable, in addition to a significant reduction in other accounts payable. We also regularly invest in research and development, which has produced advanced solutions. As a result, we have developed a valuable competitive advantage with our comprehensive and innovative solutions platform. Hence, our solutions protect essential assets and facilities that are crucial to the global economy.

There are macro-trends that benefit Senstar in our key verticals, including energy and critical infrastructure, where there is an increased sensitivity to protecting facilities to keep them fully operational. Geographical unrest has increased the demand for (inaudible) security solutions. Likewise, increasing volumes of global shipping and fulfillment means that an essential objective for logistics facilities is consistent operational efficiency. Senstar delivers solutions for each of those difficult objectives. As a result, our products are increasingly deployed in critical infrastructure, logistics, correctional and energy sites worldwide.

In summary, Senstar has a solid balance sheet with no debt. We prioritize our cash to create value with a focus on growth. We remain committed to delivering product innovations, strengthening our brand and expanding our global footprint to ultimately increase shareholder value.

Now, I will pass the call to our CFO, Mr. Tomer Hay. Tomer, please go ahead and review the financial results.

**Tomer Hay**

Thank you, Dror.

Our revenue for the third quarter of 2022 was \$9.7 million, an increase of 5.1%, compared with revenues of \$9.3 million in the third quarter of 2021. As Dror discussed, the increase was primarily due to new business signings, particularly in Canada, as well as EMEA. The geography breakdown as a percentage of revenues for the third quarter of 2022, compared to the year ago quarter, is as follows: North America 44%, compared to 47%; Europe 30%, compared to 26%; APAC 22%, compared to 24%; and Latin America 4%, compared to 3%.

The third quarter reported gross margin was 61.1% of revenues, essentially flat, compared with 60.7% in the year ago quarter. The change was primarily due to a shift in the mix of products sold during the quarter. Year to date, our gross profit as a percentage of revenues is lower primarily due to a challenging comparer base, as 2021 included subsidy granted to our Canadian subsidiary as part of the Canadian Emergency Wages Subsidy plan that were allocated partially to the cost of goods sold. Additionally, cost of goods sold was impacted by higher prices, despite our mitigating some of the increases by raising prices.

Our reported operating expenses were \$4.8 million, again, essentially flat, compared to the prior year third quarter. On a year-to-date basis, like the increase in the cost of goods sold, the year-over-year increase in operating expenses is primarily due to a portion of the Canadian subsidy being allocated to operating expenses in the year ago.

Our reported operating income for the third quarter was \$1.1 million, compared to \$0.8 million in the year ago period.

Financial income was \$0.2 million in the third quarter of this year, compared to financial expenses of \$0.4 million in the third quarter of last year. This is mainly a non-cash accounting effect we regularly report due to the adjustments 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 the GAAP. Our reported income for the continuing operation was \$1.2 million in the third quarter of 2022, compared to \$44,000 in the year ago quarter.

The Company's reported EBITDA for continuing operation for the third quarter was \$1.5 million, compared to \$1.1 million in the third quarter of last year.

Net income attributable to Senstar Technologies shareholders in the third quarter was \$1.3 million, or \$0.06 per share, compared to a net loss attributable to Senstar Technologies shareholders of \$0.2 million, or \$0.01 per share, in the third quarter of last year. The reported net income in the third quarter of last year includes a net loss of \$266,000 for discontinued operation. This compares to a net income of \$66,000 for discontinued operation in the third quarter of 2022.

Added to Senstar operational contribution are the public platform expenses and amortization of intangible assets from historical acquisitions. The corporate and amortization expenses for the third quarter were approximately \$1 million, the same as in the third quarter of prior year.

Cash and cash equivalents as of September 30, 2022 were \$15.2 million, or \$0.65 per share.

That concludes my prepared remarks.

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

**Operator**

Thank you. At this time, we'll be conducting a question-and-answer session. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Norman Rabinowitz (phon), a private investor. Please proceed with your question.

**Norman Rabinowitz**

Yes. Cherry-picking numbers for your current earnings, etc., really don't serve a great purpose. Revenue for the Company is down for the last five years. Yesterday, the stock market was up 500 points. Senstar stock was down 2%. You reached an all-time low, all-time low in your stock value on December 13, okay, 10 days ago. During this short period of time, there were two attacks on the electrical infrastructure in the United States, North Carolina, where these electric grids were attacked. Now, this was the frontline news on every news channel, every newspaper in the country. Not one word, not one squeak from Senstar, "We could protect against these type of things. We could install equipment. We could protect you from these kind of attacks." Okay, you recently appointed a bunch of sales managers. Where were they? Sitting on their hands? They could have got interviews on every news channel in the United States and said, "This is what should have been done. This is what we could have installed to protect you." Why was that not done?

**Dror Sharon**

Hi, Norman. Thank you for your question. The stock market, as we know, is not in good shape. We are suffering, like everyone, from this stock situation, and we are trying to do many things, strategic alliance and other things that we are trying to do to improve our performance. Revenue-wise, I think that I have to be more accurate, because in the last—I don't see that it is below what we did in the last five years, and just to remind you that last year, we still had Magal with us in the Project Division and the revenue was much higher, and of course the stock went down after we distributed the dividend. On top of it, the stock went down because of the market, but this is something else.

About North Carolina, we should look into it. I'm not familiar with this specific issue. Usually, we are working really close with the system integrators and engineering, and also with the end users, but I'm not familiar with this issue in North Carolina. We can take it between us offline or I'll check with the guys responsible for the sales in the U.S., what's going on.

If you have any ideas like this, when you see it, you can always pick up the phone and call me or Tomer and we'll take care of it.

**Operator**

Thank you. Our next question comes from the line of Mike Distler with AMX. Please proceed with your question.

**Mike Distler**

Good afternoon, gentlemen. I'll be brief, just I wish to echo the second half of Mr. Rabinowitz's sentiments regarding the free press we might have been able to get had just anybody from Hayden, like, picked up the phone, as well, since it was all over the U.S. regarding the shootings at two energy power plants in North Carolina. So, I won't echo that again. I know you'll have people on it immediately, I know that utilities being—pipelines and utilities being one of the three pillars, vertical pillars that you're going after.

Secondarily, to just the first part of that question, prior question, there were, in fact, distributions which tempered the actual price decrease, but there's no argument the stock's down, but many are, as well. I want to direct the conversation to really congratulating the Management for being able to weather the storm of COVID-19 for the last two-and-a-half years, as well as the spinoff process, which actually did put cash back in folks' pockets, and that's really all I had to say.

I just think we should be a little more aggressive, pay more attention globally, and since Senstar basically is doing business out of Colorado, as well as Canada, and Hayden, your representative here, is all over the United States, clearly, somebody dropped the ball there, because we really could have gotten a lot of free, so to speak, attention on what we could do to help prevent these things from occurring again.

Anyway, I wish you a happy, healthy holiday season, and a wonderful, successful new year, and as always, I thank you for your time.

**Dror Sharon**

Thank you very much.

**Operator**

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I'll turn the floor back to Mr. Sharon for any final comments.

**Dror Sharon**

Thank you very much.

Again, as I said earlier today, if for some reason one of the investors—again, the ones that are on the call, or any other, would like to call Tomer or me for any issue, you are always welcome, and to either, you can reach us pretty easy.

Again, on behalf of the Management of Senstar, we'd like to thank you for your continued interest and long-term support of our business. I look forward to updating you next quarter, and hopefully always for the best. Enjoy the holiday and Happy Hanukkah to everyone, and thank you.

**Tomer Hay**

Happy holidays.

**Operator**

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