INTERPUMP GROUP

Interpump Group S.p.A.

1Q2024 Results Conference Call

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MODERATORS: FABIO MARASI, CHIEF EXECUTIVE OFFICER

ELISABETTA CUGNASCA, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Interpump's First Quarter 2024 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Elisabetta Cugnasca, Head of Investor Relations of Interpump. Please go ahead, Madam.

E. CUGNASCA: Thank you. I'm Elisabetta Cugnasca, Head of Investor Relations of Interpump Group. Good afternoon or good morning, depending on your time zone, and welcome to this Interpump First Quarter 2024 Conference Call. As usual, I must draw your attention to the disclaimer inserted in annex part of the presentation, and I hope you were able to download from our website.

I would now like to introduce Mr. Marasi, the Group Chief Executive Officer.

F. MARASI: Thank you, Ms. Cugnasca, and allow me to thank you all of you for joining the call. To cut a long story short, these are the numbers. The first quarter 2024 on an organical point of view, a drop in sales by around 9% corresponds to an EBITDA, excluding the one-off of less than 14% and the total free cash flow increase of almost 150% over the first quarter 2023. For the full year 2024, overall sales expectations of between minus 5% and plus 1% and an EBITDA margin of around 23.5%.

To cater our long story short, so what do these numbers tell us? The first quarter 2024 numbers confirm that when we correct the forecast, the sales evolution and we have time to react, we can protect profitability. At a group level, from an organizational point of view, we are highly decentralized vice-versa, from an industrial point of view, many important companies within Interpump are highly integrated in terms of manufacturing process. Therefore, having limited the EBITDA decrease to minus 14%, with a minus 9% organic sales is a satisfactory and encouraging achievement that proves once again the flexibility and the soundness of the group.

They confirm a sort of natural hedging that our business model is able to generate strong growth in sales and profitability require cash, CAPEX and moreover, trade working capital. But the cash expectation is effective at fast when needed. In the first quarter 2023, we recorded the best organic sales growth of our history. In 2024, we generated the best first quarter cash flow of our history after 2020 and 2021, which are adheres that do not be a comparison.

For 2024, the numbers are expected to tell us that 2 out of 3 assumptions on which we based initial 2024 guidance were confirmed by first quarter numbers and the initial spring trends. And as for the one that is not confirmed, we believe it's only a matter of timing. In other words, it's only delayed. 2024 is expected to be precisely the opposite of 2023. In 2023, we had a very strong start in the first half and then recorded a sales performance normalization during the year.

While for 2024, we expect a more challenging first part also for a tougher comparison base and substantial improvement in the second part, even if for some business lines, somewhat delayed compared with the initial expectation. But our commitment to protect profitability and further improve cash generation has been resoundingly confirmed and achievable given the strength in terms of portfolio balance and business model flexibility that has allowed us to deliver a fantastic string of excellent and stable results year-after-year.

After cutting a long story short for this introduction, let's analyze the most important quarterly KPIs more fully and in details. In terms of sales, a decrease of 8% on a total basis and 9% on organic basis, driven by the hydraulic division on such a difficult basis for comparison, and let me remind you that in the first quarter 2023, we achieved an organic sales growth of 18.7%, very well balanced between the 2 divisions. It's not easy to clearly distinguish between the real business evolution and the simple comparison effect.

Even for those like us are absorbed in the business every single day. This is certainly true for Water Jetting. The flat organic performance is emphasized only by the comparison with the plus 16% mentioned before. The business is sound and strong. The complete system and the pressure pump are the best performers in the most important categories and the backlog is gradually increasing month-after-month.

In Hydraulics, the situation is more mixed and therefore, not as clear. We had an overlap between normalization and comparison base. Once again, diversification between and within divisions and between geographies, helps to bring the different trends into balance. For example, in the first quarter, on a consolidated level, adapter industrial vehicles and generic dealers, the 2 most important applications are self-balancing. The first is up by around 3%. The latter is down by less than 4%. Agriculture and their moving machines are still significantly lower by 27% and 19% [ph] respectively. Although it's worth mentioning better or a flattish compared to the fourth quarter 2023. Food and beverage is up by more than 7%.

In terms of geographies, North America remains strong with a sales increase of more than 2%, while the most important European countries, Italy, Germany and France are recording negative performances with a fall in sales of double-digit. India and China, the 2 most important countries in Asia displayed opposite trends. India is up by almost 7%, while China is down by around 30%. It's interesting to note that India is now the most important country in the emerging markets and represent more than 4% of the group sales.

Moving to EBITDA. To understand the profitability results is fundamental to first strip out from the first quarter 2023 results, the €3.6 million insurance reimbursement received in regard to the IMM factory fire in Romania in May 2022. Once this is done, profitability decreased on an organic basis by less than 14% compared to the 9% decrease in sales. From an industrial point of view, this is a very encouraging result and is due to the 2 main drivers: the diversification that characterize our group and the flexibility of our business model.

Hydraulics give us growth and positive momentum, Water Jetting give us protection and negative momentum. How many times have some of you heard me saying that? Despite the flat sales performance and the sales mix that I mentioned before on an organic basis, Water Jet in 2023 reached a margin of 27.8%. And the decrease recorded was due solid the perimeter change, and namely Waikato.

In terms of business model flexibility, let me first mention Hydraulics. Minus 12% of sales translated results into minus 18% of profitability. When we have time to adjust our cost structure to the evolution in sales, we can deliver results and protect our profitability. Measures to protect the first quarter '24 profitability were launched in autumn of last year because we knew already that wins that we would have to face. We started to bring production in-house, fine-tune the working shift and implement all the other countermeasures we have at our disposal, and we delivered the results.

Let me make a quick comparison between group's performance in this quarter and that of December 2023, which is so regret. Last December, the decline in sales took us by surprise, and we did not have time to react properly with a sales decrease close to 15%. The profitability drop was more than double…last autumn, we were expecting a market sales drop at the start of 2022…2024 after the extraordinary 19.5% sales increase in the first quarter

2023. And so, we started to plan our activities carefully. As an example of our business model flexibility, I can point to the Water Jetting division again.

Exactly one year ago, we started to talk about a negative sales mix due to the soft dilution produced by the complete system sales. And you may recall that we were not successful in managing that effect in all quarters last year. Sales were moving and our determination to meet customers' requests as much and as fast as possible, pushed us to outsource some production phases to look for new suppliers, which usually need to be overseen more than the well-established works and to apply extra narratives. This combination led to inefficiencies and we have been gradually learning how to manage in-house. We are continuing on this learning path and deploying this lesson in the next quarter in order to extract the full value from our new sales we are generating in this division.

To conclude the overview on the start of 2024, let me touch briefly on CAPEX, free cash flow and acquisitions. In terms of CAPEX, last February, we shared with you goals and the details of our 2021-2023 post-COVID CAPEX plan, anticipating that the CAPEX would start to decrease in 2024 and returned to the usual level of around 4% on sales. The decrease is still not evident in the first quarter simply because we started the construction activities of the new headquarters of Interpump Hydraulics, close to Bologna last autumn, the last important project to be undertaken. You can see the progresses in the world as of the end of March on Slide 9 of the presentation.

Moving to our M&A. Immediately after the first quarter, there were 2 small transactions, a double one in China and one in UK that are both consistent with our strategy and our evidence of the improved M&A environment. Expanding our network step-by-step is very important. And we did this in both divisions.

Moreover, I would like to draw your attention to the table transaction in China. After many years of no acquisition in the Flow Handling segment, we acquired 4 companies in the last 12 months. It could be added that the transaction conducted so far this year are small deals, around €15 million overall on an annual basis, slightly more than €10 million consolidated in 2024 and making a total impact from the perimeter change in '24 of around €25 million, equal to slightly more than 1% in sales. And it's true. They are small. But 2 or 3 years ago, even deals of this size were priced differently. This proves that what I've said many times.

Currently, we are in a historical phase of rebalancing role among all actors in the acquisition process and an industrial buyer like Interpump will have more and more opportunities and will achieve better conditions compared to the recent past. We will continue on our path.

Let me give you a brief update on our previous acquisition, and in particular Waikato. Waikato is facing a market decline in the reference market and unfortunately difficulties arose at the start of the integration process.

Activities are progressing. Everything we reported to you 3 months ago, headquarter reorganization, logistic and manufacturing rationalization in Europe and US, respectively, and the start of a collaboration with the INOXPA commercial network, are underway and we are seeing first positive evidence in terms of G&A and cash generation.

Concluding with free cash flow, it is important to underline that in the first quarter of 2024 we generated a free cash flow that is more than twice the first quarter 2023 figure, delivering on the cash improvement commitment that we made in summer 2022. It is important to underline that the improvement driver in this quarter was the concern over the past situation becoming worse, trade working capital.

Cash absorption from trade working capital more than halved, driven by efficient inventory management and the impact of the sales decrease. As for acquisitions, we will continue on this path. Before the usual update on most recent market trend and more details on the 2024 expectations, let me hand over to Ms. Cugnasca for the ESG update.

E. CUGNASCA: Thank you, Mr. Marasi. We spoke last time about ESG at length. Today, I will be concise and give a brief overview on 2024 action to summarize on both the first quarter financial results, press release and the presentation.

As already mentioned, the 2023 and 2024 action aimed to integrate in the group strategy the fundamental ESG principle and so create the value and organizational framework. Action in 2025 will seek to support the group in achieving 2030 and 2050 decarbonization targets. The entire process was also focusing on the global sharing of the best practices developed by the various group entities on specific topics. We would like to draw your attention to the most important 2034 action, among which the S6 extension to all Italian manufacturing companies of the supplier evaluation model according to environmental and social criteria is based precisely on the sharing and example of best practice.

The starting point was development by [indiscernible] in 2023, the so-called S5 action. Equal important are the action S1, confirmation of 2022-2024 average Employee Incidence Index below the average of 2019-2021. And E7, definition of group guidelines for the eco-design of products. The importance we give to this action compared to the other must be understood in the light of the decentralization of our structure and what that involves in terms of planning.

In addition, we will work to successfully execute one of the most important of the 2023 actions, the decarbonization strategy, and deliver one of the most important actions in 2025, the increase of non-compulsory training. Signing a corporate power countries agreement and of a global training program are important step towards achieving these 2 targets respectively. We will continue with the mapping of Scope 1, 2 and 3, which I remind you as an important task.

F. MARASI: Thanks again Ms. Cugnasca. Now let's focus again on the business, on the most recent trends and on what are the implications for the year. Spring starts displaying a mixed picture with, on one hand, the confirmation of our 2024 initial expectations and, on the other, a deviation from them, a deviation which could be better described as a delay. Which of the assumptions made 3 months ago predicted flattish organic sales and which forecast the actual trend we are seeing?

Water Jetting, the steady and consistent growth of the most important business lines of the division with the increasing contribution of the complete solution. Excluding the comparison effect, which has created some confusion, the first quarter 2024 results and the most recent trends fully confirm these assumptions.

Food and beverage and generic dealers are 2 examples in terms of market application strength. Hydraulics, the normalization of some of the division's business lines that even in the final part of 2023 displayed strong growth compared to 2022. Assumption is confirmed, for example, for adopters of industrial vehicles and generic dealers.

First sign of recovery of the business lines that started to slow down already in the first part of 2023. Unfortunately, rather than signs of recovery, so far we have seen evidence of stabilization at the bottom, for some market applications, for example and above all as regards to earth-moving machines and Lift precisely, the sector I mentioned you before. In summary, the first quarter 2024 and following that confirm 2 out 3 of the 3 prior assumption that we made in February.

Some of the business lines that are for some 2023 in the normalization phase, we are seeing a stabilization and not recovery. We are therefore updating our forecast including the impact of the small acquisitions closed so far for a change in sales compared to full year 2023 between minus 5 and plus 1 for the full year 2024.

Aftersales, EBITDA, as already mentioned, the first quarter 2024 profitability performance, a decrease of less than 14% compared to a minus

9 in sales and a profitability margin well above 23% underlines the flexibility of our business model and the soundness of the counter measures we are applying.

Our new sales expectations requires to reconsider the expectations and so we are updating you from this point of view as well. And we are doing this with our usual transparency to avoid any kind of misunderstanding. For us, there is only one EBITDA, the reported one.

The answer to the question, what was the group 2023 EBITDA margin, there is only one answer, 24%, including IMM insurance reimbursement, back to zero. But internally when each group company is tracking its performance month-after-month, the comparison is made with the operational results, which at the consolidated level and excluding IMM insurance reimbursement, represent 23.6% EBITDA margin.

When we spoke to margin protection last February, the landmark to be protected was 24% because once again, it's the reported number does matter. The new sales expectation is taking us to an EBITDA margin of around 23.5%. From an industrial perspective and considering the expected and associated sales evolution, we believe that this number gives substance to our goal to protect 2023 profitability regardless of the 2023 landmark.

Aftersales and EBITDA cash generation. As mentioned at the beginning, the first quarter 2024, with the slow improvement is the result of the job began many months ago that is now bearing fruit and which will continue to bearing fruit in the coming months, considering the growing normalization of trade working capital and CAPEX after 3 very demanding years.

To conclude and to cut the long story short, the first quarter numbers, sales the diversification between and within the regions and the business model flexibility are helping us balance the different evolution of end markets. Each year is the result of its 4 quarters and we are doing our best to maintain the utmost commitment regarding each of them based in the year quarter-after-quarter.

I've invited you so many times, in particular in uncertain and volatile market to focus on full-year results instead of taking conclusions based on a shorter period of time. Most recent number, the spring ones, we are on track on 2 out of 3 2024 sale assumptions and we expect only a delay in attaining the remaining one, and in particular the recovery of the demand in the weakest end market in hydraulics.

In terms of M&A, the environment is more favorable to all industrial buyers, like Interpump Group. And to conclude, the expected 2024 numbers will confirm once again the group ambition to excel. Thank you.

Q&A

OPERATOR: Excuse me, are you ready for the Q&A session.

COMPANY REPRESENTATIVE: Absolutely.

OPERATOR: Okay. Thank you. So this is the conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Matteo Bonizzoni, Kepler. Please go ahead.

M. BONIZZONI: Thank you, Fabio. Thank you, Elizabeth. Good afternoon. Two question. I go maybe Muscat. The point, the first question is the regarding on revenues minus 5 to plus 1, you are clearly saying that it's little bit large if you want because in some markets you are starting to see sort of stabilization, a recovery, in other one they are stabilizing but at the bottom. So only a sequential recovery, let's say. I was just curious to know a little bit more why you've chosen this range and if you can elaborate what's the scenario at the bottom, what's the scenario at the top. You have already elaborated a little bit during the call, but maybe you can provide a little bit more color on what's at the bottom and what's at the top in terms of sensitivity?

The second question relates the margin, 23.3 is the margin in Q1, 23.5 around is the guidance for a full year. If we look back at your typical seasonality, which only plays a partial role, but typically Q1 and Q2 are the strongest, Q3 and maybe even more Q4 are lower. So in this case, you are projecting a guidance for the margin for the full year, which is a little bit higher than Q1. So what is at play here, sequential recovery, action on cost, I was just curious to understand why 23.5 and not 23? Thanks.

F. MARASI: Thank you, Matteo. As always, very good questions. The first one, organic. It is clear that we are facing a very uncertain environment and a very uncertain and volatile end markets, and in particular in the main markets in hydraulics. Then we have chosen to point to, let's say, a reduced target in terms of organic growth evolution, but maintaining a large range, considering how volatile and uncertain the markets are.

In particular, the main application fields in hydraulics, let's say agriculture, construction and lifting, are very volatile and very different in the different geographies. And this is the main reason why we have not chosen and we are not able now to point to a smaller range. It is clear that the current environment is making us more prudent than what we were forecasting and commenting in February. But there are still several months and the reaction or the variation in the different customers, in the different application fields, in the different markets, can still represent a support that will drive to a better number at the year-end or can remain stable at the bottom and will drive to a minus in mid-single digit in terms of organic growth.

It will depend on the evolution and it is clear that now the visibility on the main application fields, in hydraulics in particular, is significantly reduced some months or some quarter ago.

In terms of margin, we have been, once again, transparent and honest. We could have easily said about 23%, but we are saying around 23.5%, that is a little bit more aggressive because, we believe that the countermeasures that we have taken and we are taking are protecting our profitability and we believe that we will have time to adapt and to activate all the flexibility measures that we usually have to activate.

And like I pointed out in my speech, if we have time to phase the reduction and the slowdown in demand, we have time to react and adapting the cost, adapting the in-house and outsourcing manufacturing capability, in adapting the internal production shifts, organization and so on. And for this reason, we are optimistic that we will be able to deliver a very, very strong and a very nice EBITDA margin even in a tougher top-line scenario. These are the main reasons.

M. BONIZZONI: Thank you.

OPERATOR: The next question is from Domenico Ghilotti, Equita. Please go ahead.

D. GHILOTTI: Good afternoon. A few questions, a few question just first of all, a clarification, when you say stabilization on some of the weak areas, you mean sequential stabilization? So year-on-year, still down, but at least stabilized on a sequential basis, quarter-on-quarter.

And then on the guidance, if I understand properly, so on the water jetting, could you give us a sense of if you still are expecting some organic growth in the year? I got this feeling from your comments around the order intake. And if you can comment also a little bit on the different regions. I saw that in Q1, North America was much better than EMEA, do you still see the same trend also going forward?

F. MARASI: Thank you, Domenico. When we refer to the stabilization at the bottom, we are referring to a sequential stabilization. Then stabilization in terms of demand in comparison with what we have seen in the second part of last year. And we were referring in particular to the very weak markets, agriculture in particular.

In terms of guidance by division, I confirm that water jetting will be stronger than hydraulics. And I confirm that we are expecting a positive organic growth for the full year 2024. The reduced visibility and the reduced expectation are mainly characterizing the hydraulics division.

In terms of geography, I confirm that USA are stronger than Europe and are stronger in general and we are seeing the same trend also going forward in the remaining part of 2024.

D. GHILOTTI: Okay, thank you. If I may follow-up, say just a curiosity, so you have been managing White Drive for a while. It's facing let's say, tough environment. So, I am trying to understand what is the pressure on profitability that you are facing now and compared to the level you reached, say, when you completed integration?

F. MARASI: Yes. White Drive is clearly the company that is suffering the most considering that it is the company of the group of companies that is the most exposed to the agriculture end markets. And then in terms of botanic, we are down strong double digit in terms of profitability. We are rising pretty well, but we are well below the 21% that we reached in some quarter last year.

D. GHILOTTI: But are you satisfied by the reaction in terms of countermeasures on the profitability.

F. MARASI: Yes.

D. GHILOTTI: Okay.

F. MARASI: Yes. Absolutely, yes because in this two and a half years, we have adjusted White Drive business model in order to create industrial flexibility. I believe that we have commented many times about the difficulties that we faced in the first at the start of the integration process of White Drive because we found the company with very little flexibility. In these two and a half years, we have created industrial flexibility, creating outsourcing opportunities, realizing the right investments and I believe that now White Drive is organized in a way that is well aligned with Interpump Group Companies.

D. GHILOTTI: Okay. And last question on M&A pipeline, if we can do something that's sizeable in your pipeline?

F. MARASI: We have everything in our…on our pipeline. The question or the point is what we will be able to finalize and when. What I can confirm is that the outlook or the scenario is positive, is very positive for the reason that I have already commented several times in terms of interest rates, in terms of strength in our balance sheet and in terms of more realistic expectations from the entrepreneur or the seller that we are discussing with.

D. GHILOTTI: Thank you.

OPERATOR: The next question is from Alessandro Tortora, Mediobanca. Please go ahead.

A. TORTORA: Yes, hi, good afternoon to everybody. Let's say I have 2 brief questions. The first one is on the free cash flow trend you mentioned in Q1. But can you confirm considering also that in theory CAPEX should gradually and sequentially decline over the coming quarters. Can you confirm to us that basically free cash flow generation should steadily improve quarter on quarter? That's the first question, Fabio.

And then the second one relates to that the Europe but also Germany you mentioned, let's say, Europe underperformance versus the US. And can you comment a little bit about Hammelmann performance in this context?

Clearly I know the Italian man [ph] is not, let's say, Germany, but just for the…some comments on the performance of other months in this macro context? Thanks.

F. MARASI: Yes. Thank you, Alessandro. In terms of free cash flow, I confirm that we expect a sequential improvement or growth quarter after quarter, because of the normalization of the CAPEX. Like I said in my speech, we are facing now important expenses for the Interpump hydraulics in the first quarter in Bologna, but it's something that we conclude our extraordinary investment phase in the post-COVID recovery and for this reason on a group level, we are very confident that we will reach very important numbers in terms of cash flow generation this year.

This…we move to the second question, in particular Hammelmann performance? Hammelmann performance is almost spectacular. It has always been spectacular and in terms of profitability, but we are really, really comforted by the very strong order intake and the new projects in which Hammelmann is involved. And for this reason, we believe that on a full-year basis Hammelmann will be one…maybe the Day 1 with the strongest results in terms of organic growth on a full year basis. And you know, how Hammelmann is important and how Hammelmann is contributing in terms of profitability.

A. TORTORA: And just probably if I may on this last point. Now when you mentioned also before, the fact that it is a mix of the Water Jetting, is this an aspect which relates to Hammelmann and then b) or just for the term that we basically, you know, selling more and more system today?

E. CUGNASCA: It's something that is going on of the company because you know that the system has produced taking into account raw material and sale part from many companies…company of water jetting. So, it's something that is not concentrated in one single company, but is more across the water jetting division.

A. TORTORA: Okay, got you Elisabetta. Got your point.

E. CUGNASCA: You're welcome.

F. MARASI: Thank you. Thank you Alessandro.

OPERATOR: Gentlemen, Ms. Cugnasca, there are no more questions registered at this time. I turn the conference back to you for any closing remarks.

E. CUGNASCA: Okay. Thank you very much for your attention and we speak soon in August. Bye.