Interpump Group S.p.A.

1Q2025 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 First Quarter 2025 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. Please go ahead, madam.

E. CUGNASCA: Thank you. Good afternoon. I am Elisabetta Cugnasca, Head of Investor Relations of Interpump Group, and welcome to this first quarter 2025 financial results conference call. As usual, I must draw your attention to the disclaimer slide inserted in the Annex part of the presentation that I hope you were able to download from the website.

Now, I would like to leave the floor to Mr. Marasi, the Group Chief Executive Officer.

F. MARASI: Thank you, Ms. Cugnasca, and thanks to all of you for joining our call. Once again, past and future numbers. Past numbers; on organic basis in the first quarter 2025, the impact of an 8% sales decline was a 12% EBITDA decrease with a 90 bps EBITDA margin dilution.

Exactly 1 year ago, always on an organic basis and excluding from the first quarter '23, the positive one-offs, we recorded a sales decline of 9% and an EBITDA decline of 14% with a 130 basis point dilution in terms of EBITDA margin. So, despite ongoing sales decline, which made more difficult to adjust cost basis and leveraging our operating flexibility, we were able to protect our profitability even better than last year.

Moving to future numbers. Both the results of the first quarter 2025 and the sales evolution for the month of April are in line with our expectation. And therefore, we are pleased to confirm our 2025 organic sales guidance that is between minus 5% and plus 1%.

In terms of profitability, as usual in May, we are also providing today more precise indication, and we are expecting an EBITDA margin for the full year between 22% and 22.5%, confirming, once again, our most important goal and focus, which is to protect our profitability in every market environment. I will add more color on our 2025 expectations in the second part of my speech.

Now, let's focus with more details on most important first quarter '25 financial KPIs, sales, EBITDA and free cash flow generation. In terms of sales, the first quarter '25 confirmed trends that have been ongoing for more than a year. The Hydraulic division is recording a normalization phase after the exceptional post-COVID boom. Water-Jetting is in the recovery phase after COVID. This evolution is absolutely consistent with the different industrial and commercial features of the 2 divisions, while the magnitude and length of these evolutions are absolutely unusual.

In Hydraulics, the 14% sales drop of the first quarter of 2025 marked the 6^{th} consecutive quarter of revenue decline, and the 5^{th} in which the drop was in double-digit. We did a peak of minus 17% in the third quarter 2024. Such a prolonged negative trend is absolutely unusual in the Hydraulic business. The Water-Jetting, on the opposite recorded a very healthy organic growth after 4 consecutive years of very positive evolution and performance.

Going into details, we feel that the Hydraulics division has touched the bottom in the second half of 2024 and that we should now expect, hopefully a sequential improvement during the year. Among the most important categories, generic dealers, agri, earth-moving machines and construction did not deteriorate sequentially; while others, for example, other industrial sectors were less negative.

In the Water-Jetting division, food and beverage, that is by far the most important market application, drove the growth with an almost 10% increase. And worth to be mentioned is the growth of shipyards and marine market application that in few quarters reached more than 5% of divisional sales. This is the strength and the beauty of Interpump Group's diversification strategy. We started many years ago with high-pressure pumps and more recently with Flow Processing, and these are the results.

In terms of geographies, at group level, the most important countries where we are US, Italy and Germany, recorded a performance roughly in line with the one of the previous quarter. Vice versa, China recorded…China recovery seems to be confirmed with 2 positive quarters in a row after many of decline. Once again, it's the power of diversification. Water-Jetting business and Flow Processing precisely that is driving the growth.

Moving now to EBITDA. I would like to come back to what I anticipated during my introduction. We protected our profitability better in the first quarter 2025 than in the first quarter 2024. We recorded an organic margin dilution of 90 basis points, lower than the 130 basis point dilution recorded last year in the first quarter. It's evident that 90 basis points less is better than 130 basis points less. But what I would like to underline is that these better results were achieved in a completely different environment, a much worse one.

The decline in the first quarter of 2025 is correlated to an 8% sales decrease that came after a 14% organic sales decline recorded in 2024. Obviously, in Hydraulics, the effect of the countermeasures was different according to sales decrease magnitude.

In some product verticals, we still recorded a material sales decrease, and therefore, profitability impact was more than proportional. In other product verticals, we recorded a profitability decline more or less in line with sales decline and some other verticals even recorded a profitability increase compared to a minimal sales decrease. These are the benefits of the group's business model flexibility and from a broader point of view, from group diversification, which characterize the group and every single division.

To be noted, I'm very pleased to inform you that the last acquired company, Hidrover, gave a positive contribution both in terms of sales and profitability, and we are super happy of this deal.

Switching to the Water-Jetting division, profitability results are confirming that our capability to manage business inefficiencies coming from sales mix and the booming demand is improving.

Let me remind once again these 2 concepts. Complete systems and order made for projects are complex and integrated products that are realized following more complex and less standardized procedures. Therefore, theoretically, I repeat myself, theoretically, they could have a proportionally lower profitability if we do not manage the entire process in an accurate way.

Booming demand, excluding 2021 distortion, the last 3 years, demand has been perhaps the strongest of the last decade and somehow caught us by surprise in terms of volumes and time concentration. We adjust our production processes as fast as possible to satisfy customers' demand. We changed labor shift; we moved colleagues from one specialized process to another and perhaps less familiar; we hired new colleagues and trained them as fast as possible, and we have to find additional specialized third-party suppliers who are fewer in number in comparison with the Hydraulics division.

But unfortunately, speed does not always correspond to effectiveness, and therefore, we started to work to minimize these inefficiencies and our efforts are gradually paying off. In second quarter 2024, we had an impact of 100 basis points, in the third quarter of '15, in the fourth quarter of '20, and now we have completely offset them.

Hopefully, the next step would be to fully benefit from sales increase. In the meantime, even in this division, no dilution impact from the newly consolidated companies, the 2 Chinese add-ons…and Alfa Valvole that are perfectly [technical difficulty] in our food processing business.

Moving now to the free cash flow generation. I can say that this could seem as the only disappointing result of the quarter, because free cash flow went slightly down from €35 million to €29 million after many quarters of improvement. Therefore, it's important to focus on the different components. Cash flow from operating activities went down by around 11%, impacted by profitability decrease, while trade working capital absorption decreased by more than 50% and CAPEX by more than 11%.

The most important cause of the lower cash generation is a different timing of advance payments from customers. Advance payments could create some swings between quarters from a financial point of view, but this gives us 2 very important advantages, especially in the process pump project.

We have a very important edge against the risk of not receiving the payment from customers, a risk that can be particularly high in new customer or in new market, and we avoid the liquidity strain in long production cycles and processes. Both advantages are more important than some quarterly swings, which will be smoothened during the year.

Summarizing another quarter of trade working capital, lower absorption and CAPEX reduction is a clear evidence that the group is delivering its commitment to improve these KPIs after the extraordinary peak of '21, '22, '23. We believe, therefore, that the first quarter '25 free cash flow generation is satisfying and in line with our goal to repeat the excellent level of free cash flow generation of 2024.

Moving now to acquisition. Short updating, as usual, on our most recent acquisition, that is to say Hidrover. As you probably remember from last November conversation, we bought this Brazilian company for 3 reasons and with the aim to reach 1 objective. Reasons are: first, the product that is in total synergy with group portfolio, double acting and special cylinders. Second, a motivated and competent management team who was able to confirm profitability at excellent level despite a 40% sales drop in 2 years, driven mainly by construction and agriculture exposure. And third, the chance to strengthen group presence in a major country like Brazil, one of the most important South American market with all global players present.

The goal and objective to support growth opportunities with both a renewed focus on consolidated customers and new application for new customers, with an example in crane and bus link.

How are these things evolving? In the first quarter, in Brazilian reais, sales are growing by around 20% and profitability is well above the divisional average. So, the perfect fit between Interpump and Hidrover, I envisaged you last November is absolutely confirmed by numbers. And I can assure you that we are working to find new perfect fits and other opportunities.

Please let me remind you what perfect fit means. Technological excellence, consistency with group strategy, respect of our M&A and financial criteria. I did not quote dimension because dimension doesn't matter. These 3 features does matter, and we will not compromise with, because it was their strict respect that allow us to implement a successful acquisition track record year-after-year and brought Interpump Group to this level of success.

Most of our acquisitions were almost immediately the perfect fit like Hidrover. Some of them required a bit of work. Few of them required more efforts than initially planned. This is because they come out from a distressed situation with an example of Takarada in Brazil in 2011 or GS-Hydro in 2018 or because at the start or almost at conclusion of the integration plan, the related market turned out to be dramatically negative, for example, Waikato and White Drive respectively. But all of them, sooner or later, with lower or higher efforts reveal themselves to be the perfect fit. And this is confirmed by the fact that we never, never disposed in the last decade acquired companies.

Our successful track record in terms of acquisition is based on the strict respect, somebody could even say obsession, and I would not be offended of these 3 figures; technological excellence, consistency with group strategy and respect of our M&A and financial criteria.

Now, the usual overview on most recent market trends and 2025 expectations. April was in line with our organic expectations for the entire year in terms of both trends and evolution. As for trends, Water-Jetting strength was confirmed, Hydraulics weakness was confirmed.

In terms of evolution, in comparison with the first quarter, 2024 Water-Jetting was a bit stronger and hydraulics was a less...in the first quarter 2025, Water-Jetting was a bit stronger and Hydraulics was less weak. Anticipating one of your possible questions accordingly to monthly sales data at our disposal, it seems that April was not influenced neither positively nor negatively by the 2 most important economic events of 2025 start, the German infrastructure fund approved in the middle of March and the tariffs war announced in April.

A short digression on this latter point tariffs war. Local and/or regional production for most or even all production phases has always been one of the most important milestones of group international expansion to ensure the best possible customer service. And in terms of acquisition abroad, we both perfected simply that. Therefore, the vast majority of our American sales are produced locally. And what is important in US to support local production is coming mostly from group European companies.

There is a lot of confusion on this topic, and therefore it is very difficult to say something rational and reasonable. In any case, we will have a very clear and concrete approach. Our group is ready to adapt countermeasures to minimize and counterbalance impacts on profitability.

In the short-term from surcharges to full price increases and in the medium-term, increasing local manufacturing activity whenever possible and convenient. The adjectives possible and convenient mean that in any case we would never compromise the quality of group products and the services that we are delivering to our customers.

After this necessary digression, let's go back to 2025 expectations. First quarter results and April sales evolution are a clear support for our February guidance that we are confirming today. On an organic basis, we are expecting a turnover variation between minus 5% and plus 1% and a positive perimeter change impact of around 2% with reported sales therefore in line with 2024. As usual, with a higher visibility driven by a quarter of reported data, we are adding to the sales guidance, the profitability guidance with an EBITDA margin between 22% and 22.5%.

One important clarification to avoid any kind of misunderstandings. The comparison basis of this range is the 2024 reported EBITDA margin of 22%. No adjustment, no change, nothing, only reported numbers as always. We hope that you will read these numbers as we are reading them.

In the worst possible case of a 5% sales decrease that is a 5% decrease after a 9% decrease of 2024, we are expecting to confirm 2024 results in terms of profitability. We are expecting to confirm our excellent profitability level once again.

In terms of cash generation as explained before, first quarter results are a clear evidence of group commitment to proceed in the normalization process of both trade working capital and CAPEX. And therefore, we confirm the goal to consolidate and hopefully, improve the cash flow generation achieved in 2024.

If in February 2026, we would be able to deliver these results, we would be once again very proud as they would once again confirm 2 fundamental milestones of group's strategy, diversification and business model flexibility.

We are at your disposal for any questions that you may have.

Q&A

OPERATOR: Thank you, sir. This is the Chorus Call 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 your question, please press "*" and "2." Please pick up the receiver when asking questions.

The first question comes from Matteo Bonizzoni of Kepler Cheuvreux.

E. CUGNASCA: Please one foreword to everybody. Please be so kind to make one question at a time, because sometimes the line is disturbed. So please one question at a time.

M. BONIZZONI: Okay. Thank you. Just one question in fact I was willing to ask. And actually, is a clarification on the M&A front, because over the last few days, I was receiving by investors many questions on the possibility that today or in the next few days, you could announce an acquisition…a different acquisition compared to the usual time for Interpump. So much larger and much complex. And I can tell you that some investors were linking slight change in the timing of the conference call to the fact that you could have announced an acquisition just to let you know maybe you were already aware about that.

My question is this idea that you could announce a much different acquisition from the usual one, which you did in the past which apart maybe White Drive was a little bit complex where family-owned company or in any case good company with good margin not so difficult to integrate and so you couldn't embark in a much larger kind of deal and much more complex to integrate for a company like Interpump, which I think doesn't have currently the structuring of the management to manage such complexity degree? Can you comment about that? Do you want to comment about that?

F. MARASI: Yes, with pleasure Matteo. Thank you for this question, that is a very, very hot topic because of course we have heard these rumors in these days. And it would be easy to say that we are not commenting gossip or rumors, but in this specific case, I can easily say that we are not participating in the Dana [ph] beauty contest, and we are not announcing today, tomorrow or whenever the acquisition of this business from Dana. This is a clear statement that I can make today in order to avoid any further discussion, gossip, rumors, whatever you want.

And the reasons are simple for you to understand, you know us very, very well for such a long time. And we have always commented about the perfect fit of the acquisitions that we are looking for. And we really do not believe that Dana may represent a perfect fit. And this is not for the size. Even if the size would be very important, around $3 billion, if I remember correctly. But the perfect fit is...related to many different topics and in particular for the 3 elements that we have commented before.

Financial excellence, industrial and commercial fit, management, international presence and diversification. We really believe, and of course we have analyzed the matter in particular after these rumors that I don't know from where are coming. We have analyzed carefully the situation and we really do not see any kind of fit, not to mention a perfect fit, coming from this business. I hope that to have been clear.

M. BONIZZONI: Thank you very much.

E. CUGNASCA: I am adding one element. We postponed the call to 5 O'clock pm in order to be able to make all our US investors from New York coast to the California coast to follow the conference call, because in the past having calls, so early means having some important investor like the US one not be able to follow the call properly.

M. BONIZZONI: Thank you. It was really clear to me and this is in fact what I told investor. Thank you very much.

OPERATOR: You're more than welcome. The next question is from Alessandro Tortora of Mediobanca.

A. TORTORA: Yes, hi, good evening or good afternoon, okay to everybody. I have 3 questions…brief questions. The first one, so if you want to go one-by-one, is on the order backlog trend. Let's say that you can find okay the usual chart, let's say qualitative one, you put on the trend. So if you can comment a little bit, Fabio, on the order backlog, let's say, for you for the 2 divisions? This is the first question?

F. MARASI: Okay. The order backlog and in particular the order intake is improving. Order backlog remains at the top in the Water-Jetting, and in Hydraulic is slightly improving. It is too early to conclude, it is too early to say that the situation has changed, but we are seeing, and this is the reason while I was commenting before, that we are expecting a sequential improvement during the year.

I believe it is too early to comment because the sign of improvement and the slightly better commercial climate maybe easily influenced by any potential geopolitical change. And then this is the reason why we have confirmed our guidance and this is the reason why we are not elaborating too much on this. But the feeling and the discussion that we had also in recent important exhibitions with our most important customers are for a slightly better environment.

A. TORTORA: And the second question, I would like to come back to your comment on your margin of resiliency. Can you give us, let's say, some example, probably of the most troubled companies or let's say, know, hand market? I'm thinking about White Drive or Walvoil you know that really probably suffered the most. You know, this decline in volumes? Can you compare a little bit about how we managed the profitability for this segment? Thanks

F. MARASI: Clearly, we have never commented company-by-company, but like we have done in the past, it is easy to understand that the companies that were the most exposed to the most difficult market application, and in particular agriculture, above all, and also construction, were the one that suffered the most. White Drive in particular, but not only, also other companies in the Hydraulic division, Walvoil or other companies.

Clearly, the margin protection that is our first and most important goal, company-by-company was reached in different ways, depending on companies…on every company's situation. It depends on the balancing between in-house manufacturing capacity and outsourcing company-by-company. And we have committed also in other occasions that White Drive was the company that suffered the most, because it was the one that recorded the biggest organic sales decline having the higher exposure to agriculture and construction. While Walvoil for example, that is operating in the same business is much more diversified also in a geographical point of view with an important exposure on the Indian market that is performing very well. And then add the possibility to counterbalance much better the organic sales decline.

A. TORTORA: Okay, okay, thanks. Thanks Fabio. And the last one is, just, let's say, not a clarification but let's say maybe a qualitative comment on the guidance range you provide on the top line side on the sales side. So basically, considering what you mentioned before on this Q1, but also the April trend is it still realistic or maybe let's say to think about the plus 1% or let's say, a kind of base case remains, how can I say, the midpoint of your guidance range, because as you can understand, dealing with let's say still a negative organic growth in the high single-digit area, for this first half, probably, I would like to understand how the plus 1% would be related to a kind of gradual improvement over the year.

F. MARASI: Alessandro, you know better than me, how the range works. A range is a range and we have always considered the midpoint of the range. We are confirming the range, because we believe that the numbers within the range are still possible. And I want to remind you, that the comparison base will change dramatically in the second part of the year, in comparison with the first part of the year because until May/June of last year, we had many companies or many markets that were still…were suffering, but were still holding up, while the second half of last year was particularly negative. Then depending on these sequential improvements that we are expecting, depending on when, and depending on how strong this sequential improvement will be, any number is possible within the range. Then I wouldn't take the minus 8% of the first quarter as an indication of the impossibility of reaching the plus 1%.

A. TORTORA: Okay. That's it I guess for me.

OPERATOR: The next question is from Domenico Ghilotti of Equita.

D. GHILOTTI: Good afternoon. I will stick to one question and maybe get back to the queue, and is related to North America. So listening to some clients…big clients [indiscernible] they've been revising downward a little bit the North American outlook, while Europe was confirmed. So I'm trying to understand, if you are seeing from a geographical perspective, the same kind of higher resiliency in Europe, a bit more uncertainty in North America.

F. MARASI: Yes, I believe that is or it would be a fair assumption because US is a market that is being characterized by the highest level of uncertainty. I mean geopolitical uncertainty and tensions. What's happening in the last few weeks of course, is having an impact on the mood of the North American players and North American companies. And you know very well, that uncertainty means that everybody as a first action is postponing decisions. And then if I have to say, which is the area with the highest uncertainty.

Looking forward is for sure the North American market. That has been much more resilient in the recent past than Europe and Asia. But now, I believe it's in the middle of a very, very uncertain moment.

D. GHILOTTI: So the recovery…the sequential recovery that you are seeing in April, so it's fair to say that it is coming maybe outside of US or not necessarily?

F. MARASI: Not necessarily, but it is stronger, the sequential improvement that we are expecting in Europe and in particular in Asia than the one that we are expecting in the US.

D. GHILOTTI: Okay. Thanks.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your touchtone telephone. Next question is a follow-up from Domenico Ghilotti of Equita.

D. GHILOTTI: Okay. So I have a couple of other questions, particularly just on the tariff comment. So just a clarification. Can you explain, what's going on today? So, are you facing the tariffs on your export from say foreign countries to the US? And are you applying some…you were mentioning some surcharges or price increases. But is it something that you have already started to do or something that you are planning?

F. MARASI: No, we have already started to do. Clearly so far, the impact has been limited to the 10% from Europe to US, because we have commented the macro data. And you know that we are very well-positioned. I think in North America, the vast majority…the vast majority of the North American sales are made in US entirely. We have 3 important European companies, with important American subsidiaries; Walvoil, Interpump and Reggiana Riduttori. And for these companies, we are shipping from Europe or from outside the US finished products or components. And of these components and products, we are now paying the 10% tariffs and we are applying a surcharge or a price increase to the customers depending on the situation.

D. GHILOTTI: Okay. And to follow-up on this for companies that are US based, do you see some competitors that maybe are outsourcing [ph] from outside the US applying some price increases? So do you see some competitive advantage already materializing?

F. MARASI: Yes. Here and there, yes, but it is too partial to comment, if we are looking at the entire dossier. In some business, we are very well positioned because we were one of the few players present in US with the entire production process. And we were facing already maybe competition from China or from somewhere else. And this competition today is affected by higher tariffs and then higher surcharges or price increase that they have to apply.

D. GHILOTTI: Okay. So, the main concern today is really the uncertainty also for the clients...

F. MARASI: Yes, correct. The uncertainty on the business model is the most important concern.

D. GHILOTTI: Okay. And last question is on…just a clarification on the comment on Water-Jetting. So, if I understand properly, if the business continues to go up as it is, let's say today, the comment, you should have reached at least the bottom in terms of profitability. So, this is a…

F. MARASI: Hopefully, this is what we have in mind, considering that we have faced already a boom in demand and a boom in the order intake. And now we are working really in improving the efficiency. Like I've commented during my speech, we are working on optimizing and streamlining the processes and the production flows in order to have the full benefit of this very strong demand in the Water-Jetting division, putting in place the best possible management of the production process and enjoying that level of efficiency and that profitability.

D. GHILOTTI: Okay. Thank you very much.

OPERATOR: The next question is from Michele Baldelli of BNP Paribas.

M. BALDELLI: Hi, good afternoon to everybody. I have a couple of questions, and I take the blame on the M&A side, but you have anyway a low leverage, which should anyway improve in the coming quarters. So, I was wondering, first, what is the feeling on the M&A in terms of timing? If you see it, let's say, by the summer, or is something that anyway we need to see further out? And what about the size of the, let's say, possible dossier M&A deals that you see possible? This is the first question.

Second question relates to the quarterly trend of sales for the group. If you can provide some visibility and granularity, if we can assume that Q2 will anyway be higher than Q1 on the total absolute level of sales.

F. MARASI: Okay. In terms of M&A, you know that we are always very active. You know that you never know the closing date, even if you have one or several situations that are advanced or in an advanced negotiation phase. You never know when everything will be aligned and ready for going to a notary or going to close the transaction. Then, I'm not prepared to comment on the timing of the acquisition.

Clearly, we have a very strong balance sheet. We are very happy in these days to sit on a very solid balance sheet and being characterized by a very low level of leverage. And then, we do not feel particular pressure. What really matters for us is the perfect fit that I have commented before.

And then, we are not under pressure to realize any acquisition in the first quarter, in the first half. We will do acquisition when we will have the perfect fit, when we will find the right candidate. Having said that, we have many interesting dossiers that we are working on and we are positive and confident that we will have, also in terms of M&A, good results.

Regarding the guidance by quarter, I believe that this is too granular. I believe that this is too granular also because if we restrict the focus for our guidance, it is easier to miss or to have a variation created by one important order delivered on June 30 or July 7, then I'm not going into comments regarding the quarterly evolution.

What is easy to comment is that in 2024, we had a stronger first quarter and a stronger first half than the second half with a very strong, let's say, first quarter, not so bad the second quarter and then going down. This is the evolution that we had in '24 and then therefore, the comparison base will be easier going forward in the next few quarters.

M. BALDELLI: Thank you. If I may have a last one on the evolution of the backlog of Hammelmann NLB, how do you see the backlog now compared to the year before?

F. MARASI: We are seeing a very good performance in terms of sales. We are seeing a backlog that is not increasing since January, because we have been delivering a lot of projects and realizing…we are realizing important sales. But what is even more important and comfortable is that we are seeing a level of activity, a level of new projects coming into the market in terms of technical discussion, in terms of condition negotiation that remains at a very very high level. And this is a very important comfort and support for the second part of the year, but also for next year.

M. BALDELLI: Thank you.

OPERATOR: Cugnasca and sir, there are no more questions registered at this time.

E. CUGNASCA: Okay. Thank you very much. Thank you for your patience and have