



# **INTERPUMP GROUP**

**Interpump Group S.p.A.**

**2Q-1H2024 Results Conference Call**

**Wednesday 7<sup>th</sup> August 2024**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Interpump Group Second 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. Thank you very much. I am Elisabetta Cugnasca, Head of Investor Relations of Interpump Group. Good afternoon or good morning, depending on your time zone, and welcome to this Interpump second quarter 2024 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 our website.

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

F. MARASI: Thank you, Ms. Cugnasca, and thank you to all of you for joining our call. Last May, I started my speech with numbers. Today, I would like to repeat myself and start again with numbers, making a comparison.

In the first quarter 2024, organically, we had a drop in sales by around 9.2% that corresponded to an EBITDA, excluding IMM fire one-off decrease of 13.7%. In the second quarter 2024, we had an organic drop in sales that is a bit higher, 9.5% that correspond to an EBITDA decrease, a bit lower, 12.8%, once again, excluding the IMM fire one-off. Therefore, sales evolution worsened a bit, but in the meantime, the positive impact of our countermeasures gained effectiveness, and the capability to protect profitability increased. And what is even more important to underline is that the driver of this impressive achievement was the direct division, the one which is most impacted by demand normalization.

In the first quarter, sales dropped by 12.1%, with a margin dilution of 170 basis points while in the second quarter, we had a 13.7% sales drop, with a margin dilution of only 100 basis points. Absolutely counterintuitive, considering that if it is true that a group level, from an organizational point of view, we are highly decentralized at operational level, vice versa, from an industrial point of view, many important companies inside the group are highly integrated in terms of manufacturing process.

How did we achieve these results? We leveraged the flexibility of our group business model, applying our usual, not easy to implement, but normally quite effective, countermeasures. We share with you some of them on Slide 9 of the second quarter '24 result presentation, and in particular, I can mention labor force adjustment, the utilization of all possible labor flexibility instruments, production in source, cost saving actions, and inventories management.

As a CEO of Valvole, the most important hydraulic company, I'm extremely proud of this result. While as a CEO of the entire group, I cannot hide disappointment for the other side of the coin. The fact that the Water Jetting division in the second quarter did not fully support margin protection. We were expecting that both 2023 and 2024 acquisitions would have had a dilution effect on margins, but we were not expecting a dilution on organic basis. We were expecting to repeat the performance of the previous quarter when we successfully compensated the unfavorable sales mix. This was correlated to some temporary inefficiencies, the one I already mentioned to you in May, that I'm confident we will be able to address.

After this long introduction on the most important achievements of the quarter, let's go back to usual flow, speaking about sales, which overall decreased in second quarter by 9.5% organically, and therefore, slightly worse compared to the previous quarter. Differently compared to first quarter, the comparison effect is gradually starting to decrease, and therefore

the real business trends are a bit clearer for hydraulics, or a bit more evident for Water Jetting.

In the Hydraulic division, the sales decrease, worsening from 12% to 13.7%, is driven first by the usual suspects, and in particular agriculture, earth-moving machines, and lifting applications that are down by more than 20% compared to the second quarter of 2023 and sluggish compared to first quarter of '24 .

Among other important market applications, construction entered in a normalization phase, with a sales decrease compared to 2023 of more than 10%. While on a positive note, the most important hydraulic market application, that is adapters industrial vehicles, is confirming the growth path already seen in the first quarter of the year.

In Water Jetting division, business soundness is finally stronger than the comparison effect, and sales grew organically by 2.4%, with high pressure systems as best performer among most important products, and the sales mix with a lower negative impact compared to the previous quarter.

Summarizing, in the second quarter, we saw the confirmation of first quarter trends, which pushed us to review our full-year guidance, the consistent and steady growth of Water Jetting, the start of the normalization process of the hydraulics market application, which in the last part of 2023 were still growing, and unfortunately, a stagnation, and not a recovery, of hydraulic market applications, which entered in a normalization phase already one year ago.

Turning now to EBITDA, I already anticipated in my long introduction the most important messages. From one side, the outstanding achievement of hydraulics and these levers, and from the other, the disappointing results of Water Jetting. As Group CEO, I believe that it is my duty to get back to what went differently compared to our expectations, to give you more details, and finally to share with you our point of view.

I will start from what I explained to you last May, complete system sales have a slightly lower profitability compared to other group Water Jetting products, because third parties' components are proportionally more, and because the massive increase in demand that led us to production inefficiencies and more outsourcing.

As past results shown, we are in a learning path, with some quarters during which we are able to minimize or even counterbalance these inefficiencies. For example, this is what we did in the second and third quarters of 2023, and in the first quarter of 2024, and others during which we are less effective, in particular the fourth quarter of 2023.

In the second quarter of this year, the effectiveness was made more difficult by a temporary increase of [technical difficulty] efficiencies related, for example, to changes in production flow in some subsidiaries planned.

Many of you hear me constantly explaining that our businesses need to be judged from an annual and not from a quarterly point of view, and this is particularly true for Water Jetting, that, because of the higher incidence of sales coming from medium-long-term projects with customers, has an higher quarter-on-quarter volatility, both in terms of sales. And as clearly evident in Slide 26 of the presentation and therefore profitability. Therefore, even if disappointed, we are sleeping quite well at night. No structural changes are ongoing, and we are fully convinced by the strength and the future opportunities of our Water Jetting business.

Let's now move to cash generation and these different parts, starting with CAPEX. As part of today, the decrease of CAPEX we anticipated last February is still not so evident, due to the ongoing construction of the new headquarters of Interpump Hydraulics close to Bologna. The last important extraordinary project of our 2021-2023 post-COVID CAPEX Plan.

Activities are progressing steady, as you can appreciate in Slide 11. The plant is covered, and now we are working on electrical engineering systems to have it ready for autumn and start machines and equipment transfer immediately after. In the meantime, we are going on with the offices building and the land around, but apart from this project, we confirm the normalization trend already anticipated here.

Moving to acquisitions, last May I described you the 3 small acquisitions already done, which reflected a common strategic target, even if the first 2 in China were related to the [indiscernible] business of the Water Jetting. And the third one in UK is related to the hose & fittings business of the hydraulic division, strengthening group's global network.

The most recent acquisition, Alfa Valvole is absolutely in line with the group acquisition strategy, even if with a different target, group product catalogue completion. Indeed, this company brings to our group an excellent level of profitability 26% EBITDA margin, that is absolutely in line with the group's excellent level, and moreover, 2 products we did not have in our portfolio before, dosing pumps and ball valves.

Dosing pumps are particularly precious for us, enlarging and completing our pump portfolio. We believe there are many combined opportunities, both in the short and the medium, long-term. In the short-term, we are already checking the possibility to both substitute products delivered by other suppliers with Alfa Valvole one, especially in the complete system solution, and to leverage group's strong presence in North America, an area that Alfa Valvole could not address being served by other subsidiaries of the previous owner before. In the medium long term, there will be a lot of work to be done between the R&D department of the pump world.

Summarizing, in the first half of 2024, we performed 4 acquisitions, which perfectly fit with group's acquisition strategy, with a total amount of turnover of more than €40 million, an average EBITDA margin above 21%, and having paid an average price of 5.4 times EBITDA.

In the second quarter, we also exercised some important put and call options, notably the remaining 20% of Transtecno. We paid around €30 million to have the total ownership of a company that in 2018 generated €45 million in sales, with around 19% of EBITDA margin, and that closed 2023 with almost €90 million in sales, 100% increase, and EBITDA margin significantly above hydraulics average.

To complete acquisitions updating, let me give you a brief update on Waikato. The deal closed one year ago, for which we had to face a huge demand decline while we were starting the integration plan. This plan, notwithstanding strong headwinds that we are experiencing, is on the right path. We are making progress, and we are achieving important improvement in terms of cash.

Moving to the free cash flow generation, from €44 million in the first half of 2023, we jumped to €80 million in the first half of 2024, almost doubling last year's figures. Despite a still material burden coming from CAPEX, we almost doubled cash flow generation, driven by another further improvement coming from the trade working capital. And on this topic, not working to underline, that while in the previous quarter, cash generation improvement from trade working capital arose from reduction of cash absorption, the second quarter improvement is a real generation of around €20 million, and the trend is continuing, and we expect a significant further improvement in the coming month and quarter, and also in next year.

Before the usual overview of most recent market trends, and more details on 2024 expectations, let me hand over to Ms. Cugnasca, who will bring you up to-date on group ESG plans.

E. CUGNASCA:

Thank you. ESG actions to be delivered in 2024 are 6 [ph]. One related to the Environmental Chapter, E7, products eco-design, 2 related to the social one, S1, injury rate improvement, and S6 ESG supply chain evaluation model extension to all Italian manufacturing sites, and 3 related to the governance,

G4, tax compliance consolidation in line with the best practice, G5, GRI 2007 for information updating, and G6, updating on ESG journey.

Taking into account that 61 [ph] is a multi-year target of 2023 and 2024, and that G6 and G5 are ongoing annual targets, I would like to focus your attention on targets E7, S6, and G4. E7, product eco-design. As you probably recall, this target is divided in 2 different steps. Phase 1, definition of group eco-design policy, and Phase 2, implementation of group policy through procedure reflecting business model heterogeneity

For many months, we were focused on all preparatory activities, having waited the release of related European regulation. This letter law EU Regulation 2024-1781, was issued last 13<sup>th</sup> June. And therefore, we immediately start again our activities.

S6, ESG supply chain evaluation model extension to all Italian manufacturing entities. Last year Valvole, the biggest and one of the most production integrated company of our group, successfully defined the new supply chain evaluation model incorporating ESG criteria.

The following step, performed by corporate function, was to fine-tune the Valvole model to incorporate features of other group business model. And just a few days ago, the first step of the internal distribution process was performed. After a summer break, all recipients will perform, if needed, a second fine-tuning step. And afterwards, questionnaire will be sent to most important supplier.

G4, tax compliance consolidation in line with the best practice. When we presented 2022-'25 ESG Plan on this topic, we underlined you that Interpump fiscal approach has been consistently based on 2 milestones. Entity-level focus in line with a soft integration philosophy applied to acquired companies, and harmonization among different fiscal frameworks connected to group different presence councils. And the absence of material fiscal litigation proves the solidity of this approach.



Therefore, the insertion of this action in the ESG Journey Group aimed at seizing the opportunity to further improve tax management, at aligning itself. To best practice and from a more general point of view at integrating of the fiscal strategy inside the group strategy definition and execution.

As of today, draft of the fiscal strategy and of the tax compliance model are almost ready. The risk assessment process is ongoing. Long story short, all activities are in progress according to the related timetable.

F. MARASI:

Thanks again, Ms. Cugnasca. Now the usual overview on most recent market trends and more details on the 2024 expectations. Most recent market trends underlines for hydraulic a continuation of the trend seen until now, stagnation and normalization.

Hopefully in the next month visibility should improve because the comparison effect should become easier and therefore it will be easier to understand the real market trends. For Water Jetting, not only an ongoing trend, but also an acceleration in terms of sales and moreover backlog.

Turn to the last final and perhaps most awaited topic, 2024 expectations, I anticipated in my introduction that the second quarter trends were in line with the first quarter ones. The consistent and steady growth of Water Jetting, the start of the normalization process of the hydraulics market application, which in the last part of '23 was still growing, and unfortunately a stagnation instead of a recovery of hydraulics market application, which entered in the normalization phase more or less one year ago. This pushes us, realistically, to update our sales expectations.

Instead of an organic sales evolution between 0% and minus 6%, now we are expecting a nice single-digit decline. Accordingly, we are updating our profitability expectation as well. Instead of an EBITDA margin of around 23.5%, we are now expecting something around 23%. The definition of sales guidance was as much as true and careful as possible.

According to information available until today and the following sensitivity exercise on profitability was even stricter and more accurate because this is crucial to correctly fine-tune our operation and therefore protect profitability. And as you know, protecting profitability is one of the 2 fundamental targets of 2024 we aim to deliver this year. The other one is to increase cash flow generation, whose first commitment was taken exactly 2 years ago, when sales were booming.

Quarter-on-quarter, we deliver it, and we are confident that for this aspect, the best has yet to come.

E. CUGNASCA: Thank you very much. We are at your disposal for any questions. Thank you.

Q&A

OPERATOR: Thank you. 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 the 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 of Kepler Cheuvreux. Please go ahead.

M. BONIZZONI: Thank you. Good afternoon. I will ask 3 questions. The first one relates to your new margin guidance, because I think that the top-line guidance is more or less, I would say, in line with what I was assuming in my preview. But the margin guidance, I have some questions, because I think, in my view, could still be not aggressive, but I would like to understand. This is the question. The first time, the margin was down on a clean basis, so excluding the refund on IMM, 120 basis points year-on-year. In the second half of the

last year, the margin also was down from 24.2% to 23%, so 110 basis points year-on-year.

Last year, for the second half, the margin was 22.9%, but in the second half, you are going to face, as you said, several percentage points of declining organically, so still a declining sales. I wonder...so the new guidance seems to imply that you are going to stabilize the margin in second half this year, more or less in line with the second half of the last year, which would be, in my view, a very good result and achievement. So can you a little bit provide more color on, I don't know, cost cutting or some, on this comparison. So to keep a flat margin in the second half despite several percentage points of organic decline. This is the question.

The second question is regarding, can you provide maybe organic growth outlook for the 2 divisions? First half, hydraulic was down at 12.9%. I assume that the full year could be down not much less, maybe 10% or so. Water Jetting was up, but I mean 1.1%. Do you expect a positive organic in a full year for Water Jetting? It seems so from the commentary we should read on the order intake.

And the last one is on the trade working capital. It's true that you generated positive free cash flow in the first half. This positive free cash flow saw a definite improvement compared to last year, but this positive free cash flow was €80 million and you generated more than €120 million of net profit. So, if you look at the net trade working capital, in reality, I was looking at June this year versus June last year is flat, while your revenues were down more than 7%. As a result, the ratio between trade working capital and sales grew from 38% to 41%. So, there was, on this ratio, a 3 percentage point of deterioration. Can you comment a little bit on this trade working capital figure, and do you have measures to further improve trade working capital in the second half? Thanks.

F. MARASI:

Thank you, Matteo. A lot of interesting questions. I hope to have taken enough notes. Regarding the new margin guidance for the year, around 23%,

I understand your comments and I believe that it's very important to consider what happened in the second part of last year and in particular what happened in the fourth quarter and in the month of December mainly. We commented in February when we commented the full year '23 results, how tough and how severe has been the decrease in demand, the postponement of orders, of the order cancellation, that caught us by surprise and that had significantly negative impact because we didn't have enough time to put in place countermeasures. And we believe, we are confident that in the second part of this year we will be in a much better shape, we will be much more prepared to face the headwinds that the market are giving us right now.

And then we are entering, or we have entered the second part of this year with all the countermeasures and all the prudence that this tough commercial situation deserves. This is the reason; this is the main reason why we believe that we will be able to close the full year with a very satisfactory profitability despite a tough topline evolution. This is the main reason of competence for the 23%.

Regarding the growth by division of the results...division for the second of the year, I can assume that the trend that we've seen in the first part will continue in the second part. I mean double-digit decrease for hydraulics and a positive organic growth for Water Jetting. I am not seeing differences or I am not seeing any reversal in this trend in the short term.

Regarding the trade working capital and free cash flow generation, your comments are correct, as you did in the right month. In the short term, the incidence of the net working capital, the trade working capital on sales is increasing despite the decrease in absolute value, because of the stronger decrease in sales. But I still believe that we will have the possibility to normalize this ratio, to normalize the net working capital on sales. Going back to the pre-COVID number that were 35%, 36%, once we will have absorbed the normalization effect and the short-term reduction in sales that we are experiencing right now. But the good news is that we are on the right track in order to generate additional cash flow from net working capital from

the reduction of the inventories and in particular from the reduction in receivables are linked to the reduction in sales.

M. BONIZZONI: Thank you.

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

A. TORTORA: Yes, I have 2 questions from my side. The first question, Fabio, if you can back a little bit on the profitability of the Water Jetting. So...and this will be for...okay we shouldn't say judge the profitability quarter-on-quarter, but can you help us understand a possible trend okay, for sure, the second half of this year if you see the possibility to better manage inefficiencies that you mentioned before. And having said that, if we move a little bit forward, let's say, to next year also considering that you mentioned the ongoing Waikato restructuring and the improvement. Can you...are there any specific and special reason why this division cannot come back clearly dealing with also this higher portion of system, but are there any structural reason why we shouldn't see for instance next year profitability for the Water Jetting at least coming back to the 27% area. That's the first question. Thanks.

F. MARASI: Okay. I once again reiterate my opinion that quarterly or monthly results are not really significant, in particular whenever you are dealing with project. And then I believe that we've been once again very transparent and very realistic in commenting that we've been disappointed by the 100 basis point organic decrease in Water Jetting EBITDA margin in the second quarter. But this 100 basis point decrease is absolutely not a structural change or should not be assumed as a structural change in the profitability or on the organization and what we should expect for this fantastic division.

And then apart from the quarterly up and downs and considering the organic growth in sales, the very good evolution of the order backlog and the expected growth in the second part of this year and it is only to comment but

hopefully also next year, we are very confident that we can achieve again the 27% that we've achieved in the previous 2 or 3 years.

I am not absolutely concerned. It is clear that Waikato restructuring is diluting the short-term profitability, but being Waikato our new acquisition and a project that we are working on, I am confident that we will enjoy good results and improvement also for this company. But overall, what is important to comment and to consider is the global trends and the global outlook for the entire division. That is absolutely positive, both in the pure Water Jetting and in the planning space.

A. TORTORA: Okay. Thanks Fabio. And then the second question is on...you mentioned before that some end markets like the agricultural construction, they say are clearly the worst performing this year. Is that the possibility for you or for instance are you already...this is basically a sector looking at the produce of equipment currently in a sort of under production and probably there will be another production also for the second part of this year. The question is, are they starting to have an expectation for instance next year considering that probably the second half of this year, the focus will be aligning everyone the stocks say you sell out. So the question is, are there any clients or let's say, in the Ag already sharing a plus sign for 2025?

F. MARASI: Yes, the demand is clear. It is too early for commenting or for sharing 2025 expectation, because this is something that is usually made in September. Then when we will be back from vacation at the end of August and early in September, we will have an already organized and planned tour [technical difficulty] the most important customer in order to share and to discuss next year's expectations. For the remaining part of this year, the outlook is for difficult situation like we've in the first and the second quarter. We are hearing comments regarding the normalization in inventories in the value chain that sooner or later should reach the correct level, but it's too early to comment on 2025. It's something that we will be able to comment when we will speak in November.

A. TORTORA: Okay. That's it from me.

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

D. GHILOTTI: Good afternoon. A few questions from my side. The first is on the hydraulic performance and guidance for the full year. So you are saying okay, double-digit more or less continuing also for the full year. So you are not counting on any easy comp. So not even in Q4 when we saw a decline so is a matter of prudence given the low visibility on Q4 or you are seeing also some segments that are still deteriorating. And follow-up on this is...because you were mentioning that dealers adaptors are still on a positive path, and so is something that you are expecting also for the second half or is impossible to say.

Second question is on the backlog and order intake for hydraulics. I know that is less relevant but maybe just to understand what is the order flow and your clients, and if you are now back to a normal duration for your backlog, or even below normal?

And third on the M&A in general. So the question...typical question on what is the pipeline today? And the very last on the strategic guidance you provided a few years ago that were pointing to €2.6 billion sales by 2025 how should we look at this strategic goal now?

F. MARASI: Okay. Regarding the hydraulics guidance for the second part of the year, it is clear that, we will have an easy comparison, because many applications were already done in the second part of last year. But apart the easy comp, we will have also a difficult market, and then the difficulties that we've seen in the first half of the year are continuing also in the second part. And then, for this reason, we are not factoring any significant improvement in the hydraulics top line evolution for the second part of the year generally speaking.

We have given you some color regarding different trends also within hydraulics, because, for example, adapters of industrial vehicles, that is a major application for our hydraulic division, is going pretty well, both in Europe and in the United States. And this is continuing, and what we expect is the counterbalancing of a tougher end market, I mean, in particular to agriculture, construction and their moving machines.

In terms of...moving to your second question. I mean,, backlog, it is clear that hydraulics backlog is significantly down in comparison with last year, around 40% less in absolute terms in comparison with last year. In terms of visibility, if we make an average calculation, today, we have an average coverage that is around 4, 5 months. We touched, as you know, 12-14, months, at the peak in 2022, and in the pre-COVID year, we had around 3 months. Then we are back to normal. In reality, we also have something more. But, having been used to one year visibility, it is clear that today we are commenting about far shorter...time frame for shorter visibility.

Regarding M&A, we are absolutely progressing on our strategy and on our willingness to go ahead with this, because we see opportunities. I've already commented why we see a better environment in '24, and in '25 because of internal reason and market reason. And both of these reasons are confirmed, and then I'm pretty positive with mid-term [ph] perspective for other M&A opportunities for other acquisition, the number of dossiers the number of discussion underway is satisfactory.

Regarding next year targets €2.6 billion that, we issued in terms of sales that we shared 2 years ago. It is clear that, if we will not be able to realize very significant acquisition, this target will not be possible to be reached. It's still too early to comment on 2025 organic evolution, but on a mechanical point of view, if we consider the expected sales for 2021...2024, and the normal growth by bracket, but we see for '25 only a measure or a very significant acquisition can bring us to €2.6 billion in terms of sales.



D. GHILOTTI: So should we expect at some point you will give us an update on the strategic guidance, factoring in the 2023-2024 market trends?

F. MARASI: Yes, I believe that we will update this plan or the 3 year guidance in February, 2025 like we are doing every year or every time.

D. GHILOTTI: Okay. Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "\*" and "1" on your telephone. The next question is from Bruno Permutti of Intesa Sanpaolo. Please go ahead. Mr. Permutti your line is open. Maybe, you are...

B. PERMUTTI: Yes, sorry I was in mute. Good afternoon, everyone. I have 2 questions, the first one concerns the Water Jetting business in the second half of the year. We saw that there was an improvement in the organic growth in the second quarter. So I would like to understand, what are you seeing for the second half in terms of organic if you believe that there will be a further acceleration in the third and fourth quarter or if you believe that this is the speed at, which the business will go in the second half?

And the second concerning the capital expenditure, if you will, reduce your capital expenditure in the second half of the year versus the first half is this a correct assumption. So, more or less closing the year with €121 million €30 million.

F. MARASI: Okay. Regarding your first question, I mean the Water Jetting expectation for the second half of the year. I confirm that, we have positive expectation. I don't have and I don't want to share a precise target, because being a business that is partially exposed to project business is difficult to comment on short period of time. But generally speaking, we expect that this positive trend that, we have already seen in the first half, will continue in the second half. And we expect a further positive evolution, also because of the very good backlog that we can count on. The current backlog is 20% above the

last year backlog that was already a good one, and the business discussion with customers are progressing very well.

Regarding CAPEX we have commented that the last important extraordinary project is the Interpump hydraulics one in Bologna. And this is underway, is well in progress, and I believe that, we can be able to stay within the range we've already shared for the year, that was between €100 million and €130 million in terms of cash out.

B. PERMUTTI: Thank you.

OPERATOR: The next question is from Fraser Donlon of Berenberg. Please go ahead.

F. DONLON: Yes, hi, thanks. This is Fraser from Berenberg. I have got 4 questions. So, the first, I wondered if you can maybe just comment on the assumptions you built for Europe versus US in hydraulics for the second half?

The second question also on hydraulics. Do you see any kind of price pressure in that market, how competitive is it proving given the weak demand?

The third question was on inventory. So I think it is increased a little bit in Q2 versus Q1, and is there a kind of target you could share in terms of where you think you could land that number in the year-end?

And then the final question was on Alfa Valvole. It looks like the company wasn't growing so much since when IDEX first acquired it today. So, obviously that means you're paying a lot less than they did for the asset, but I just wondered if there was anything structural or any like particular challenges [technical difficulty] in the past? Thank you.

F. MARASI: Thank you, Fraser. Regarding the hydraulics outlook in US specifically. What we are expecting is a little bit of a worsening of the market demand in the second part of the year because so far this year, the US market is the one

that behaved in the best way. We are experiencing stronger headwinds and a more negative evolution and a more significant decrease in sales in Europe or in other regions in the world while in the first half of the year, US has been performing pretty well in terms of demand. And this is the reason why considering also the election, considering also the general outlook of the economy, we are all a little bit more prudent for the second half of the year if we make reference to the US market.

Regarding pricing, we have had a lot of discussion with our customer regarding price adjustment or price reduction, but in reality we are not giving back a lot, because if it is true that we are seeing a reduction in costs of raw material. We are also seeing and everybody in the market is seeing an increase in the cost of labor because of the catch-up of the labor costs to the inflation. And then overall, we are giving back something, but when I say something is 0.5% or 1%, we have removed some surcharge here and there whenever it was applied, but we are not structurally reviewing our price structure or our price limit. And luckily once again, our most important competitors are behaving in the same way.

Regarding inventories, I don't have all the details in front of me, but I believe that the increase in absolute terms in the second half...in the second quarter of the year is explained by the different perimeter, and in particular by the add-on of the inventory of Alfa Valvole [ph] not because of the inventory increase on a like-for-like basis.

The fourth question was about Alfa Valvole. You're correct. Alfa Valvole topline has been pretty stable in the last few years. The company has always been performing very well in terms of EBITDA margin, but has not been [ph] very aggressive or very active in terms of business development and commercial action. Also because in term competition with other companies of the previous owner, and this is the reason why I also commented in my previous notes, in my previous speech that Alfa Valvole has almost no business in the United States, because United States was a market that was covered by other companies within the IDEX group. This is one of the

reasons why we are confident that we will be able to make Alfa Valvole bigger and more successful in the mid-term evolution or in the mid-term output.

F. DONLON: Thank you.

E. CUGNASCA: Going back to your question on inventory. If you go on Slide 9 of the presentation. I mean, you asked on second quarter basis, but on Slide 9, you will see some information on full year...on first half basis, but in any case could be helpful for you. You see that on constant perimeter the inventory decreased by more or less 3% and this is taking into account all the 6 months period and at constant perimeter.

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

M. BALDELLI: Hi, good afternoon to everybody. Yes, a question probably it's more reasoning that I just wanted to cross-check with you. The previous guidance was implicitly, if I am not wrong, but please correct me if I am wrong. So, implicitly pointing to our low end of minus 5% which meant minus 6% something minus 6.5%, let's say, organic. The current trend that we have seen in H1 is around minus 9.3% minus 9.5%. So, if you change the wording of the guidance, and basically I assume that there was a kind of change to that guidance otherwise I would have assumed that you would have just pointed to the low end of the guidance. The new guidance to me points to something between minus 7% to minus 9%. Do you have any comment on it or color to add?

F. MARASI: The previous guidance range from an organic point of view wherefore a 0% to minus 6% and decrease in the full year. Then the midpoint of the previous guidance was minus 3%. Today, with an high single-digit decrease, we are worsening our expectation for the year, because high single-digit is minus 7%, minus 6%, minus 8%. This is the main difference in terms of topline evolution and expectation.

M. BALDELLI: Okay, that's it. Thank you very much. And just as a follow-up, if you can remind us what is raw material most bought by the group and how much does it weight on the total costs of raw materials?

F. MARASI: We have a very widespread range of raw materials. It is clear that we are using almost everything that is available, but the most important one is cast iron. Cast iron represent less than 10% of our sales, if we consider the purchasing value, but it is the most important...the most relevant one, but we have everything from brass to aluminum, everything else, but the cast iron is very important.

M. BALDELLI: Okay. That's it. Thank you very much.

E. CUGNASCA: We were aware that there could be a sort of misunderstanding between our guidance of the first quarter and the guidance of today, and exactly for this reason, if you go on Slide 18 of the presentation, you will see how we build the guidance. In this way, you have the same information as of the first quarter and therefore you will be able to make a fair comparison between the organic part of the guidance and the acquisition part of the guidance.

M. BALDELLI: Okay, thank you very much.

E. CUGNASCA: You're welcome.

OPERATOR: Once again, if you wish to ask a question, please press "\*" and "1" on your telephone. For any further questions, please press "\*" and "1" on your telephone. There are no more questions registered at this time.

E. CUGNASCA: Okay. Thank you very much for your patience and for being with us in the starting of August this late. We hope to see...we hope that all of you have a nice summer and we will see again in November. Thank you very much.