Interpump Group S.p.A.

4QYTD2024 Results Conference Call

Friday 14th February 2025

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Interpump Fourth 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 Elisabetta Cugnasca, Head of IR. 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 fourth quarter 2024 financial results conference call. As usual, I must draw your attention to the disclaimer slide inserted into the annex part of the presentation that I hope you were able to download from our website.

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

F. MARASI: Thank you, Ms. Cugnasca, and thanks to all of you for joining our call. In every quarter of last year, I started my speeches with numbers, and I will continue today on the same path with the 3 most important numbers, 2 related to the past, our free cash flow of €205 million and an EBITDA margin of 22%. And one for the future, an organic sales guidance for this year between minus 5% and plus 1%.

I will start with the first number, our free cash flow of €205 million. This is a new group record after the previous one reached in 2020. It's always nice to improve and to reach new records. But what makes us particularly proud is that once again, Interpump demonstrated its capability to exploit cash in adverse market conditions. We can absolutely recall 2009, 2020 and 2024 as the annual rebillies of our group in terms of organic sales performance. And exactly in these years, we were able to maximize cash flow. Having demonstrated an inverse correlation between sales momentum and free cash flow generation, a sort of natural hedging. This achievement reflects the proactive approach in terms of trade working capital management, the flexibility of our CAPEX and the resilience of our EBITDA.

Second number, an EBITDA margin of 22%. Group profitability guideline is exactly this number, even if you probably associate it more to acquisitions, dilution than to organic development. Even if this number is a bit lower compared to our expectation for 2024 and in a few minutes, I will share with you the reasons, I would like to widen the time horizon.

Immediately before COVID, we overcome 23% that was lowered to 22.7% in 2020 by COVID impact and the minimal dilution effect coming from Reggiana Riduttori and Transtecno acquisitions. COVID rebound in 2021 made us reach 23.7%, which we were able to confirm in 2022 despite huge inflationary trends and the material dilution effect coming from wide acquisition. Then in 2023, we reached 24%, even with the help of the positive one-off, which meant 40 basis points.

In 2024, notwithstanding an organic sales drop of 9%, we were able to maintain 22% EBITDA margin and protect our profitability. In these 6 years characterized by a business volatility we never faced in our history, we consistently succeeded in minimizing the impact of this volatility, having confirmed a profitability range between 22% and 23.6%, a level of excellence in our sector and moreover, for a group where many companies are integrated from an operational point of view. Therefore, we are proud to consistently deliver over time, profitability resilience in an environment of sales that is significant volatility...this is showing significant volatility.

Third number, the sales guidance for 2025 that is between minus 5% and plus 1%. Exactly 1 year ago, we communicated a conservative realistic outlook based on 3 assumptions. Unfortunately, a few months later, one out of 3 did not materialize. And therefore, what we believed was a realistic outlook turned out to be a too optimistic one. This year, we would like to avoid this situation, and therefore, we are sharing with you today a gloomy but realistic outlook, which is based on 2 assumptions.

A consistent strength of the Water-Jetting division and the persistent weakness of the Hydraulics division. This is the starting point, and this is what we will see, especially in the first part of the year, during which the performance difference between the 2 divisions will be amplified. In such weakness, stagnation of the curve bottom in other words of the Hydraulics division will gradually improve. Hopefully, at the end of the year, we may even reach the positive sign.

After the overview of the full year, let's focus now on more details on the latest evolution of the most important financial KPIs and topics for the group, sales, EBITDA and cash generation. In the fourth quarter, sales decreased by almost 6% in total and by almost 8% organically, therefore, without material improvement compared to 2024 previous quarters. Once again, the significant differences in terms of performance between group divisions were confirmed. Organically, Hydraulics sales decreased by around 14% on an organic basis, while sales of the Water-Jetting division increased by more than 7%.

In the Hydraulics business, the perfect storm, I mentioned you many times this year, keeps going on even if with a different wind intensity. In the last quarter of 2024, from one side, adapters of industrial vehicle, the most important market application for us, turned to be positive with a sales growth above 2%, while agriculture and lift decrease halved. The reduction is still double-digit, but more close to 10% and not above 20%, such as in the previous quarters. From the other side, generic dealers, earthmoving machine and construction are still stagnating at the bottom.

From the perfect storm to the blue sky, the Water-Jetting division, its strength was confirmed, having reflect overall the late cycle nature of this business, and in details the strength of some specific product categories as revenue for projects and pressure pumps.

Again, in terms of products, last remark on Water-Jetting, spare parts in the fourth quarter recorded a growth close to double-digit, and this is a consistent and pleasant signal and support. It's consistent because sales of spare parts always follows the sales of a complete system and revenues for projects. And it is pleasant because, of course, this is the most profitable product category in the business.

Moving to EBITDA and starting from the Hydraulics division, whose performance is at the first glance, extremely disappointing due to a drop on an organic basis of profitability of more than 30% compared to a decrease of sales of around 14%? My first glance expression is correlated to the fact that Hydraulics EBITDA was negatively impacted by the inventory adjustment, which are always performed at the year-end.

The consistent relevant drop of turnover during all the year suggested us to be even more rigorous than usual and obviously this penalized fourth quarter performance compared to the ones of the other quarters of 2024. You know very well that for us, there is only one EBITDA, the reported one, but I believe that this is important to mention you this aspect to underline and praise the consistent and effective activities our colleagues of operations are implementing to protect profitability.

I would like to assure you that without these accounting adjustments, the negative flow would have not been dissimilar to the one shown in the third quarter. What is consistent with the previous quarters in terms of performance of the Water-Jetting division?

Finally, we are seeing both the dilution impact of the acquisition becoming weaker-and-weaker, and the increasing capability to manage business inefficiencies from an organic point of view. I anticipated in August that some of these inefficiencies were temporary. The transfer of Inoxpa facility in India is done and operations are now fully on track. And moreover, we were able to minimize the ones correlated to the sales mix of the booming demand. I would like to say a few words about this aspect because question you asked us in the recent months made us understand that our explanations were probably not adequate.

Sales mix. Complete system and orders made for projects are complex and integrated products, not a single pressure pump, but for example, a complete direct system, which we produced from one side using our third-parties raw materials and components, and from the other, following more complex and less standardized procedures. Therefore, they could have a proportionally lower profitability.

Booming demand, the demand we have been facing in these quarters is perhaps the strongest we have been facing in the last 10 years. I'm obviously excluding the distortion of 2021, and somehow caught us by surprise in terms of volumes and time concentration. We had to change labor shift. We had to move colleagues from one specialized process to another and perhaps less familiar. We had to hire new colleagues and trade them as fast as possible, and we had to find additional specialized third-party suppliers, which in comparison to the Hydraulics division are fewer.

Our effort to minimize these inefficiencies is constant. Unfortunately, the results of these efforts were not. The dilution of only 20 basis points on an organic basis in the fourth quarter '24 compared to a sales increase of more than 7% is a clear indication that we are on the right path. It's important not to deviate. I already anticipated you the general explanation of cash generation. Now let's focus on its different components, trade working capital, CAPEX and acquisitions.

Trade Working Capital, we took the commitment to gradually go back to our 35%, 36% range in terms of incidence on net sales in summer '22. In '23, we went down from 39.5% to 38% and recorded a lower absorption from trade working capital of almost €170 million, but we were speaking about a lower absorption. This year, vice versa, we are speaking of a real cash generation of around €60 million. But unfortunately, the incidence on net sales went up again, even higher in comparison with the 39.5% of 2022 due to the distortion effect originated by a huge turnover drop. This does not mean that the normalization process we promised is stopped. It's simply slowing down, and we know exactly on which trade working capital components to focus.

As a matter of fact, trade receivable and trade payable evolution was consistent with sales evolution, while inventory decrease was much lower. This is not a surprise. Obviously, it is more difficult to adapt the inventory in a scenario in which sales are decreasing in comparison with receivable, especially to a sales decrease of this magnitude.

On top of this, to be fair, it's important to underline that the beginning of 2024, we were expecting sales to recover in the second part of the year. And therefore, our efforts to a proactively manage inventory became more intense only when we realized that the recovery would have not been materialized.

Summarizing, due to satisfactory work done on payable and the possibility to further improve on inventories, our normalization commitment is absolutely confirmed.

Moving to CAPEX. More noticeable and evident is the CAPEX normalization process. CAPEX was in line with budget. The total amount went down in absolute terms by around 20% and from 7.3% to 6% as incidence on net sales. Obviously, this KPI would have been even below 6% if sales would have been in line with budget.

In the presentation of the quarterly results, you will find some updating on the new Interpump Hydraulics headquarter in Bologna. Relocation is going accordingly to the plan. New machines were delivered, shipping and PTOs assemblies department were already moved, and more than 70 employees are firmly and already working there. Transfer of production should be completed between spring and summer start, and we are doing our best to protect operations continuity and minimize inefficiency.

We inserted some images of the new Inoxpa India headquarter to point out 2 aspects. The first one is related specifically to Inoxpa. The Spanish and the Indian production center were the most important factories of the leader of our Flow Process division. And this recent investment of a few million euros, both factories, technological excellence is spread on both continents.

Then the second one is correlated with the entire Water-Jetting division to which we dedicated more resources compared to the most recent years. This is because of 2 of the most important division companies and in particular, Inoxpa and Hammelmann needed more production capacity, both in terms of space and equipment. I just mentioned new Inoxpa expansion in India. For Hammelmann, we are speaking of additional 5,000 square meters and equipment to follow-up on the process pump market demand.

Final remarks on CAPEX, normalization process we promised is absolutely under delivery and will go on due to the fact that for 2025, we are expecting a further reduction in terms of absolute amount similar to 2024. Acquisitions, since during previous calls, I give you an overview on each acquisition.

Now I would like to make a short summary. We made transaction with a perfect fit with the group growth and diversification strategy, strengthening of group's global network and the completion of group product catalog. In total, almost €70 million in total turnover, an average profitability above 20% and price paid that is consistent with our benchmark and targets.

Acquisitions target spread all over the world from China to Brazil being stopped in UK and Italy. We are an Italian Group because we were founded and we are headquartered in Italy and our first steps were done here. But after many strategic acquisitions execute where the technological excellence is present, we are a global group, which is assessing and executing market opportunities globally.

Again, the crucial elements of choice are technological excellence fit with the group strategy in respect of our M&A criteria. This is what we are looking for, both when the market is down or up and independently from the relative position between buyers and sellers and industrial and financial sellers.

Short updating on the most recent and important acquisition, Alfa Valvole. After less than 1 year, we are very pleased to confirm that our expectations were met, even exceeded. The top management embraced the group philosophy and managerial approach and profitability is confirmed at excellence level.

White Drive, our past acquisition, but important for what it meant for our group and moreover, for the difficulties faced by the company during the last 12-18 months. In fact, White is the group company most affected by the normalization phase of the agriculture sector, with an extremely severe drop in terms of turnover.

Our judgment is mixed. We are pleased by managerial approach, the focus on the productiveness of the Polish branch, which was able to deliver even in 2024, a good level of profitability. We are not pleased by the US branch, even if to be fair, this branch was more disrupted, especially in terms of operation by the carve-out activities from Danfoss.

To improve this situation, starting from January this year, the CEO of Muncie Power Products, who did a fantastic job there, became responsible of White Drive Group and with a particular focus on US, responding directly to me.

Waikato, a past and perceived important acquisition. I confirm what I anticipated to you last November. Profitability improvements are following cash generation improvement. The company is ready to fully benefit from market recovery that seems closed and the restructuring process that we have undertaken in the first year after the acquisition.

To conclude on acquisitions, I deserve updating on our 2023-2025 Business Plan, where acquisitions are playing an important role. It's undeniable that a

9% organic growth drop of turnover could be balanced only by a relevant acquisition or a series of medium-large ones. We are, of course, ready to catch any opportunity also considering that usually in difficult market situation, opportunities arise more often as Hidrover shows. But we are not going to compromise on what we are looking for, technological excellence fit with group strategy in respect of our M&A criteria. Delivering 2023-2025 Business Plan is one of our goals. We are aware that now is more difficult to achieve this target compared to 1 year ago, but it's our managerial duty to keep working on it.

Let me now hand over to Ms. Cugnasca, who will bring you up to-date on Group ESG plan before the usual overview on most recent market trends and more details on the 2025 expectations.

E. CUGNASCA: After last November updating, we went on working to deliver pending 2024 action E7 product eco-design, S1 injury rate improvement and S6 ESG supply chain evaluation model extension to all Italian manufacturers entities. We already announced the achievement of E7 and S6 action and today we will not bother you with details of them as they are available on the website dedicated presentation.

S1 action is still pending. We are collecting data from the few companies, which are lagging behind. We have been working a lot on these 2 years and we are reasonably confident that this work will bear fruit.

Due to the fact that delivery of the 2024 action marks the conclusion of the ESG Foundation phase of the journey and the start of the lead one, I would like to underline some important thoughts coming from these 2 years of intense work.

Each action approved indeed to draw to a real group improvement, reflecting the concrete approach of our first ESG plan. Group corporate function led the way in many actions, from product eco-design to ESG supply chain evaluation model extension. And this is a very small but important change for our group which has decentralized organization model from an operational point of view.

We were not intimidated to address, as soon as we had the opportunity, important in governance improvements, having followed the natural path of group governance activity. And on these improvements, I would suggest to broaden the scope. We established the ESG Board Committee and we formalized the succession plan, specific action of group ESG journey. But in the meantime, we made important improvements to our remuneration strategy, from the 2022-2024 long-term incentive plan the first and then the second part of group remuneration policy.

These improvements were gradual, but steady and consistent, and steady and consistently we will go on in 2025 with a new long-term incentive plan and the 2024 remuneration policy. We already start to work not only on 2025 action, but on the new milestone of our ESG journey.

In term of 2025 action, we already delivered S4 action, the Global Mobility Program, and the signature of the Corporate Power Purchase Agreement last November was an important step for E2 and E3 action, carbon intensity reduction and increase of renewable energy consumption respectively.

The Corporate Purchase Power Agreement is another example of a project driven by the corporate instruction, which allow 5 of the most important group companies, EMM, Interpump Group, Interpump Hydraulics, Reggiana Riduttori and Valvole, to leverage on the entire group strength.

In terms of the new milestone of Group ESG Journey 2026-2028 ESG Plan, activities performed in these 2 years on different topics…on different specific actions gave us suggestions on how to develop and improve further. We closed the first phase of our Group ESG journey, we are entering the second phase and we are envisaging future next steps too. We are proud of what we achieved in these 2 years. We are pleased by the compliments we are receiving by many investors on our progress, and we welcome additional feedback. In 2022, we start a journey which we intend to develop further and further to improve and strengthen our group.

F. MARASI: Thanks, Ms. Cugnasca. Now the usual overview on most recent market trends and future expectations. 2025 start is overall confirming 2024 trends with a strong Water-Jetting performance and a weak Hydraulics one. To be more precise, in the Hydraulics division, we are seeing the same wins of the fourth quarter with the stabilization at the bottom, with only marginal improvements here and there. This is reflected by our backlog too.

This is a business reading of Hydraulic evolution, which excludes the misleading effects of 2 activities that we started during Christmas vacation to leverage on factory closing [ph] to minimize operations disruption, the closure of Valvole headquarters in Italy for 2 weeks for the implementation of the new ERP and the ongoing transfer of the Interpump Hydraulics new headquarters in Bologna that I already mentioned to you.

2025 expectation as I already anticipated you, the main assumptions of the full year is for a consistent strength of the Water-Jetting division and a persistent weakness of the oil division. To be more precise, this latter weakness is not to be considered as further deterioration, but more stabilization at these lower levels with only marginal improvement.

In terms of temporal evolution, the most difficult period should be exactly this first part of the year. In any case, after the disappointment of last year, we would like not to reason in terms of comparison basis, but at this stage on sequential improvements.

The second most important goal for 2025 is to protect profitability resilience that we built and achieved in these years. And exactly for this reason, we will leverage our business model flexibility to be ready to face the worst and therefore eventually benefit from the best.

On this topic, we would like to be fair and transparent. If we exclude the fourth quarter, in 2024 we did a remarkable job in minimizing the negative flow through of hydraulic sales organic drop, but this would be more difficult in 2025 if there will be a decrease of the same magnitude.

Our third goal, please do not misunderstand me, I am simply making a list, not giving priority, is to consolidate and potentially further improve the cash flow generation. This should be easier, even if by definition nothing is easy, because CAPEX normalization process will go on and in the meantime we are addressing properly inventories.

Before giving the floor to your questions, I would like to conclude my overview on 2024 and 2025 start, underlying again, which are in our view, the most important elements to recall.

In the second most difficult year of inventory with the sales organic decrease of 9%, we delivered the best results in terms of cash flow generation and we confirm the resilience of our profitability at excellent levels. We aimed at hard work to perform even better, but as CEO of an industrial manufacturing group, I'm very proud of the activities performed by all my colleagues all around the world.

We delivered our growth path with acquisitions which perfectly fits with our milestones and targets. Technological excellence fit with group strategy and respect of our M&A criteria. At this stage, 2025 could not be defined yet as a better year compared to 2024. For sure, it could be defined as a year of operative consolidation and M&A, during which we will keep in mind 3 words, growth path, profitability, and cash flow generation. Thank you.

Q&A

OPERATOR: 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 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.

E. CUGNASCA: Before the question, please, may I ask everybody to make one question at one stage, please?

M. BONIZZONI: Yes, thank you very much. Thank you, Elisabetta. Thank you, Fabio. The stock is now over 10% down. I think it's due to the margin mix…the big margin mix which we had in Hydraulics in Q4. So, the question is the following one. The margin in Hydraulic is Q4, which was only 15.2% so down significantly compared to both 9 months and the last year is particularly difficult to understand and put in the context because the sales in the same division were in line with expectation. You provided a 22.5% to 23% margin guidance mid-November and we have now delivered 22.0%. 50 basis points less in a single quarter is pretty sizable because it means over 200 basis points missed in Q4, okay. And when you provided the guidance mid-November, you had already in the pocket half of the quarter. So I imagine…we imagine that something surprising is bad happened from mid-November to end of December. I said, the margin mix is entirely in Hydraulics, and this 700 basis points below the 9 months, and also 400 basis points below Q4 last year, which was already as we know penalized by the well-known disruption which affected December 23?

To summarize, we need to understand and I don't think Fabio that you tackled this issue during your speech. What are the reasons for this big margin miss in Hydraulics in a situation in which the top line was back in line with expectation? And also, can you elaborate maybe what...is the sub segment or subsidiary of the division, which was responsible for this miss, maybe is a White Drive or maybe something else. So the question is, can you provide a little bit more color to understand this margin mix in presence of revenues in line with consensus? Thanks.

F. MARASI: Yes, thank you Matteo. I agree with you that this is the most important element of the fourth quarter that has to be understood and maybe better colored or better explained on our side. I touched in my speech the impact that characterized the fourth quarter, the impact of the stock evaluation, the slow-moving effect, the auditor's discussion that is made at year end and that was not characterized in the previous 3 quarters.

Considering how significant has been the drop in sales that characterize Hydraulics? You have to consider that all the KPIs, the rotation of the inventories, the slow moving analysis was significantly affected. Was significantly affected and characterized entirely the Hydraulic division. Of course, this issue is not characterizing Water-Jetting because sales were going up and we had normal evaluation processes. But when sales are going up double-digit with a very significant number, the slow-moving indicators and all the analysis has to be carried on, taking into account the new ration and the new KPIs. And this is what particularly affected the Hydraulic division in the fourth quarter. As commented in the speech, for us, there is only one EBITDA, and then we are not adjusting. We are not excluding this impact because this is part of the business, but for sure this is not an ordinary or an operating effect or impact.

Regarding the companies that were affected the most, for sure, White Drive, but not only White Drive, are the ones that are explaining this difference, because it's the entire mobile Hydraulics world everything that goes with application in agriculture, and moving machine, construction, and so on, that was severely penalized, was severely affected in 2024. And then of course, White Drive is the company that is the most exposed to agriculture in particular, but also construction, and was the company that was characterized by the biggest impact in the reevaluation of the stock and inventories.

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

D. GHILOTTI: Good afternoon. My question is on the outlook in the sense that you have indicated a top line starting in the first half very weak, similar to Q4. So I understand double-digit decline in Hydraulic. And despite this, you are commenting about some kind of normalization. So I don't understand what do you mean for normalization? And what can be sort of the outlook on the profitability side, because I understood that will not be so easy, say it will be more difficult to manage profitability in 2025 compared to 2024?

F. MARASI: Our outlook is for the whole company, then plus 1, minus 5 is on a consolidated level and an organic basis. We are commenting that we are still seeing the same trends that we have seen in 2024, then with a strong or relatively strong Water-Jetting and a weak Hydrolysis division. This is what is happening in this first part of the year, and this is what we expect even with a slower or a smaller difference in the next few quarters or during the year. Then to be more detailed, we expect a positive evolution on Water-Jetting and a more difficult evolution on Hydraulics.

Regarding margin protection, of course, protection in a difficult scenario is our first and most important goal. It depends where the sales will develop if it will be plus 1% is one thing, and it will be easier to protect profitability. If the sales will be down 5% organically, of course, it will be tougher to protect this level of profitability.

D. GHILOTTI: But in the Water-Jetting, just to clarify, is on the Water-Jetting if there is a, let's say, top line growth, we should not expect, given the comment that you gave on the system…the complete system, we should not expect significant operating leverage?

FABIO MARASI: We do not have huge operating leverage, in particular in this part of the Water-Jetting, but of course we are very, very pleased, of this very good momentum of the Water-Jetting, considering also how profitable this division is. And then I'm not concerned about profitability of Water-Jetting in general, in particular in an environment in which we are seeing a record high order intake, and we are seeing a very positive momentum, both for component sales and for project sales.

D. GHILOTTI: Okay. I will maybe follow up later.

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

A. TORTORA: Yes. Hi, good afternoon to everybody. The question is on the profitability, touching let's say both division. The question is, Fabio, first of all, if you can comment a little bit on the dimension before the impact of inventory adjustments. So, excluding this impact if understood well, you mentioned that profitability wouldn't be so far from, let's say, the level we saw in Q3. So, the question is, which kind of…considering this is an accounting effect, should we consider, let's say, the range? Basically, you know, you provided last November as a fair starting point. I know you don't consider adjusted EBITDA, but just understand if it would be fair to consider, let's say, at least the lower end of your guidance range on the EBITDA you mentioned. And, again, on profitability, considering the comment you made on the complete system, but also, you know, this lack of operating leverage, we saw the division, the Water-Jetting having a profitability ranging between 26, 27, and so on. Do you see the possibility in 2025 to improve this, or, let's say, it is a matter of, as you mentioned before, dealing with some temporary inefficiencies? Thanks.

F. MARASI: I have got completely your question, but starting from the impact on your request on having more color and more numbers on the impact on slow-moving impact and stock evaluation impact. I'm not giving you precise number, but we are speaking about several million euros.

Going in more details, sales in the fourth quarter in Hydraulics went down 14%, without the impact of the slow-moving or inventory evaluation, EBITDA would have been down 20% and not 30%. Then a significant negative impact due to the stock evaluation. Then the fourth quarter has been very similar, really in line with the third quarter. If we do not consider this slow-moving and stock evaluation.

A. TORTORA: Okay. And the point, sorry Fabio, on the Water-Jetting?

F. MARASI: Regarding Water-Jetting, the beauty and the point that I can confirm once again is that we are seeing the really late cyclical nature of the Water-Jetting, and we are having now a very, very good momentum on the project side. We are seeing now the result of the orders, the results of the projects that were developed, agreed and won by our companies in the post-COVID era, that in many cases, in particular for projects, are taking years to be realized and to be put in place. And then is the segment of the projects that is doing particularly well as a sort of very late catch-up of the post-pandemic era.

A. TORTORA: Okay, thanks.

OPERATOR: The next question is from Natasha Brilliant of UBS.

N. BRILLIANT: Thank you very much. My question is on the Hydraulics business and whether you can give us a bit more color on the potential recovery when it comes, which customer bases do you see recovering quickest and which take longer to come back?

And then linked to that, when we think about the decline, is it largely volume or are we seeing some pricing pressure as well, as we look into 2025? Thank you.

F. MARASI: Thank you. Thank you, Natalia. Regarding Hydraulics, the beauty of our group, we have always claimed, to be diversification. Diversification between the 2 divisions, but also diversification within the division. In particular, in the Hydraulics business we had and we have a pretty relevant diversification in terms of customer application fields, product categories. Thanks to the acquisitions and the different verticals that we have put together in the different or in the recent years. In this market situation, as I've already commented, we are particularly suffering in the segment of the Mobile Hydraulics vehicles. Mobile Hydraulics means agriculture, air moving, construction, lifting. While we are performing well, even with positive organic evolution in other sub-segments, such as oil and gas with

GS-Hydro, such as trucks and trucks outfitter, that is the first single application field in Hydraulics, with Muncie Power Products in the United States or Interpump Hydraulics in Italy.

And then diversification and different trends is very important to help in managing the very severe slowdown, the very severe impact on the Mobile Hydraulic business. Very severe normalization or reduction in business in Hydraulics that has been going on for a while. I just want to mention you that agriculture has been down for 2 years. And then we are very confident that this very negative trend cannot last forever. And then we are confident that the recovery in the Mobile Hydraulics will start from agriculture, from the application fields that suffered the most, and starting from the first. But we are not seeing, we don't have any visibility yet on this recovery. Because the other factor, the other element that is very important to consider is that visibility in this scenario is absolutely, absolutely limited.

In terms, just to conclude on your question, the reduction in sales is entirely explained by reduction in volumes. Because luckily, our companies and the entire market has proven once again to be very disciplined, very rational in pricing, and we are not forced to give back to customers significant discounts.

N. BRILLIANT: That's very clear. Thank you.

F. MARASI: Thank you.

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

M. BALDELLI: Hi, good afternoon. I have a question on the January trend. If you can share with us. What is the performance of the group sales growth? Is it close to the bottom of the range, like the minus 5%? And this is the reason why you have put this kind of, let's say, guidance for the year? Or is it anyhow better, worse, or if you can give some color?

F. MARASI: We know the number of the first quarter on May 15 or May 14. The color that I can give you is that the trends that we have seen in the fourth quarter, with a weak Hydraulics and a strong Water-Jetting, is continuing in these first weeks of 2025. But it is too early to share numbers or to take conclusions.

M. BALDELLI: Okay. I have another question relating to the inventory. I can't remember, did you say the specific number of the impact on the write-downs that you booked in Q4? And then, given that I was calculating the hidden sales of the inventory, which are kind of, let's say, peak level, in particular because the sales are going down, what is the outlook for this, let's say, inventory level? Are you going to normalize it fully in 2025? Or you take more time? And do you need more write-downs of that inventory?

F. MARASI: No, we do not expect any further write-down on inventory. It has been done because of our very prudent approach on one side and because of the very strong reduction in sales in Hydraulics. We do not expect further write-down. We expect a normalization and a further reduction in inventories in 2025 or in 2025 and 2026. We are not in a hurry, but it is a clear target. We have a clear focus to reduce and normalize the inventory level. We had the targets, we had ambitions to reduce more our inventories, in particular in the percentage of sales, already in 2024. But the very strong sales decline in the second half of 2024 made it more difficult to manage this KPI. But the trend is clear. Inventories are going down and inventories will go down in 2025 and 2026 because our target is to be back to the pre-COVID level with a net working capital on sales ratio between 35% and 36%.

M. BALDELLI: Okay, if I may, I've got a last one. On the Water-Jetting division, because you said the aftermarket grew strongly, double-digit if I remember well. But the margins are going down with sales growing organically. And given that aftermarket is above average margin, I was wondering, and given that also Waikato has expanded the margin. How is it possible then the trend of the margin? What is going wrongly in that business?

F. MARASI: Yes, as we have commented, we are growing, thanks to the project side or the project part of this business and there is a mixed effect. To be clear, we are making more profit, more contribution margin, more EBITDA when we are selling components and not when we are realizing entire equipment or entire production processes. But of course, we are very glad and very happy to receive these orders. But in the mix, the growth is a growth towards the least profitable part of the very profitable Water-Jetting division.

E. CUGNASCA: The comment of Mr. Marasi on the growing of the spare part is a comment that should be…is focused on fourth quarter, because in fourth quarter, the growth was almost close to 10%, but is also ceiling and increasing one. So, if you are making a comparison on quarterly EBITDA margin of our company, you should realize that quarter-after-quarter, we are better managing this inefficiency, because are also the inefficiency that Mr. Marasi explained you in the speech. The organic dilution at the beginning of the year was much higher compared to what it is today. So, all around the year, we improved to manage this inefficiency and today there are only 20 bps.

M. BALDELLI: Thank you very much.

OPERATOR: The next question is a follow-up from Domenico Ghilotti of Equita.

D. GHILOTTI: Yes, I have a follow-up on Water-Jetting, just to say because you have been commenting say a good backlog and so a nice visibility, but you are also mentioning that you are taking the benefit of the orders and the project that you started working on say more in…say 12 months ago or even before. So, what is the situation now? Do we see the risk…do you see the risk of say a reduction in the backlog because at some point your orders is lower and so you are executing the orders that you got during the boom and then you had a period of less intensity on new orders?

F. MARASI: No, go ahead.

D. GHILOTTI: On the CAPEX, just if you can give us a sense, I understood that you are seeing a slowing down in the CAPEX, so if you can provide an indication?

F. MARASI: No, regarding orders in Water-Jetting, we are seeing that now the market is on a normal level after several years of difficulties because of the COVID, the pandemic, the postponement of investments. We are not in the case in which we are delivering the backlog and not filling it again. And then this is the reason why I'm not concerned on the future. Even if, of course, the visibility also on Hydraulics is not for the full year, then we still need orders for…

D. GHILOTTI: Water-jetting, you mean?

F. MARASI: Sorry, Water-Jetting, I'm sorry. But the situation in the market is positive and we are happy about the evolution. It's not just we are delivering what we receive as orders and that's it.

E. CUGNASCA: In terms of CAPEX, we are expecting in 2025 to have a decrease that is in line with the one of 2024. So, our budget of CAPEX is around €100 million.

D. GHILOTTI: Okay.

OPERATOR: The next question is from Bruno Permutti of Intesa Sanpaolo.

B. PERMUTTI: Yes, good afternoon, everyone. On M&A, you mentioned that you believe it's a good moment, with good opportunities on the market. Can you elaborate a little bit on that and which are the areas in which you would consider you need to strengthen or to widen? So, on this point. Okay, I stop here. I have another, but if there is room later.

F. MARASI: Regarding M&A environment, I confirm that it's positive and the last acquisition that we closed in December, Hidrover, is a perfect demonstration. We both are a very good company with very, very attractive margins at an interesting multiple, an interesting price around 4.3 times, 4.4 times

EBITDA. But this is just the perfect explanation of the opportunities that the market is showing today because Hidrover sales went down 40% in the previous 2 years, because of the exposure to the agricultural market. And then with this significance and severe drop in sales, shareholders of Hidrover considered for the first time the possibility to merge their company with a larger organization and were ready and were prepared to accept a far lower price than the one that they would have deserved 2 years before. And this is the reason why I'm commenting regarding positive environment.

Regarding targets, as you know, we have a very opportunistic approach and we are pretty diversified in different verticals and we are interested in reinforcing the different verticals in which we already are. Of course, it is more difficult in the pure Water-Jetting division. It is more easy to find interesting candidates in the Hydraulics market in reduction gears or in the floor handling and food process businesses.

B. PERMUTTI: Thank you. And if I may, also a question on your visibility on the customer stocks. So, do you have any visibility on the process that is going on there if it is normalizing or so, when you say that you expect the weakness of the Hydraulic business to continue in the first half of 2025…on the first part of 2025, but you are considering that there will be a stock process still ongoing at your customer sites. So, what is the reason for that?

F. MARASI: Of course, we don't have full visibility on the entire market, and there is a pretty different scenario in different companies and different application fields and sectors. Many customers are commenting on the end of this normalization on the inventories, on their distribution network and dealership network. But I believe it is too early to comment on this, because I will be more comforted when I will see the orders instead of speculating regarding where the dealer's level of inventory is.

B. PERMUTTI: Okay, thank you. And a very last one, if I may, you confirm that the US tariffs are not expected to have an impact on 2025?

F. MARASI: Which tariffs? It's too early to see, it's too early to comment, but I believe that the good news for Interpump, as we have always commented, is that we are a real global group with global operations and global companies and presence in…industrial presence that are very balanced in the end markets or close to the end customers. Staying in the US, as you know, we have very important companies and very important operations activities in the United States…within the United States borders, then we are very optimistic about the future in this sense.

B. PERMUTTI: Thank you.

OPERATOR: The next question is a follow-up from Alessandro Tortora of Mediobanca.

A. TORTORA: Yes, thanks. A very, let's say, quick follow-up. The first one, Fabio, you mentioned before the fact that the US subsidiary White Drive is, let's say, underperforming. Can you give me a sense today, considering the super exposure they have on Ag, which kind of profitability this division have is, I don't know, I kind of need the things. So, just to have a sense in today's sort of bottom profitability for White Drive. That's the first follow-up.

F. MARASI: I really hope that we touch the bottom in terms of profitability in White Drive US, considering also the impact on the slow-moving and stock evaluation, also because we implemented significant restructuring activities in terms of cost optimization, structure reduction, people redundancies, and so on. And very important, and we have a lot of expectation from the new CEO appointment in White Drive US in particular. Poland is doing well, despite a very adverse market situation.

A. TORTORA: Okay. The second follow-up is on, you mentioned several times the fact that now Water-Jetting is let's say different mix compared to the past components and projects. Can you help us understand which percentage of sales today, for instance, just an indication, which percentage project represents the total top line for the Water-Jetting?

FABIO MARASI: I would say around 40%, even if it is always difficult to define what is project and what is components'. But I would say 40% on the Water-Jetting division.

A. TORTORA: Okay. So, basically, the balance would be components plus the parts.

F. MARASI: Yes.

A. TORTORA: Okay. And the last promise, last follow-up. Considering the sales outlook you gave previously, so the plus 1% to minus 5%, should we think that at profitability level, let's say, the best case will be to keep profitability, so let's say, in the upper range, the upper part…the best case would be to stay in the 22% area. This is why, let's say, how we should understand your protection of the margin?

F. MARASI: I believe that it's too early to comment. We will give more color in May, but protection is the reference work for us in terms of profitability.

A. TORTORA: Okay, thanks a lot.

OPERATOR: The next question is a follow-up from Michele Baldelli, BNP Paribas Exane.

M. BALDELLI: Thank you very much for giving me the occasion. So I go back to the answer that you gave me on the Water-Jetting division on the mix. Just to understand from a capital invested point of view, does it mean that when you buy a system, you need to keep everything more time on your warehouses and therefore, the inventory level will stay higher structurally than in the past, because of this in that specific segment. It's…I know that it's just a part of your business, it's not a group, but just to understand the dynamics.

FABIO MARASI: Yes. Clearly, the project side of the Water-Jetting division requires an higher level of working capital, because we need to buy components, some finished goods or raw materials in preparation of the assembly of the entire production line before the delivery to the end customer clearly.

M. BALDELLI: But can you share with us how much time usually is…

F. MARASI: It depends on the kind of the event…on the kind of the project. We have projects that are worth several millions for MMO [ph] for example, we have projects for Bertoli or other companies that are worth €50,000. It is a very, very different mix.

M. BALDELLI: Okay, thank you very much.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. For any further questions, please press "*" and "1" on your telephone. Ms. Cugnasca, gentlemen, there are no more questions registered at this time.

E. CUGNASCA: Okay. Thank you very much for everybody for having joined us. Have a good afternoon.