Interpump Group S.p.A.

1Q2023 Results Conference Call

Monday 15th May 2023

OPERATOR: Good afternoon. This is the Chorus Call Conference operator. Welcome and thank you for joining the Interpump First Quarter 2023 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, Group Head of Investor Relations of Interpump. Please go ahead, madam.

ELISABETTA CUGNASCA: Thank you. I am Elisabetta Cugnasca, Head of Investor Relation of Interpump Group. Good afternoon or good morning according to your time zone, and welcome to Interpump's first quarter 2022 financial results conference call. As usual, I have to bring your attention to the disclaimer slide inserted in the annex part of the presentation. I hope you were able to download from our website. Afterwards, it's my pleasure to leave the stage to Mr. Marasi, who today, I am introducing you as new group Chief Executive Officer. As a matter of fact, last 20th of April, the newly nominated Board split Chairman and CEO role, and Mr. Marasi was appointed as Group CEO.

FABIO MARASI: Thanks, Ms. Cugnasca, and thanks to all of you for the attendance. Due to the share conferences, please allow me to take a couple of minutes for some personal remarks. As some of you probably remember, I joined Interpump in 2016 with the double act of M&A responsible and Head of Hoses & Fittings Division.

During these years, following the growth of the group and the expansion of this businesses, I had the opportunity to add different businesses roles and as to, among them of course, the one that I appreciated the most has been the leadership of Walvoil Group in the last couple of years.

Since last 28th of April, I am wearing an additional hat, the one of Interpump Group, Chief Executive Officer, for sure, the most important and demanding of my entire professional life.

I feel mandatory to express now my deep gratitude to many people. I would like to thank Mr. Montipò first for his trust and mentorship, my colleagues who helped me and support me in this time and the financial market too, because discussion with analyst and investor has been an important step in my growth path, that allow me to understand topics which have to be clear in mind of…for one who has the responsibility to lead a listed company.

Having said that, let's have an overview on the first quarter '23 and consequently on the entire 2023. The results of the first quarter 2023 was significantly better than our rosiest expectations. Speaking about top line, despite an unprecedented growth achieved in 2021 and in 2022, and some fear of a softening market demand, we enjoyed a further acceleration from the fourth quarter '22, and this resulted in an organic growth higher than 18%.

Moving to profitability and margins, the very strong organic growth and the full deployment of the countermeasures adopted in 2022 to face inflationary trend resulted in an EBITDA margin of 25.3%, a number that is unprecedented in Interpump Group history.

In addition to this, and despite the impressive organic growth, the cyclicality that characterized first part of the year and the peaking CAPEX, we have been able to improve the cash flow generation from €6 million to €14 million in the quarter, stabilizing the inventories level, thanks to a less critical situation regarding supply chain and logistics in comparison to the situation of the last 2 years.

We expect to improve significantly the cash flow generation in the following quarters, in line with our promises of last summer but we are already did the first steps. Furthermore, we maintained our focus on M&A growth path, going on with the implementation of our risk management approach through direct specification and this resulted in Indoshell Mold and I.Mec acquisitions.

Finally, we started to implement the first actions of our 2023-2024, '25 ESG journey, and this resulted in the approval of the new code of ethics and the creation of the Sustainability Committee, moreover with the concrete and practical approach that you know distinguishes the group, we took the opportunity given by the appointment of the new board to anticipate the most important step related to the formalization of succession plan action that is the separation between the Chairman and CEOs.

And this result, what does it mean for the remaining part of the year? It means that we are expecting for the full 2023 an higher than expected organic growth rate and in particular we believe that our mid-single-digit organic growth rate anticipated last February 2023 will become a nice single-digit organic growth rate. On top of this, we expect to consolidate further, the record high profitability results achieved in the last 2 years, to improve the cash flow generation and to continue with our external growth strategy. This always…always keeping an eye open on what is going on around us. The milestone of our medium long-term growing strategy is profitability excellence, and we are ready to promptly adapt ourselves, and our industrial footprint and structure in case of market changes.

After this first snapshot, let's deep dive on the first quarter '23 figures. Regarding sales with an organic growth of 18.7%, as I said before, 18.7% is the best result of the last 3 years, excluding COVID rebound of the second quarter '21. Considering performance drivers, we mentioned a 14% volume growth and 4% price growth. Both division performed very well with a well-balanced growth rate, and in particular Water-Jetting performance was supported by complete solution products.

Some colors on sales evolution by geography. USA were up by close to 19%, Italy by around 20%, Germany by close to 30%, France by more than 20%, and Canada by close to 25%. For updating partnerships among second countries, China, which last year was [indiscernible] in this quarter grew double-digit by more than 11%.

Sector application, industrial vehicles adapter up by almost 14%, agriculture and forestry up by 20%, earth moving machines up by more than 30%, lift by 25%, construction by more than 30%, food and beverage up more than 20%, and so on. Another important point is White Drive. The investment done to increase manufacturing capacity and to reduce bottlenecks are bearing fruits. And in the quarter sales were up by almost 28%.

Moving to profitability. The EBITDA margin of 25.3% is a record not only for the first quarter, but this is also an historical record. For a general point of view for Interpump Group. Across the group, we are fully benefiting of the very strong and balanced organic growth, and the full deployment of the countermeasures adopted in 2022 to face inflationary trends.

Regarding White Drive, for the second quarter in a row, EBITDA margin stood at 21%, driven by improvements on both sides of the world. In Europe, the rationalization between Poland and Germany is going on, and finally, efforts done last year in U.S. are bearing fruits. Last week I spent 3 days in the Polish plant of White Drive, and I'm very proud to say that our colleagues fully embraced Interpump managerial approach.

On a final remark, please do not let you misled by the last part of the insurance reimbursement, regarding Romanian fire that accounted €3.6 million that we received in the quarter. With our usual transparency, we underline it to you, but please keep in mind that this is not a gift. This is the compensation of all the activities, and losses and expenses we are doing to make the factory working again. And hopefully next summer the production in our Romanian plant will be back again.

Moving to CAPEX, as you know, we are going on with the post-COVID production expansion plan. And gradually we are rolling out the equipment phase after the land and building one. I would like to remind you annual figures, because of on CAPEX, we have a medium to long-term strategy, which could not be properly judged by quarterly numbers.

In 2021, almost 50% of our CAPEX were dedicated to buy land and build factories. In '22, this percentage went below 40%, and today is below 30%. To give you some color, please allow me to switch to Walvoil CEO hat.

We are completing, as you know, the enlargement of our plant in Reggio Emilia, a state-of-the-art building that was honoured by the visit of the Italian President of the Republic on last 29 of April. And as a matter of fact, Mr. Mattarella for Labor Day visited the Reggio Emilia 2 companies. One of which was Walvoil. And it was of course a great honour to be chosen as one of the best example of the so-called Mechatronic Valley, absolutely the best gift for Walvoil 50th birthday that we will celebrate in a few weeks.

Moving to cash flow generation. It's important to underline that the CAPEX plan is ongoing. But at the same time, we are delivering the commitment we took last summer to significantly improve cash generation. We saw first result in the fourth quarter 2022. Now we are going on this path, despite the negative effect of the exceptional sales growth, which is driving up receivables.

In terms of inventories, I would like to assure you that we slowed down our purchases after the hectic phase of exactly one year ago, and we are now stabilizing our inventories' levels, thanks to a less critical situation regarding supply chain and logistics, in comparison to the situation of the last 2 years, and the limited increase in value is explained by the inventory accounting methodology based on the average cost and therefore inflationary trend are kicking in the evaluation of the inventory. We expect anyway to significantly improve the cash flow generation in the following quarters, in line with our promises of last summer, but we already did the first steps.

Concluding with acquisition, I would like to dedicate a few words to the 2 most recent acquisitions because, from a different point of view, they are very, very important. Indoshell, the foundry, this is a completely different acquisition compared to all the others done by the group in its history, a unique one. We bought many times companies which represented an upstream integration process, Eurofluid in October 22 was the last example, but we never got to the raw material level.

With the pandemic years 2020-2022, what the pandemic years thought us, and our constant focus on risk management, pushed us to take the opportunity to buy an Indian cast iron foundry. Walvoil India has been working with this foundry since many years and therefore this was not a leap in the dark. We already invested in these few months to improve the factory and working condition to align with the group state-of-the-art standard.

Now, we will concentrate and invest in order to increase the production capacity. And we estimate that at the end of the year, Indoshell will be able to deliver 8,000 tons of cast iron per year. Our plan is to secure a very significant part of Walvoil Group needs of cast iron, that I remember you is the most important raw material used in the group, and then start to gradually support the group outside of the country…group companies and needs.

I.Mec, as many of you underlined us several times, in most recent years our acquisitions were more focused in the hydraulic sector in comparison with Water-Jetting and flow handling. It was not our choice, it was the result of how complicated, competitive, and long an acquisition process could be.

With I.Mec, we are finally reinforcing again our flow handling activities and commitment. The company today has as a most important reference market, the tile and ceramic one, but this technology is consistent with the one used in food and beverage, pharmaceutical and cosmetic sector.

We started a path with Bertoli, we progressed with Inoxpa and Mariotti & Pecini and now I.Mec. I believe that I gave you all the important details on the first quarter results, but summarizing all of them, the first quarter 2023 is the best quarter in group history, in both terms of sales and profitability.

Now, I will leave the floor to Ms. Cugnasca for the ESG updating.

ELISABETTA CUGNASCA: Thanks, Mr. Marasi. I will be quite fast since we have already updated you in the past months, step-by-step. We implemented 2 actions of our 2023-2024 period plan, which aims the building of group ESG foundation. The Governance 2, we approved a new code of ethics which now incorporate group ESG commitment. Governance 1, we create inside a new board, the Sustainability Committee, and the Executive Director inside it, it's the new CEO. I believe that is the best evidence of how group is taking seriously the topics.

This last mention, I will omit in the line you the concrete step related to Governance 2, the formalization of group succession plan. This would be prepared in the next few months by our board, but we anticipate the most important step, the separation of Chairman and CEO role, with the appointment of Mr. Marasi as group CEO. You are aware of the fact that concreteness is our mantra. We had the chance of the Annual Shareholder Meeting and new board appointment, and we executed.

Always from a governance point of view, even if from a different standpoint. Last April, the new remuneration policy was approved. We know that there is still room for improvement, but we introduced important novelties. From the MBO, we introduced ESG target. We gave more visibility on financial target, and we inserted the clawback clauses.

For the long-term incentive plan approved last year, as promised, we aligned the holding period to the best practices. For discretionary bonus and indemnities on termination, we introduced threshold, and we fine-tuned calculation methodology. Summarizing, we are working hard to improve.

FABIO MARASI: Thanks, Ms. Cugnasca. Some final snapshot. The first quarter 2023 has been the best quarter ever. We upgrade our 2023 organic sales guidance from mid-single-digit to high-single digit. We will never give up working to consolidate and protect profitability. We are actively and successfully pursuing our M&A strategy. We have separated the Chairman and CEO role.

ELISABETTA CUGNASCA: Thank you. We are ready to take all your questions.

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 their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions. Anyone who has a question may press "*" and "1" at this time.

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

MATTEO BONIZZONI: Thank you. Good afternoon. I have 2 questions. The first one relates to the evolution of the order intake and backlog. I remember when there was the last call in February for the full year release, you say that if I am correct at the end of January, the backlog was up around 20% year-on-year. I just want to check what was the evolution after January. So, in terms of book-to-bill as regard the intake during the last few months, and if you can also comment for the…separately for the 2 divisions and also in terms of backlog growth, I don't know at the end of April or what is your last check? This is the first question.

The second question relates CAPEX. So, free cash flow in Q1 was still, I mean impacted by working capital, but also CAPEX was relatively high. It was around €40 million, if I am correct. Can you provide a broad indication for CAPEX for the full year? Thanks.

FABIO MARASI: Yes, thank you Matteo. Regarding order intake and backlog, I can confirm that the backlog remains above…well above €1 billion in total and I say that is stable month-after-month and this would mean that the order intake to bill ratio is around 1. It is clear that this number is different from the crazy numbers that we were seeing 1 year ago, but we are really comforted that the demand from the market remain strong and the backlog remain so high, because in this sense we have a full visibility and we can operate with the proper time horizon our factories.

Regarding cash flow, it is clear that in the first quarter was penalized by 2 factors. The first one, the very very strong organic growth that led to a significant increase in receivable. And second, the concentration of some real estate related CAPEX in the first quarter, but my indication is not to consider that CAPEX will be for the full year 2023, 4 times the CAPEX that you are seeing in the first quarter. And I confirm once again that we will be around 5% of our sales.

MATTEO BONIZZONI: Thank you.

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

DOMENICO GHILOTTI: Good afternoon. My first question is related to the operating levels in the water jetting. So, can you elaborate on why despite the strong improvement in sales…the operating…so, the margin was pretty stable. And if you can…so you were very clear on the guidance for the topline. Can you elaborate on the expectation that we should have on the margin side? So, I didn't catch the point, actually.

FABIO MARASI: Okay. Regarding operating leverage on water jetting, I believe that what we have seen, I mean 27.8% against 28% in the quarter is absolutely not meaningful in the quarter. We maintain our excellent performance in Water-Jetting and profitability and as we have commented many times, our operating leverage is limited by the recourse to outsourcing, at least in the short term. And then we are absolutely happy of the results also in terms of profitabilities…and profitability that we have achieved in the 2 divisions in the first quarter.

Regarding margin expectation, you didn't catch, because…it is because we didn't mention. But as always our aim, and our full commitment is to protect and to maintain our excellent results.

DOMENICO GHILOTTI: Maybe I rephrase the question. So, what are you seeing in terms of price contribution going forward. So, if I am not wrong, was just 4%. So, it was not a big driver of the first quarter, but should we expect at some point, a reversal of the price impact.

FABIO MARASI: No, also in February when we commented the guidance and expectation for the year, I was commenting that our expectation for further price increase or price contribution for the year should have been very limited. And the result of the first quarter are a demonstration of this. And considering the evolution of raw materials price that are pretty stable, some reduction in energy cost and some increase in labor cost, I would expect no significant deviation from this level of price going forward in the following 3 quarters. Then I would not invite you to consider any further price increase in the remaining part of the year. I will consider that this number will remain stable.

DOMENICO GHILOTTI: I am more concerned about the possible price cutted

FABIO MARASI: No, we have already given back something in terms of removal of energy cost related surcharges, considering that the peak in energy cost and particularly in Europe has been experienced in the third quarter 2022, we have applied in the fourth quarter 2022 here and there some energy cost related price of charge. Considering that the strong reduction of the spot energy cost in the final part of last year, we've already reduced and removed the energy surcharge in the first quarter 2023. But overall, if you consider the group on a consolidated basis, I believe that the counterbalanced effect between some price increase, some catch up of the price increase is applied during 2022 and some removal of surcharges will end up in the full year. We have a limited price effect. We saw 4% in the first quarter and I believe that we will stay around this number.

DOMENICO GHILOTTI: Okay. Very clear. 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.

BRUNO PERMUTTI: Good afternoon everyone. I have one question related to the reimbursement. I would like to understand if during the year you expect to have extra cost related to the reopening of the Romanian facility more or less in line with reimbursement you expect to have or you can clarify what is exactly the impact there and the adjustment issue considered on the EBITDA.

And second question related to the receivables, you mentioned that you had an increase in the receivable in the first quarter. I would like to understand what is the time horizon in which you expect to have a normalization or a cash-in of them. And on the supply side…on the other side, you weren't able to increase payables and I mean is there still…are there still tensions on the supply side or now the situation can be considered normalized what you are seeing.

ELISABETTA CUGNASCA: Sorry to bother you. We will answer you immediately to the first question, but afterwards…can you please repeat the second one, because we had a gap in your voice. So after we…

BRUNO PERMUTTI: Sorry.

ELISABETTA CUGNASCA: No problem, it's probably our fault. So after the first answer, then will be…will please you repeat the second one please?

BRUNO PERMUTTI: Yes, was related to the receivables, and to understand better what could be the time horizon in which you expect to have a normalization of receivable, and part of the question is, why you couldn't increase payables and how is the situation on the supply side. So if there are still some tensions or if the situation is completely normalized so probably, you can also manage your net working capital a little bit better.

FABIO MARASI: Okay. Regarding your first question, regarding the insurance reimbursement for the Romanian Plant fire, it's important to underline that we've booked in the first quarter €3.6 million and we will have as a positive effect in the second quarter other 5 point something million euros that will be more than enough to cover the completion of the restructuring and the rest are part of the Romanian Plant. Then if it's clear that we are still facing operating losses and operating cost for managing this situation and for restarting as soon as possible the full production capacity in this manufacturing plant, but the insurance reimbursement it's not a one-off it is not an adjustment, it is a coverage of this cost and operating losses will be enough to cover the cost that we will have to face and we have budget until we will ready again to operate this plant in full.

Regarding working capital, receivable and payable it is true that we have increased receivable and we have increased payable. Of course, receivable are on turnover and payable are on passes and then this effect is significantly different. Just for your record receivable increased in the quarter by €57 million then significant jump that is the consequence of 18.7% increase in sales.

Regarding the supply chain status, I confirm that the situation is now much better than the one that we have lived in '21 and in '22. It is not completely efficient, it is not completely back to normal. But is…has improved a lot in terms of availability and in terms of logistic time and cost.

BRUNO PERMUTTI: Okay, thank you. And if I may a follow up on the first question related to retail, you had more or less a quite high operating profitability in the hydraulic sector, if we assume that you've had more or less a compensation between the additional costs and the reinsurance reimbursement. So, can we assume that for the remaining part of the year, I did not say I understand that probably the first quarter was very strong in terms of organic growth and we probably will have a slowdown in the second half of the year. Nobody knows that this is probably the…in this moment a reasonable assumption. So but the point is, we were used to operating profitability around 22% now you had 25.3%. So probably the truth could be in the middle for the remaining part of the year for the hydraulic industry segment?

FABIO MARASI: I'm not commenting on precise results or expected results by quarter or by division. What is absolutely clear is that the margin in hydraulics in the first quarter were not as you said quite high, they were spectacularly high, because 24.3%, 260 basis points more than the corresponding quarter of last year is really a spectacular performance.

What we have already commented in February regarding the expected profitability or EBITDA margin for the year is to protect and wherever possible to increase the profitability. Of course, the results of the first quarter were driven by the impressive organic growth. In the second part of the year, we do not expect a significant slowdown, otherwise on the contrary, we are increasing today our guidance and our outlook for the year and then we are pretty confident that we will be able to maintain our excellent level of profitability?

BRUNO PERMUTTI: Thank you.

OPERATOR: Once again, if you wish to ask a question, please press "*" and "1" on your telephone. The next question is a follow-up from Domenico Ghilotti of Equita. Please go ahead.

DOMENICO GHILOTTI: Can you hear me?

FABIO MARASI: Yes.

DOMENICO GHILOTTI: Yes. My question is usual issue an update on what is the current pipeline of potential opportunities if you have seen something more say closer to potential acquisition or to do the same, can you just give us an update on that?

FABIO MARASI: It's very good also the evolution of our M&A opportunities and situation. We have closed 2 important acquisition in the first part of the year, not really important in terms of sales, but important for the reasons that we have commented before for different reasons, but both of them are absolutely strategical. And we are very confident that based on the current environment or the number…the quality…to see that we have on the table, that we will do something as in the remaining part of the year. And we see even more important over mid to long term time horizon, our strategy and our opportunities to consolidate farther several of the markets in which we are already present will absolutely remain in place and will be larger and larger. Than we are absolutely optimistic looking forward.

DOMENICO GHILOTTI: Okay. Thank you.

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

ALESSANDRO TORTORA: Yes, hi. Good afternoon to everybody. I've got some follow-up on what I heard before. The first one is Fabio, if you can comment a little bit on let's say the White Drive performance in the first quarter considering the strong growth achieved in the first, let's say…in the first quarter. So, if you can help us to understand let's say sustainable pace of growth for White Drive this year. So, that's the first question. I don't know if you want to go one-by-one or you can…

FABIO MARASI: No, go ahead, and complete.

ALESSANDRO TORTORA: Okay. Then, the second question is on the April backlog level that you mentioned before. Can you help me to understand how these let's say compares versus I don't know at the beginning of the year just to understand the trend, and also do you see significant differences in terms of trend, let's say, between the 2 division if I read correctly the presentation, let's say, what adjusting is still on the way up in terms of let's say Indo [ph] acquisition?

Then, if you can comment a little bit also the performance of North America of all the performance in the Water-Jetting division where I, let's say, saw a limited growth in the quarter? And last is that let' say if you can help us to let's say if you can give us a guidance also net financial chargers, I see a strong increase in this quarter…in the first quarter, so if you…let's say you can help us to have an idea on these items for the full year. Thanks?

ELISABETTA CUGNASCA: Sorry Tortora. One point, the fourth question on Water-Jetting you were referring to sale evolution or to something else, because sales were up organically in 16%, so probably you are referring to something else?

ALESSANDRO TORTORA: I am referring to sales, I am referring to sales. And I am referring to North America Water-Jetting sales growth?

ELISABETTA CUGNASCA: Okay. Thank you.

FABIO MARASI: Okay. Regarding the first question, about White Drive performance I am very, very happy and comforted to see that finally all the investment that we have immediately decided…all that we have decided immediately after the division are finally entering in full production and are giving us a better and more important manufacturing capacity. This is absolutely fundamental and absolutely important on a financial point of view, because as you have noticed we have achieved a 28% growth in the quarter for White Drive. But, even more important this increase manufacturing capacity is absolutely comforting for me and for the group, because we are now able to serve better our customer base, because we have removed many bottleneck and many capacity constraint that we have found in the company when we acquired it. And with all these investment and some outsourcing, some optimization we have been able to significantly increase our manufacturing capacity to support better the market to protect and expand our market share and to give to the customer a better service and the better customer experience.

The second question regarding, Water-Jetting order acquisition I confirm you that like seen in the last couple of quarters, the acquisition of orders and the momentum for Water-Jetting is even stronger than the very good one of the Hydraulic division, and this is particularly important because the order backlog, in Water-Jetting is also made by systems or agreement with a longer lead time or the definition of the technical specs with the customer and the longer lead time for the execution, and this is a very comforting because of the visibilities that this stronger backlog give us.

Regarding the North American performance without entering into too many details, what is important to underline is also the exchange rate effect. The exchange rate effect that this year is a sort of headwind we had some contribution, some comfort last year, the exchange rate evolution this year is moving on the opposite direction. But, we don't care too much considering how diversified we are, and how balanced we are in terms of manufacturing capacity, and sale trade down, then there is nothing that is important to meant in this respect in particularly on a quarterly…on a quarterly results.

The last question was regarding…was related to the…financial charges, and it is linked that [technical difficulty] the significant depreciation of the dollar against the euro is bringing higher exchange losses, then the jump in net financial charges is explained by the currency exchange evolution.

ALESSANDRO TORTORA: Okay. Sorry just to understand, let's say the 10 million was made up of because I don't see sorry the carrier performance, so basically it's made up of mainly FX losses?

FABIO MARASI: Yes, we are approximately 3 million in exchange…in the quarter in exchange losses, you will say the details in the quarterly report?

ALESSANDRO TORTORA: Okay. Thanks Fabio for answering.

FABIO MARASI: Thank you, thank you Alessandro.

OPERATOR: Mr. Marasi there are no more questions registered at this time.

ELISABETTA CUGNASCA: Okay. Therefore, thank you for everybody of you to listening to us and let's speak in at the beginning of August. Thank you.