Interpump Group S.p.A.

2Q-1H2023 Results Conference Call

Friday 4th August 2023

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Interpump Second 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, Head of Investor Relations of Interpump. Please go ahead, madam.

E. CUGNASCA: Thank you. I am Elisabetta Cugnasca, Head of Investor Relations of Interpump Group. Good afternoon or good morning according to your time zone, and welcome to Interpump's second quarter 2023 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 it from our website. Afterwards, it's my pleasure to leave the stage to Mr. Marasi, Group Chief Executive Officer.

F. MARASI: Thanks, Ms. Cugnasca, and thanks to all of you for the attendance. After the first quarter, way better than our 2023 expectations, I am very pleased to present you a second quarter and therefore a first half that is once again better than what we expected only few months ago. When in May, we revised upward our expected growth for 2023, and better, it's extremely comfortable, because it confirms once again a crucial capability of this group to understand market dynamics evolution and changes and being able to promptly adapt our operations.

We envisage for 2023 a market normalization, driven by lead time and supply chain rebalancing after COVID extraordinary consequences. We adapted our machines and now we are fully taking benefit of any extremely nice and welcome extra growth. Allow me to give you some evidence in terms of sales. In the second quarter organic growth was 9.1%, more than 9% over our 12.5% growth recorded in the second quarter 2022. The EBITDA margin was 24.6% in the second quarter, with an increase of approximately 100 basis point over an already spectacular second quarter 2022, and 24.9% in the first half of the year, against 23.6% of the first half 2022. Numbers, I could not even have dreamt of, when I joined Interpump group 3 years ago.

In terms of cash flow generation, we took the commitment to improve it during 2023, and we are delivering it without jeopardizing the actual and the future growth opportunities. We are improving cash flow generation and in the meantime, we are continuously feeding the production to transform orders and invoices the ultra [ph] growth. And we are completing our post-COVID expansion plan that is fundamental for supporting our mid-term growth ambitions.

The positive results of the first half of the year combined with the very good level of the order backlog in July, make us confident on the fact that 2023 could become the new record year for Interpump, the new Mount Everest, both in terms of sales and profitability. After this first snapshot, let's focus on second quarter and first half 2023 figures.

The organic growth of sales was more than 9% in the second quarter, and almost 14% in the first half. Growth drivers, around 9% of volumes and around 5% of prices, a confirmation of last quarter trends, and with volume, were much more important than prices. This evolution perfectly reflects both different cycle nature of our two divisions and what we were expecting from the start of the year in terms of market normalization. This is the reason why water jetting is now growing more than hydraulics.

Now some colour on sales evolution in the second quarter from a geographic and sectorial application point of view. In terms of geography, focusing on top two countries, USA is up by 4%, Italy is up by around 13%, Germany by 5% and France by more than 20%. Looking at the second tier region, China is growing by 4% and India by 10%, all growing numbers with different trends according to specific economy evolution of the single geographies in the period, but with one result. The group grew in the second quarter again double-digits. This is the beauty of Interpump, diversification and balance.

In terms of sector application, industrial vehicle adaptors were up by almost 12%, agriculture was down by around 6%, earth moving machine were up by 12%, lift up by 2%, construction up by more than 50% and food and beverage up more than 30%.

Moving to White Drive, the sales part was different in the 2 different parts of the world. In US, sales grew almost double-digit, while in Europe growth was softer. US operations are fully benefiting from the production capacity enhancements of the past months, and therefore, we are recovering all delays accumulated with customers. At last, instead of buying outside some products and components, we are producing them internally and this means a more efficient and profitable production.

European operations are reflecting demand normalization and moreover, the last step of the factory's reorganization process between Germany and Poland. We will complete before the end of this month of August the reorganization of the European activities with the complete shutdown of the German plant and the transfer of the manufacturing of assembly lines to our Polish plant in Wroclaw.

Moving to profitability. EBITDA margin was 24.6%, almost 100 basis point more than the early…the spectacular second quarter 2022. In Hydraulics, we recorded 23.5%, 160 basis point more than the second quarter 2022 and second best quarter ever after the incredible first quarter '23. This improvement underlines once again the capabilities of the group to adapt operations with flexibility to market and sales evolution.

Focus on White Drive. After two quarters in a row, with an EBITDA margin at 21%, in second quarter '23, the profitability was below our annual goal, and this is only due to the reorganization of the European factories that we launched at year start, and that represents an important step of the White Drive integration plan. In US, profitability enhancement activities are going on and bearing fruits and as a matter of fact, the business model changes, I mentioned to you before, made U.S. profitability almost double from less than 5% to almost 10%. Since the reorganization activities in Europe should be finalized before summer end, we are confident about our 2023 profitability target of 21% of EBITDA margin.

Moving to Water Jetting, in the second quarter, we faced a dilution of approximately 100 basis points, half of which driven by the 3 acquisitions we did in the flow handling sector. Given we consolidate them only for June, it's important to keep in mind that we are speaking of companies we've 23% in the case of I.MEC and 14% in the case of Waikato of EBITDA margin. And these profitabilities in the short-term are extremely dilutive for the group division, which in 2022 almost touched 29% of profitability. The remaining part of the dilution is driven by the sales mix evolution among different companies in the division.

Moving to CAPEX, I would like to mention that in the second quarter, our efforts to go on with our COVID CAPEX plans went on. You can notice it from around €40 million of CAPEX spent. And moreover, and I hope more interesting, for some photos displayed in our presentation. We completed the enlargement of the Walvoil factories in Reggio Emilia. Our colleagues from the technical department are moving in these days to the new plant area. And in October, the R&D center will be operative.

You can also see the progresses with the new building of Tubiflex in Turin, and what we did in Romania in less than 1-year in IMM plant. The production will be on-track before summer end after the almost 1-year stop as a consequence of the fire that destroyed the plant in May 2022. Due to what we have done in the past 2 years, we would invest less in the next years. We will complete what is undergoing today, I mean, Wide Drive plants enhancement both in Europe and U.S, the completion of the new headquarter of Muncie, and the new plant of Tubiflex in Italy. But as of today, I can envisage only a significant project coming from the future that is the new IPH plant in Italy.

To close with CAPEX, I would like to draw your attention to an important P&L KPI, that is EBIT. You are perfectly aware that EBITDA is our polar star, but we don't want to forget EBIT. And I would like to underline that in the first half of the year, EBIT overcome 20% on net sales for the first time in Interpump group history, 20.6% to be precise. This is the best and clearer evidence that all the money we are investing to increase or improve our production capacity are generating both manufacturing efficiency, in terms of automation and good financial returns and paybacks.

In terms of free cash flow generation, 1-year ago, I underlined you that poor cash flow generation of first half '22 was driven by both the extraordinary sales evolution, which made the trade receivable materially increase, and the extraordinary measures we put in place in term of inventory to protect production continuity, and therefore, profitability.

I added that starting from the second part of 2022, this trend would have changed and later in February, I underlined you that one of the 2023 most important commitment would have been cash generation improvement combined with a good organic growth, and profitability protection.

In the first quarter of 2023, you already saw the first result. Today, you see the additional ones. Compared to first half 2022, the cash absorption driven by the trade working capital went down by around 40% from €130 million to €76 million. And in the second quarter, only the reduction was more than 70%. These results were achieved without hampering organic growth and the execution of our post-COVID CAPEX plan, just described, and in the meantime, having mitigated the still important impact that the strong sales growth is having on trade receivable.

Another number to share to underline our improvement is that on a 1-year rolling basis and excluding acquisitions incidents on sales of the trade working capital went down from 41% to a little bit more than 39%.

To complete the overview and to give you some details, in terms of inventories too, I would like to underline again that the increase in value recorded and compared to December, less than 5% in absolute value, is influenced by the inventory accounting methodology, based on the average cost. And in the second quarter, obviously, includes around €20 million of impact of the newly consolidated companies.

We improved inventory efficiency and rotation, and the inventory days went down compared to December. Step by step, we are therefore working to find the right balance between supporting production continuity, excellence in customer service, and cash efficiency. Not an easy task in an environment that is continuously changing with volatility, which is one of the most important consequences of COVID in our markets. Despite that, we will go on working to gradually go back to the trade working capital pre-COVID level that we consider the best from an industrial long-term point of view.

Moving to acquisition, as you know, in May, we discussed the 2 acquisition finalized until then, Mouldtech and I.Mec. Both were important, even from a very different point of view. Mouldtech demonstrates the holistic approach of the group in terms of risk management, while I.Mec demonstrates that group external growth paths did not forget Water Jetting in the most recent years. Simply finalizing acquisition in this sector and fulfilling in the meantime our strict criteria has been more difficult than in the electronics division.

Waikato, the new acquisition to be commented, is another evidence of our constant growth path in the Water Jetting and the Flow Handling division, and even more of group strategy milestone, and in this specific case, diversification by geography, New Zealand, and development in contiguous business sector.

As mentioned before, everything new consolidated in our Water Jetting division in almost all cases has in the short-term a dilutive effect, but we are confident to improve the profitability level of the new entries as we did for

Inoxpa starting from 2017. These are all important details of the past month. Some colors on most recent trends based on July first positive indications. The backlog, once again, was above the €1 billion threshold, despite the normalization of the lead times that we're seeing in the electronics division.

Once again, the benefit of the diversification, Water Jetting is growing significantly. Precisely a few words on Water Jetting. Almost one year ago, Water Jetting weight on the total backlog was below 15% and today it's close to 20%. This is one of the best evidence of the late cyclical nature of this business. The recovery after COVID is now undergoing, in particular for the project side and the Flow Handling part of the division.

Obviously, we are not expecting an on-going balance from a sales point of view at the group level due to the big difference between the two divisions. But speaking about profitability, as you know, very well, this is a completely different story.

I leave now the stage to Ms. Cugnasca for the usual comments on our ESG journey.

E. CUGNASCA: Thanks Mr. Marasi. Since we are keeping you constantly updated through the usual ER [ph] instrument, quarterly financial press releases and presentation or a doc presentation on each advancement of our ESG journey, I will be concise. As you probably remind, the general goal of 2023-2024 action is to build a group ESG foundation and, therefore in the first half of 2023, we implemented two and a half actions of our journey.

G1, we created inside the new Board, a Sustainability Committee and the Executive Director, inside it is the CEO. I believe that this is the best evidence of how the group is taking seriously the topics. G2, we approved the new Code of Ethics which now incorporates the group ESG commitment. G3, I quoted two and a half because even if we are still working on organizational, procedural and formal elements, the first and I will say the most important, a concrete half of the formalization of group succession plan action was implemented last April with the separation of chairman and CEO role.

In the second part of 2023, in the next few months, we will be focused on other important actions to be delivered in this year. On the annual step of pluriannual action and on the ones that have to be delivered every year, E1, the definition of Group carbon neutrality strategy, E4, the first phases of the circular economy project, E5, the fine-tuning of group supply evaluation model and procedure to incorporate environmental and social criteria.

Finally, please let me quote you an action which has nothing to do with our ESG plan and vice versa, has everything to do with our concrete, responsible and truthful approach to everybody who every day, everywhere in the world contributes to our success. You probably remember that last May, some region of Emilia Romagna were dramatically floated, regions where we have Contarini and Interpump Hydraulic factories. Water did not damage our factories but unfortunately, around 50 of our collects were severely impacted with cars and home basements or even first floor ruined or severely damaged.

Therefore, with the June salary, these colleagues received an [indiscernible] amount between €1,000 and €2,000 each, equal to a global company amount for €215,000. It's a drop compared to the cubic meter of water that devastated our land but quoting Mother Teresa of Kolkata, an ocean with even a single drop less is a smaller ocean.

F. MARASI: Thanks Ms. Cugnasca. Summarizing, the second quarter 2023 confirmed once again our capability to correctly understand market evolution and to react fast and adapt our operations to a changing environment and this made us benefit of a stronger performance compared to our initial 2023 assumptions. The second important point is that July data are consistent with our expectations and therefore we confirm our upgraded 2023 organic sales guidance to high single-digit, and we are confident that the combination of the good organic growth and the flexible business model will make 2023 the best year ever in terms of profit margins for the company.

E. CUGNASCA: Thank you. So we are here please at your disposal for any kind of clarification of doubts that you have.

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 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 with Kepler Cheuvreux. Please go ahead.

M. BONIZZONI: Thank you. Good afternoon. My first question was actually on the organic growth for this year, that you have a just answered. Because in the press release you referred to the initial guidance, so I was not particularly clear if this organic growth, which was the latest guidance, was confirmed or it was different. So I have heard that I think it is organic growth.

The second question is on the seasonality which you are seeing this year. Now I was looking at my model that in many years typically the second quarter has been luckier than the first quarter in terms of million euro revenues and also in terms of percentage of EBITDA. This year It's not the case. It is true that the first quarter was extraordinarily good because it was about 25% margin. The second quarter has been 24.6%. Can you maybe…it is just minimal deviation, but can you flag if, for example, in terms of pricing condition, mix or cost condition, there is something different? Clearly, what I may be missing is the perimeter because it is true that the latest acquisition are material is diluting the margin. But can you comment a little bit more on this small margin delta?

The last question is regarding the book-to-bill. You have said that your backlog remains above €1 billion and is particularly strong in the Water Jetting business. Can you maybe a little bit elaborate more as regards your book-to-bill at a consolidated level in the last months and also in terms of end markets for geographies? Thanks,

F. MARASI: Thank you, Matteo. In terms of organic growth guidance, I confirm that we reiterate the high single-digit growth target for the year that we have announced in May after the spectacular performances of the first quarter. The very good performance in terms of organic growth of the second quarter of 2023 and the good results of July are making us confident that we will have no problem in reaching these numbers.

In terms of seasonality, this is a tough question or a tough point to be commented and this is the reason why I have always invited you in recent years to look not really to the monthly or quarterly results, but to the yearly results, because in a fast-changing environment, trying to track precisely the evolution of every single market or every single quarter is more difficult than before COVID and it is more difficult than in a normal environment. And this is also what we are looking internally. And this is the reason why we are also very confident that will be another very good year in terms of growth and in terms of profitability, without commenting too much on every single month or quarter.

Regarding the evolution of the margin, if I understood correctly from your question, in Water Jetting linked to the seasonality. For sure, the acquisition of I.Mec and in particular of Waikato with a significantly lower profit margin, is significantly below this. The remaining is explained by the different performance in terms of growth, in terms of contribution by the different companies in the division.

Moving to the book-to-bill topic, it is not very simple once again to comment because we have different trends and different uses [ph] in terms of way of managing orders between the customers and the companies. But I may say in a consolidated point of view, that we are slightly below 1 in this period. But the positive news is that we are maintaining an order backlog above the €1 billion threshold also in the month of July and this is giving us a lot of visibility for the months to come.

M. BONIZZONI: Thank you.

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

D. GHILOTTI: Good afternoon. A few questions, first on the Water Jetting back again. Can you help us in understanding how much of this dilution is coming from the M&A and how much is coming from the product mix? And so, what is really…so, it's something that is really temporary or really something or really something that is more structural, the change in the product mix?

Second is on the comment that you are giving on the Hydraulic division. When you talk about market normalization driven by lead times, supply chain rebalancing, so what should we understand? Do you see really something which in the second half, your organic performance is mostly driven by Water Jetting? Do you still see positive organic performance in Hydraulic in the second half or something different?

F. MARASI: Okay. In terms of margin dilution in the Water Jetting, I would say that approximately 60 basis points is coming from the two acquisitions that we made in the quarter or in the first half of the year. And the remaining is due to the mix. Mix is in such a short period of time, the amounts is not really significant, because it depends on the performance of the…of every single company within the division and in particular, on the evolution of the different part of the business. As you are aware, every company in the Water Jetting division is very profitable, but we have differences. Of course, Hammelmann is the superstar. Other companies are very profitable, but not as Hammelmann. And also, within the single…the different single companies, we have orders for projects with different kind of profitabilities. And there for this reason, I have no particular trends to comment on or to make forecast in the future. I see nothing worrying about a few basis points dilution in a quarter.

In terms of…if you move to the comments on the Hydraulic division normalization, it's very important to comment that when I was referring to supply chain and lead times normalization, this is important if we consider the absolute terms of the backlog and if you…if we consider also the difficulties that everybody in the value chain including Interpump experienced in the past two and half years.

In a more normal environment in which supply chains are more reliable and transport times are more under control, the level of orders is not affected by the so-called panic buying approach. And what we are seeing today is a more normal environment in which orders reflect the true needs from everyone.

Regarding your last question, about the second half of the year, expected growth for the Hydraulics, I confirm that we expect positive organic grow also in the Hydraulic division in the second half of the year. But the phenomenon that we are seeing is that Water Jetting is accelerating and now it's contributing more to the growth of the group.

D. GHILOTTI: If I may follow-up with a few other questions. On North America, I saw a particular soft trend in particular in Water Jetting actually. So, have you seen any specific…I was expecting to see some protection, say on…due to the backlog on the second quarter trend in North America considering that even a slowdown in orders would have been mitigated by the backlog. There is any specific topic there?

F. MARASI: I have no particular comment on this. The exchange rate is also impacting. I don't know if you are looking at the like-for-like exchange rate. It is clear that the only phenomenon that I can comment is that, on an MLB [ph], our North American Company, we are seeing more orders on the rental part of the business, instead of on the equipment side of the business? And then this is driving down in the short-term, but the business of the number of machines that are going to the market is almost similar.

D. GHILOTTI: Okay. Thank you.

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

A. TORTORA: Yes, hi. Good afternoon to everybody. And Fabio, I have a few questions and I…the first one is on the level of CAPEX. You mentioned this be around €40 million in the quarter or if…during the second half. First of all, if you can help us to understand the level of…let's say, level of CAPEX for the full year considering that you are going to complete the expansion plan you mentioned before. And then, considering that you don't see significant projects in…over the next year, if you can also pass [ph] to have a sort of indication of a normalized CAPEX also in the coming years, that's the first question.

F. MARASI: Okay. In terms of the CAPEX for the year, I would expect that we will close 2023 with approximately €140 million in CAPEX.

In terms of projects, we are completing several very relevant important projects. Also, we have real estate investments that we have already commented several times in the past.

Looking forward, the only significant or meaningful real estate expansion that I want to mention is Interpump hydraulics new plant that we are projecting now for 2024 in Bologna. The company grew in the past and we are experiencing space constraint. For this reason, we are projecting a new plant of approximately 15,000, 16,000 square meters for next year in Bologna.

But apart this project, everything else will be on a much lower level, and I assume that we will be back at our usual range that is below 5%...I would say between 4% or 5% in the next 2 years. And considering the very significant investments that we have made, I would assume that '24, and '25 will be much closer to 5%…to 4% than to 5% on sales.

A. TORTORA: Okay. Thanks. Then the second question is on…if you can elaborate a bit more…you mentioned probably are negative in the second quarter in terms of sales. So if you can also help us to understand the underlying trend because also some of your clients talking about normalization in terms of, let's say, demand and the weakness or if can elaborate on this and also what's your expectation for the coming quarters for this application. Thanks.

F. MARASI: Okay. I would say that the only application fee is…I mean between the relevant ones that is down in the quarter is agriculture and this is specifically driven by reduction in deliveries to join the year in the second quarter, but it's very important underline how big has been the growth and expansion of the agriculture business in the last 2.5 years. Then when we speak about the normalization of the event, normalization of the supply chain, I am referring to this kind of phenomenon.

We have been very, very pleased to see that construction is growing so much that is a very important application for us and also industrial outfitter for tracks are moving very well. And this is comforting also moving forward. We have seen a recently announced results for EVAK or Daimler [ph] that are really comforting.

A. TORTORA: Okay. Thanks and the last question is related to the level of financial charges. If you can help us to understand which level of net financial charges you are going to have at least let's say per quarter considering the current interest rate environment. Thanks

F. MARASI: Yes, it is clear that we have the important rise in interest rate. We are facing for higher cost considering that the vast majority of our financial debt is at the variable rate and then we expect more or less €40 million for the year in terms of financial charges for the year…€23 million is the expectation for the year. I was considering for the half year. €23 million is expected and the remaining is exchange ratings effect.

A. TORTORA: Sorry for the…I didn't get, so it's like total €40 million of which €23 million is excluding FX.

F. MARASI: Yes, €23 million is the financial charges for the year excluding FX.

A. TORTORA: Okay. Thanks.

OPERATOR: The next question is from Bruno Permutti with Intesa Sanpaolo. Please go ahead.

B. PERMUTTI: Good afternoon everyone. I have a question on the price and cost debt. So how do you expect this step [ph] those in the remaining part of the year. Are you experiencing normalization on the supply chain? Are you also experiencing some benefit in terms of cost inflation and on the other side how is the board in the pricing? So essentially, the price cost that you expect benefit or not in the next few quarters.

And second question is partially related to this one. On seasonality, you suggested that the business has changed and we should now look at seasonality as an important factor. So this means in some way that we could look at the different quarters in…so in a more similar way or you intend that you have seasonality but it can change every year depending on the pacing of deliveries and you now something else that is different from the past. So I would like to understand how to interpret this different seasonality parody.

F. MARASI: Yes, in terms of price and cost inflation, it's important to note that we believe that the…more or less 5% price effect that we have gained in the first half of the year is sufficient or more than sufficient to cover the inflation that we are experiencing on our cost, on our bill of material. Because if we consider the most important factors on our production cost, you will have that…energy cost will be significantly down this year in comparison with 2022.

Raw materials will be down a bit, not as much as you read on the newspaper, but raw materials impact will be down this year. But these benefits will be offset by the increase of salaries that we are seeing more or less everywhere in the world and Europe in particular. But all in all, I would say that the 5% growth in prices is more than enough to cover the growth in the bill of material on the production cost for the year. Then this is not of a particular concern for us.

The comment on seasonality is a little bit more complicated. My point is that the after COVID, world changed the rules in some way, and it is very, very difficult to make compared…to make very significant and proper comparison on a quarterly basis year-after-year, because we may have very, very different or discrepant dynamics between one year and the other. And this is the reason why I believe that we should look at the full year results 2020, '21, '22 and '23 and you will see and we are seeing and we will see. Our relevance has been our processes, our relevance has been our organic growth and the profit margin expansion and this is what is comforting us and this is our guide instead of becoming crazy in trying to track some trend from one year to the other that is in the…in such a short term, I will say erratic considering the macroeconomic factors that we are seeing.

B. PERMUTTI: Thank you.

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

D. GHILOTTI: I have 2 additional questions. The first if you…confident to provide any comment on preliminary 2024 organic outlook?

And second, I understand I feel that on the water-jetting, you still see it's a quite supportive outlook and also for 2024, but I leave comment to you? And that the second, I would expect that if you have any kind of say normalization in top line growth free cash flow will accelerate. And so would you consider buyback?

F. MARASI: Okay, regarding 2024 organic outlook is a very, very good question. I believe it is too early to say, because our budget season…our budget process will start immediately after summer and will be completed as always within the month of November. It is true that we have some visibility or some good visibility, at least for the first part of the year, thanks to the backlog that we have in particular in some company that is going beyond December '23. And as you noted, we are very confident that water-jetting will be very supportive for next year.

In terms of normalization of the free cash flow and normalization…the impact on the free cash flow of the normalization of the top line growth is absolutely correct to expect that if we will have a more normal organic growth in comparison with the spectacular one of the last 3 years, we should expect a far stronger cash flow generation going forward.

Regarding the buyback option, I will say that this is not on the agenda now because we believe that we will have a lot of M&A opportunities in the next 12 months or in a mid-term perspective, and then our first aim and our first goal is to use the cash flow that we generate to make the growth…to make the group bigger and stronger through acquisition.

D. GHILOTTI: Okay, good. That's for M&A? Then…

F. MARASI: Yes.

OPERATOR: Our next question is from Michele Baldelli with BNP Paribas. Please go ahead.

M. BALDELLI: Hi, good afternoon to everybody. I've got a couple of questions. The first one is about the FOREX impact that you…was in H1, just to strip it out from the total financial charges if you can provide the data?

The second question relates to the M&A in the sense that from your last point that you mentioned the share buyback is not an option because of M&A, while historically share buybacks were alluded to also be a part of the price who owned shares to the families that [indiscernible]. So my point is, are you looking to certain targets so large, that basically they will not be…they will not be subject that are interested in your share but not on a cash type basis? Is this let's say a way to look at it for? Thank you.

OPERATOR: Sorry, Mr. Baldelli. Could you kindly repeat the first one because the line is very disturbed? Can you please repeat and speak slowly?

M. BALDELLI: Yes. The first point is about the FOREX negative impact in the financial charges, if you can quantify how much it is?

F. MARASI: €6 million in the first half of the year.

M. BALDELLI: Okay, thank you.

F. MARASI: And the second question was about the M&A target? Correct?

M. BALDELLI: Yes. And the strategy around it, why you don't want to do it with share buybacks as before, because historically it was used…the own share of course to pay the seller. If…let's say this is related to the fact that they are…you are looking to larger targets were probably the seller is not a family, and therefore they will not be interest to buy own show? So if this reasoning can apply or is not because of this?

F. MARASI: Yes, this is clear…the question is clear. We already have treasury shares of approximately 1.7% of our capital close to 2 million shares. And I do not exclude completely buyback, but our prefer way of employing the cash flow that we expect to generate in the next 12 months or in a midterm perspective in an even more significant way is to deploy and realizing new acquisitions. This is the reason why I do not exclude the buyback. But our preferred deployment or utilization is for acquisition.

In terms of target, as you know, we have a very opportunistic approach, and then as I have commented already several times in recent quarters in particular after the successful White Drive acquisition, we are prepared to look at slightly larger transactions. But it's too early to comment and we have…we don't have the possibility to comment on any specific target. You know, how uncertain is any M&A opportunity?

M. BALDELLI: Okay. Thank you very much.

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

F. DONLON: Hi there, Fabio it is Fraser here. Just 3 or 4 questions from my side. So the first is just on the Romania side. I think in the past, you've kind of commented that there are some costs relating to that long side the kind of insurance inflows. So how would you kind of quantify that in Q2 in terms of net positive or negative for the group and then how would you look at that, as the factory I think reopens in the coming months?

The second question is just on the kind of expansionary projects you have going on with the likes of Valve Oil, you know how well covered are those you know, through market share gains or commitments from customers looking into 2024?

The third question is on Waikato, the acquisition you made I guess I was just interested to hear your view on why that's the kind of interesting end market to add to the group I.Mec [ph] exposure.

And then, the final question just talking about seasonality and that being a little bit more unusual given the group is kind of working through a backlog and we kind of considered that maybe Q3 might be an absolute value, you know, a little bit better than usual for different it maybe Q4 won't be at large as it normally would, because I think seasonally Q4 normally will be very good, but maybe it wouldn't be the case. Let's see I would be just interested to have your view on that?. Thanks very much.

F. MARASI: Okay. Regarding the Romanian fire, and we have the notes and the details in the financial and press release, the positive impact from the insurance has been €5.4 million in the second quarter this year. But, this is not again this is offsetting the losses that we have experienced both direct losses in terms of cost and in direct losses in terms of lost business and lost profitability from this company. You have to note that this situation is going on from May 2022, and in this year we have to face huge amount of inefficiencies on a manufacturing point of view and the huge amount of commercial problems as a consequence of the unavailability of the production from Romania.

For example, we had to move approximately 100 people from Romania to Italy in order to run the extra shifts in our Italian plans in order to maximize the output of causes in our Italian plants. And this is of course, crazy expensive in terms of logistic cost and extra cost for this people. This is one factor. Another factor is the business that we have lost because we usually combine in packages hose and fittings and we have the manufacturing capacity that is target has a good balancing between hose and fitting.

With the fire that, destroyed the Romanian factory that was 100% dedicated to hose manufacturing, we lost this balancing and then we lost the…the lost opportunities I think that at EMM [ph] group level. In terms of missed opportunities for fittings that were not offered coupled with hoses to the market again with significant damage. On top of this of course, all the direct and indirect expenses that we had to face and that we have been reporting in the different quarters or in the different presentation in the last...in the last year or so. And then, the reality is that we would strongly prefer not to have this fire and not to have any reimbursement.

The second point, the expansion project in general is of course the consequence of the impressive organic growth that many of our companies experienced in the last 3 years, in particularly in hydraulics and the market share gain that we have achieved thanks to our flexibility, thanks to the higher than normal level of working capital and the inventory in particular that we were carrying on already at the immediate restart after COVID that allowed us to grow more than the market. And for this reason, several of our companies after this very significant growth, were constrained by space availability that we were obliged to invest in real estate in order adopt the structures of this company.

And the last question was about Waikato, Waikato is a very interesting combination is a very interesting acquisition because it allows us to extend our presence in the flow handling business in the particularly in the I.Mec [ph] treatment in the I.Mec solution, that is an application that is crucial for Inoxpa, and then you have to imagine that Waikato is a very, very good feet of integration or combination with Inoxpa that already have very well widespread network of subsidies around the world and now can support the international development of Waikato that today is very strong in New Zealand and Australia, but has a significant growth opportunity not yet exploited in the foreign markets.

The last question was about seasonality that should be expected in Q3 and Q4, this is difficult to comment, because of the factor that I explained everybody before. And thus it is important to note that quite surprisingly last year the fourth quarter has been the strongest of the year usually the fourth quarter is the weakest or the second weakest, last year has been the strongest considering the exceptional environment, in which we were living in. And this one of the reason why I do not invite you to compare quarter-on-quarter, but in this very fast changing environment is better to look at the yearly performance in order to have some idea of the real performances.

F. DONLON: Thank you.

OPERATOR: Once again if you wish to register for a question please press "*" and "1" on your telephone.

E. CUGNASCA: So, it's the 04th of August, its Friday its 5.00 'o clock PM, I believe that many of you have better plan to listen to us, though we are very happy to wish you a very pleased summer holidays break, speak to you soon in November. Bye.