Interpump Group

"Third Quarter, 2022 Results Conference Call"

November 10, 2022; 05:30 PM CET

MODERATORS: FABIO MARASI, BOARD MEMBER AND EXECUTIVE DIRECTOR

ELISABETTA CUGNASCA, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call Conference operator. Welcome and thank you for joining the Interpump Group Third Quarter 2022 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 Investor Relations. Please go ahead, madam.

ELISABETTA CUGNASCA: Thank you very much. Good afternoon or good morning according to your time zone and welcome to Interpump third quarter 2022 financial results conference call. I am Elisabetta Cugnasca, Head of Investor Relations of Interpump Group. Before leaving the stage to Mr. Marasi, Board Member and Executive Director of the Group, I'm obliged to draw your attention to the disclaimer slide inserted in the annex part of the presentation. I hope you were able to download it from the website.

FABIO MARASI: Thanks, Ms. Cugnasca, and thanks to all of you for the attendance. For the presentation of this evening, I would like to start from the very end of the previous one, the second quarter '22 financial results. And to be more precise from some of the questions you made related to the year 2022 and to the outlook for 2023. This is because I believe that the financial results that we are going to comment related to the third quarter '22 are from one side the evidence of the ongoing delivery of '22 commitments and from the other our comfortingsupport of what we envisaged last August for 2023.

To what did we commit ourselves and for 2022. We committed ourselves first to exceed€2 billion in sales through a double-digit organic growth and acquisitions. Second, to confirm and protect the profitability excellence. Why the third quarter 2022 results are the evidence of this on-going delivery, because we delivered an organic growth of 15.7% and a 16.6% growth impact is coming from acquisitions. Please look at these numbers as we are looking at them, organic growth and external growth are almost the same. And despite a comparison base that is getting more difficult quarter-after-quarter, our performance is continuously accelerating. It was 12.6% organic growth in the first half of this year and now it's 15.7% in the third quarter.

Second point, the EBITDA margin for the quarter was even better compared to the third quarter 2021, 23.9% versus 23.7% of the same period of last year. As for the first time this year, it is higher in comparison with 2021, and therefore, the 9-mouthsbasis,Group is closing the gap with only 20 basis points of dilution.

And third point is because White Drive integration is on-going. What do we envisage for 2023? We envisage a positive organic growth based on the record high level for the backlog for the Group. And why now, the third quarter '22 results are support of what we envisage? It's because autumn started in line with previous months, it's because we are delivering our growth mission without distraction even in this difficult environment. We are delivering the production capability enhancement program we launched this year with around €75 million of CAPEX in the 9months, and because we are also delivering our Group acquisition strategy after Draintech in May this year. Two weeks ago, we closed the acquisition of Euro fluid that we'll comment later on.

Fourth point is because from a broader point of view, they reflect the benefit of our never ending diversification strategy. In terms of division, Hydraulics supported growth and Water Jetting supported profitability. Therefore, before entering in the third quarter '22 details, I would like to anticipate my conclusion. These spectacular set of results is supporting both the delivery of 2022 commitments and as far as we are seeing, our first assumptions for another year of organic growth in 2023.

Moving now to the third quarter details, sales are up by almost 34% on total basis and moreover by almost 16% on organic base with double-digit organic growth in both divisions. For many reasons, I would like to briefly underline you this [indiscernible]. The first is that these results comes after the almost 18% registered in the third quarter '21,but this 18% was driven by COVID comparison effect, while now the comparison effectis absolutely against.

Second, the growth is more than double the historical 2011 and in 2021 data that is…that was something around 6% in terms of organic growth. Third, it is driven by double-digit results in both divisions. In second quarter '22 Water Jetting division registered only a 5.5% organic growth and we explained that in spring we had to face some raw material and components shortage and that we will recover incoming months,delivered.

Finally, and above all, it shows that there is…what there is behind? There is the capability of sales departments to receive orders from customers in an environment characterized by increasing prices and promptly adjust the prices without hampering relationship with customer. And second, there is the capability of the operation departments to transform ordersand invoices in an environment of logistic and supply chain issues and keep production going because of the raw material and spare parts that we have in our inventory, and within a longer horizon because we are able to increase the industrial capability whenever it is needed.

Taking briefly into account the other growth driver,perimeter change and FX, I would like to mention that perimeter change of the quarter were mainly White Drive and Draintech**.** White Drive we will discuss later on the details and regarding the progresses that we are achieving. Draintech was the small but perfect acquisition that we did last May in the power transmission business. These 2 acquisitions explains something close to 17% growth.

FOREX in the quarter had a positive impact of around 7%. And speaking about FOREX, of course, please always keep in mind that that it's mostly a translation effect because Interpump Group mostly produce and mostly sell in the same currency.

Closing the loop on salessome details on our performance in terms of application sector and geographies. In terms of application sector, I will focus on the most important ones that represent more than 5% of our turnover in the quarter.Industrial vehicles were up by more than 17%, agriculture and forestry up by almost 50%, lifting up by 30%, cleaning up by around 13%, construction 10%, earth moving 30%, and so on.

In terms of geographies, always keep a materiality approach.Italy was up by almost 15%, US up almost 30%, Germany around 10%, last but not least, China to be mentioned to keep you posted and not for its importance, because it represents less than 5% of our sales, finally recorded something more than a positive sign, recording a plus 30% result after lockdown and in some important regions.

Moving to EBITDA.Our margin was 23.9%, excluding White Drive and one-offs incurred in the quarter, 23.8%, including everything. I proudly repeat 23.9% versus 23.7% recorded in the third quarter 2021.At the end of the second quarter, the Group was on the verge of Mount Everest.At the end of the third quarter, I believe that we can say that we raised the flag on the Mount Everest.

At theend of the second quarter, I would like to underline you something that had a negative impact. One-off cost of about €1.6 million related to the fire that last May seriously damaged one of our factories in Romania. Today, it's something with a positive impact and anticipation of €4 million from our insurance company. With a serious and consistent approach as last August, we highlighted you all the details. And today, we are highlighting you a positive impact on slide 5, 6, and 39 of the presentation.But as you know, for us there is only one EBITDA, the reported one.And this is particularly true for this quarter, because I hope that you will agree with me that 23.9 or 23.8 doesn't change the reality. The reality, once again is in a quarter with inflationary trend, and in particular with crazyhigh utility costs, our Group was able to protect profitability.And this is the result of our traditional and consistent industrial approach, which drove to the prompt deployment of the countermeasures from the selective pricing policies to the inventory management.

This improvement drove to a 9-month margin of 24.2%, compared with the 24.4% of 2021, only 20 basis point margin dilution on a like-for-like basis.And for the first time this year, we delivered quarterly profitability higher than the same period of 2021.I proudly repeat, we are closing the gap.

Two last remarks on the third quarter profitability, and on the full year '22 profitability. Regarding the third quarter profitability, the dilution effect of White Drive was in line with the one of the second quarter, approximately 70 basis points for the 2reasons you are aware of. The first one is that as indicated in 2022, White Drive integration steps during summer, the 2 remaining exits on production lines were transferred to our factory in Hopkinsville, Kentucky, and this originated the disruption and inefficiencies in local production.Second, obviously, in a better quarter dilution is higher.

The second point is relative to the full year '22 profitability, €4 million was the anticipation of an higher amount that we will receive in the future.We still do not know either the total amount or the timing, but at the end of the day, how much we will receive or when we will receive do not matter.To be very clear and to avoid any kind of confusion, 2022 commitment of confirming aproductive profitability is basedand was based on the same assumption of the start of 2022, and the called consolidation of White Drive in particular.

I assume that some of you will identify the free cash flow generation as the only weakness of this set of results, as my previous role of financial guy would suggest me as well, vice versa in my role of business leader of the biggest part of the Group, I'm not sharing some judgment, because I see the other side of the coin, a too beautiful side of the coin, no disruption in the production processes and margin protection in an inflationary environment. 15.7% organic growth and 23.9% of EBITDA margin was made possible also because of our high level of inventory.

In the past, words like inventory and CAPEX were something with a negative connotation, I mean, absorption of resources.I hope that quarter-after-quarter, inventory became synonymous of organic growth execution through production continuity, or/and smoothing inflationary trends. And CAPEX became synonymous of organic growth execution through production continuity in the medium long-term.And therefore, we would say that cash generation until now have been used to deliver growth through inventory, CAPEX and acquisition, as we will elaborate shortly, and value to our shareholders and even in this demanding period, we kept well in mind our shareholders and through buyback and dividend. We dedicated ample sources for a total consideration of around €160 million this year.

Going back to the perception that cash generation could be seen as the only weakness of this set of results, and pointing out the business leader and industrial approach, I would like to recall that these 2last years were extraordinary years, which deserved an extraordinary reaction that today we believe is time to praise.And therefore, we do not foresee the need for an additional strong step-up in the level of our working capital in the near future, considering the growth that we are expecting for the next few quarters. The cash generation capability of our Group did not change, and vice versa, our Group is much stronger today.

Please allow me to elaborate a bit better. In May, we shared with you an analysis showing our reaction in the 2 most difficult periods of our Group recent history, 2008, 2009 financial crisis and 2020 pandemic crisis.2020 reaction was better due to a different dimension coupled through a better diversification by division, by geography, and by application.

We updated this analysis from a cash generation point of view.Please refer to the Slide 33 of the presentation, and we would like to share with you 3 additional Group reflections, the unchanged capability to steady and constantly generate cash, executing a growing strategy, then change capability to exploit this cash generation in worsening environment and the improved, I would say, wiser approach to growth.

What do I mean with both consistent cash generation and this exploitation? Between 2008 and 2020, we grew without jeopardizing our capability to transform EBITDA and free cash flow, as the consistency of our free cash flow to

EBITDA ratio is showing. And when we faced a difficult environment, we were able to exploit this cash generation, thanks to the quality of our customer because it's important to underline that we are not selling our products to everybody, but mainly to large and solid OEMs. And in any case, we have precise and defined policies to manage and mitigate the credit risk.

Second, to a tactical supply chain management based on a sound and consistent industrial approachand our fair relationship with suppliers and third, with the capability to fast adopt inventory…adapt inventories. As we are able to build them to protect production and profitability, we are able to free resources whenever we will have the occasion. We exploited these capabilities during the financial crisis, and weconfirmed in the COVID crisis. So nothing changed in this decade, or something changed, we became wiser, we learned the 2009 lessonwell and we understood that the growth through CAPEX oracquisition need to be grounded on solid basis. These are the reason whywe are strongly convinced that the cash generation capability of our Group did not change vice versa, our Group is stronger. And what you are seeing right now is the extraordinary reaction to anextraordinary period that is going to an end.

As promised a few weeks ago while speaking about sales and profitability, a brief focus on White Drive, the most important acquisition ever made by Interpump. Let's summarize what is goingon in respect of the 3 steps of 2022 integration plan. First, the transfer or the 4 production lines of Eaton and increased productioncapability.The remaining 2 production lines were allocated insummer, and today 3 out of the 4 are working, and to have thefourth working, we are awaiting for some components and additional machinery from some supplier. Almost €14 million of CAPEX hasbeen invested since October 1st.

If I recall well, my first action is White Drive Chairman was to sign the purchase of a set of machines. Second, the sharing of Interpump best practice in terms of productionplanning and customer service, in Poland in particular that today is not working on integration part, it's running, and I have to underline that is already exceeding some of the companies, which are inside ofour Group since much more time. Third, the exploiting of cross-selling opportunities and in this case, with the full transparency we characterize our Group, we have to admit that at this point, nothing has-been really done. This is partially driven by the decision taken after the first months of integration. I mean, we decided to push on the increaseof production capacity and on the improvement on sales and customer experience. We have to define priorities and focus as much as possibleon the…on supporting the customer demand. After some months from thisdecision, we believe that we took the right one.

To conclude the point related to acquisition, let's go from what we did in 2021 to what we did in 2022. Last May, we bought Draintech to enhance power transmission business. And few weeks ago, we acquired Eurofluid to reinforce the valve business. Through acquisitions in very different businesses, but perfectly consistent with Group strategy milestones, announcement of group activities, as just mentioned, alignment to a common entrepreneurial project, good financial performance to be leveraged on a favourable vision approach.

It's important to mention that Eurofluid is a company based in thehydraulic Silicon Valley, I mean our valley with more than 30 years ofexperience and they specialize in manifold blocks with both standard and tailor made production. We have been knowing them quite wellas it isnow was one of the best suppliers of Walvoil and even more, one of the owners had past professional experience precisely in Walvoil. Even if October is the tenth month of the year and therefore is notincluded in the period we are speaking about, please allow us to spend a few words on the delivery of one of the 3 2022 Group focus, the consolidation and alignments of Group sustainability activities and processes. Therefore, please Ms. Cugnasca.

ELISABETTA CUGNASCA: Thanks, Mr. Marasi. Last February, we took the commitment to just, Mr. Marasi just remind you, to deliver, and its delivery was consistent with the natural path of governance activity and Group concrete approach. In April, group shareholder meeting approval 2022, 2024 incentive plan and one month ago, Board approved 2022 to 2025 ESG journey. It's quite late in the afternoon I inserted in third quarter results presentation a selection of the slide we use to inform on these 2 steps. I believe that the most of you joined the conference call, we had to explain our journey and therefore, I will underline only few points.

For 2022 to 2024 incentive plan, the incorporation of many suggestion we have been receiving since the approval of the previous one, as for example, in terms of KPA…KPI to be achieved for the vesting, and consequent then we did exercisability of the options, a more precise definition of the financial KPI and the introduction of ESG KPI. Then introduction of a claw back clause.

For the ESG journey, the presence of 20 targets, 12 of them to be delivered between the next 2 years to build theGroup ESG foundation and 8 to be executed before 2025. To be precise, 7 before 2025 and 1 before 2027, to lead to 2030, 2050 decarbonization targets. The identification for each of the 3 mainstream of3 key targets.For environmental, the definition of the carbon neutrality strategy, the reduction of the carbon intensity and the increase of renewable electricity consumption. For social, the improvement of the injury rate, the introduction of ESG supply chain evaluation, and the ISO 45001 extension. For governance, the establishment of BoardESG

Committee, the succession plan, formalization and a tax compliant consolidation, a mantra to apply concreteness.

To conclude on the ESG plan, we would like to fine tune a point which perhaps was not clear enough during the…our disclosure. The definition of the ESG journey, started considering a sample of Group entities, a sample which covers almost 65% of 2021, sales around 50% of Group productive sites and around 70% of Group employees, but it's execution will embrace the entire group.

I leave to Mr. Marasi, final conclusions.

FABIO MARASI: Thanks again, Ms. Cugnasca. Summarizing the financial results for the third quarter '22 are, once again the evidence of the on-going delivery of 2022 commitments, and the comfort and support of the first assumptions on another year of organic growth for 2023. Based on the consistent extraordinary level of order backlog of the Group, and the feedbacks that we are receiving from the most important customers that we met in 2 fundamental exhibitions, Bauma Munich dedicated to construction machinery and EIMA in Bologna dedicated to agriculture. And [indiscernible] we are discussing 2023 outlook in these weeks. We are at your disposal for any questions you may have.

Q&A

OPERATOR: Excuse me. 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 a touchtone telephone to remove your question, please press "*" and "2." Please pick up the receiver when asking questions.

The first question comes from Matteo Bonizzoni of Kepler Cheuvreux.

MATTEO BONIZZONI: [Technical difficulty] I have 2 questions basically. The first one is on the statement [indiscernible] growth for 2023, which is a really positive in my view for, not for me because I have a country mechanism for more organic growth for next year for you, but for the market, it was clearly the market that concerns. So my question is, what makes you confident to have an organic growth in the sense, is the situation in which you have a visible…such a strong visibility, let's say, for a first start that even if you should have a slowdown in the second half, which in any case pointing to a positive direction. So, just I want to understand better what are the reasoning which you have in mind which underpins and justify your statement which seems to be quite confident, so, we are seeing it in quite a confident way that you are pointing on that growth next year.

The second question is related to the evolution, which is quite weak on the raw material and energy cost, because from a situation in which everybody is scared about cost inflation, starting from summer, we will see if it continues. We have had a material decline of the industrial metal across the Board from copper to the other, I would say, double-digit. And also, from the peaks of the electricity price and gas prices of this summer, we have had at least in Italy a real decrease. So what is the implication of this new picture for you for 2023 in terms of margin and pricing? Thanks.

FABIO MARASI: Okay. Thank you. Thank you, Matteo, 2 very, very important questions. Regarding our confidence about 2023 organic growth, you touched the most important aspect that makes us confident. We are so confident because of, first of all, the level of backlog that we have, in particular in many companies in Hydraulics division, that is extremely high and then even in case…in the case in which the final customers or the market will slow down a bit during '23, we have such a high level of order backlog, and also the past view for the backlog that we are confident that we will have the possibility to run our factories at full speed for at least a significant part of 2023. And even if some slowdown will appear at the end of next year, we will have a full year with a positive organic growth.

And also, it is very important to underline that our important customers, the big OEMs, are foreseeing some normalization in their demand, that are foreseeing a stabilization at a very, very high level and are still really focused in getting as much component…as much material as possible.

And also third aspect, their dealer if you look at John Deere, CNH and their likes or Bobcat, whenever they comment the outlook for the next few quarters, they comment that the level of finished machines in their dealership network is super thin…is at the record low. Then, even in case of some slowdown, in the final demand, it will take time to replenish the dealership way of final machines. And then we are pretty confident that at this point in the year that 2023 will be another positive year despite many expectations or despite some forecast, or some analyst projection for next year. Very important has been also the discussions that we have had in these 2 recent exhibitions with the customer base.

Second question that is very, very important is the evolution of raw material cost. If it is true that since May-June, we have seen a pretty significant decrease in pure raw material cost, I mean cost for aluminium or pig iron, you have to consider that we are not buying pure raw material, but we are buying transformed raw material. And the transformation cost of this raw material are mainly electricity cost and considering what happened this year, where the record high increases in energy cost in the PUN in Italy or everywhere in Europe, the decrease in the pure cost of raw material has been much more than offsite [ph] by the spike of electricity cost.

This was the situation until September 30. We are commenting today the third quarter. It is also true that in the month of October, we have seen a huge drop of the cost of electricity in Italy and in Europe. I believe that it is still too early to anticipate what will be 2023 level of electricity cost, which will be the new normal situation. In any case, we have put in place mechanisms of adjustments of the prices with customer based mainly on surcharges…on electricity surcharges that if electricity will go up a lot, we will charge more to our customers to protect ourselves. If electricity cost will go down a lot, we will have to give back something to them, because we will not face the cost. At the end of the day, we may say that we are hedged on the cost of electricity at least with a full year perspective. From month-to-month or from quarter-to-quarter, we may have some variances.

MATTEO BONIZZONI: Okay. Thank you.

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

ALESSANDRO TORTORA: Yes, hi, good evening to everybody. I have 4 questions, okay. The first one is on just a follow-up on what you mentioned before, considering the expectation of a positive of any growth next year. Can you, let's say, elaborate a bit more on, let's say the good for the outperformer, probably, let's say Walvoil should to be one of these. Just as a, let's say, a sense of the outperformer inside, let's say, your portfolio of companies and also if you can, let's say, also elaborate a little bit also on Hammelmann on the very high pressure pump side. This is the first question.

The second question is on White Drive, which is basically also linked to the first one. Considering the evolution we saw this year, can you also let's say, comment a little bit on expectation, considering capacity increase for White Drive, let's say, trend next year on sales and profitability?

The third question is on the organic growth. Considering, let's say, the 9 months level, which, let' say, which level of cumulated price increase we have seen in that organic growth? If you see, let's say, high single digit cumulated in the first 9 months?

And the last question is on M&A, considering the current interest rates environment, do you see, let's say, less competition, maybe less priority equities around, just to understand those are the valuation environment for you on the M&A side. Thanks.

FABIO MARASI: Thank you Alessandro. Many important questions. Regarding our expectation for growth in 2023, if I can share some color by company, it is true that we have some company with a longer visibility in comparison with others, but what I believe is very important to underline, is that the growth in our order backlog and the growth in the visibility that we have today is really, really well balanced between the 2 divisions, and it's balanced within the divisions. It is true that the order backlog of Walvoil, of White Drive and of Hammelmann in the Water Jetting division is stronger than average…far stronger than average. But we don't have significant up, significant down. We have a pretty balanced expectation for growth all through the company, so through theactivities of our Group, and this is very, very important in order to manage also the growth or the balance growth of the manufacturing capability.

Regarding the price effect and the volume effect, I would say that if in the first 9 months of the year, we have being growing approximately 14% organically,I will say that 6% is the price effect and 8% is the volume effect more or less, okay. White Drive integration and outlook for '23, it is true that we have invested quite a lot in order to enlarge, in order to grow also the manufacturing capability of White Drive, and we expect positive a important growth for 2023 and in particular, we expect the normalization of the profitability of the American side of the business, and then if we consider the whole White Drive, we expect that the profitability of the company for 2023 will be close to the profitability of the overall distribution.

Regarding the interest rate spikes, I believe that for…and the impact on M&A, I believe that this spike will have an impact on possibly large transaction or large important targets. On mid-size companies like Eurofluid and their likes, the interest rates or the financial consequences of what happened are not really relevant, because of the industrial approach and the industrial discussions, that is the main driver for a transaction like the Eurofluid one. That is true, and it is correct that for larger transaction that may appear on the market, considering the far higher level of interest rates and the far lower availability of funds for financial sponsor, we may face lower competition, and this may be a positive news for the future…M&A ambitions of our growth.

ALESSANDRO TORTORA: Okay, understood**.** So just to confirm, let's say, on the remaining side, let's say, the [indiscernible] would feel…I mean an actual level, let's say, of high single-digit multiple would pay just as a confirmation. And on the White Drive side, if I understood well, the target could be, let's say, to say at least in the region of 20%, let's say, EBITDA margin next year assuming, let's say, the full integration of the US operations.

FABIO MARASI: Regarding White Drive, our target is to be well above 20% EBITDA margin next year. Regarding acquisition multiple, I believe that we never paid double-digit multiple, and I do not believe that we will pay in the foreseeable future, but never say never, it really depends on the target. I have already commented several times in recent quarters that we are prepared to analyze slightly larger transactions even at a slightly higher multiples, but the higher means 1 point more or 2 point more in comparison with our usual 6 times EBITDA or something like that.

ALESSANDRO TORTORA: Okay. Thank you.

FABIO MARASI: I do not see this multiple doubled.

ALESSANDRO TORTORA: Okay, thanks, Fabio.

FABIO MARASI: Thank you, Alessandro.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your touchtone telephone. The next question is from Domenico Ghilottiat, Equita.

DOMENICO GHILOTTI: Good afternoon. Just a few additional question, and one is a clarification and just to be sure, on the working capital your comment saying that you are now, sayfairwith the current level, so you do not expect to see big additional increases, if it means that in absolute level or let's say, related to the level of sales. And the second question is just a follow-up, say, on the mix between the 2 division, Q3 had a big increase,with a bigger recovery in the Water Jetting,if I understand from your comments on the backlog, you see Water Jetting in general remaining very, very supporting in terms of organic growth?

FABIO MARASI: Yeah. Thank you. Thank you, Domenico. Regarding working capital, I will say that the size of working capital that we have today even in this tough environment with all the supply chain issues, the logistics and so on, we believe that the current size is sufficient to support the business that will be €2 billion plus in terms of sales, and will be growing in 2023. Then we do not see significant increase in absolute terms, and we see some decrease in relative terms in percentages on sales. And regarding the Water Jetting performance, we are very pleased about the very strong recovery in the third quarter, and the order backlog that we have, and considering also the meaningful of the…or the stronger meaning of the order backlog inWater Jetting in comparison with the order backlog in Hydraulics, we expect a strong support also in 2023 from Water Jetting to the consolidated organic growth.

DOMENICO GHILOTTI: Okay, thanks. I have a follow-up on an additional question, and on the cost of debt or financial charges. What is, let's say the impact and the expected cost of debt that we should assume for 2023, and if you can help us understand so Q3, if I am not wrong was, let's say, affected also by FX or it's difficult for me to…for me to get to the proper cost in the quarter?

FABIO MARASI: I believe that it's easier and wiser to consider the size of the magnitude of the increase of the interest rates for 2023. If you consider our net financial position and you consider a couple of percentage point in average growth of the interest rates, you should expect something like €15 million of interest rate extra cost, 10 to 15 million in…something like that.

DOMENICO GHILOTTI: Okay. Thank you, Fabio.

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

MICHELE BALDELLI: Yeah, thank you very much for taking my question. It's relating to the improvement of profitability of [indiscernible]**?** Can we say that there should be, let's say [indiscernible] division of 100 basis point expansion of the margin next year, because I mean, if we do the math for this acquisition diluted the margin by this kind of effects to this year? This is what I am trying to say?

ELISABETTA CUGNASCA: Sorry, Mr. Baldelli, the line is very…not so well, can you please repeat slowly your question?

MICHELE BALDELLI: Yes, the question is related to the White Drive [ph] acquisition. I was wondering if this acquisition diluted the margin by roughly 100 to 120 basis point this year. Can we assume that next year there should be a reversal and therefore an expansion of the margin?

FABIO MARASI: The reality is that White Drive diluted the consolidated margins by 70 basis points, not 130 first, and second, considering the improvement in the performances of White Drive that we expect in 2023, we believe that the dilution will be far lower, considering that we expect that White Drive once terminated the restructuring activity that are characterizing mainly the American side of the business, will express profitability that will be at least aligned with the profitability of the Hydraulic division of the Group.

MICHELE BALDELLI: Okay, that's clear. So the 70 basis point will be reverse in this case at lease. Thank you.

FABIO MARASI: No, no.

ELISABETTA CUGNASCA: Sorry, Mr. Baldelli, Mr. Baldelli to be precise perhaps the line was a bit difficult to hear, we are not saying that in 2023 there will be a reversal of 70 basis points. We are saying that the dilution effect on the 9 months 2022 was 70 basis points and that in 2023, the dilution of the business will be lower, but in any case, we are thinking of increasing something in Hydraulic, not Water Jetting. So, again, because we perceive that you say that there would be a recovery of 70 basis points, this is not…sorry, but the line is a bit disturbed.

MICHELE BALDELLI: Yes, now so basically just to make it clear, because the 70 basis pointsis at the Group level that you are referring to are theHydraulicsdivision?

FABIO MARASI: For the consolidated level of the Group?

MICHELE BALDELLI: Okay, no I was referring no I was referring to the Hydraulic sorry, so probably it was that the point of confusion. If we look at today Hydraulic, at the end let's say you said that next year the margin should be similar between the White Drive [ph] and this division ex-White Drive, yet we can say that inside the division then, there will be a reversal of the dilutive impact?

FABIO MARASI: I do not understand clearly what does reversal means, but I expect as already communicated several times, that once terminated the restricting activities of White Drive, that we assume will be terminated completely this year, White Drive will express an EBITDA margin that will be aligned with the EBITDA margin of the whole Hydraulics division, then in effect without any dilution.

MICHELE BALDELLI: Okay, okay. Perfect, yes, thank you very much.

OPERATOR: Ms. Cugnasca, there are no questions registered at this time, madam.

ELISABETTA CUGNASCA: Okay. Therefore, thank you very much for your attendance. We are very proud of third quarter results, and we hope that you share your presence with us. Have a nice evening.