



INTERPUMP GROUP

Interpump Group S.p.A.

3Q-3QYTD2024 Results Conference Call

Thursday 14th November 2024

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Interpump Group Third Quarter 2024 Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Ms. Elisabetta Cugnasca, Group Head of Investor Relations. Please go ahead, Madam.

E. CUGNASCA: Thank you very much. I'm Elisabetta Cugnasca, Head of Investor Relations of Interpump Group. Good afternoon or good morning, depending on your time zone, and welcome to this third quarter 2024 financial results conference call. As usual, I must draw your attention to the disclaimer slide inserted in the annex part of the presentation, that I hope you were able to download from our website.

Now, I would like to introduce Mr. Marasi, Group CEO.

F. MARASI: Thank you, Ms. Cugnasca, and thanks to all of you for joining our call. For first and second quarter 2024, I started my quarterly speeches with numbers. Now, I will go on with this tradition for third quarter results too, focusing on EBITDA and free cash flow numbers.

EBITDA, for the first quarter, organically, sales are down...were down by a bit more than 9% and EBITDA down by close to 14%. Second quarter organically, sales down by more than 9% and EBITDA down by around 13%. Third quarter, organically, sales down again by more than 9% and EBITDA down by around 15%.

Summarizing, thanks to both the effectiveness and the lasting influence of the adopted countermeasures, 3...almost 10% sales decrease in a row resulted in a profitability reduction consistently in the range of 10%, 15%, despite the perfect storm that is impacting the Hydraulics division.

This is an important and remarkable result for a group made up by many companies that from an operational and an industrial perspective are highly integrated in terms of manufacturing process.

In front of a persistent and consistent sales drop, our group was able to promptly and effectively react, having persistently and consistently limited EBITDA margin variation with an average dilution between 100 and 150 basis points in such a tough environment. This is once again the evidence and the confirmation of our group business model and operational flexibility, and therefore, group stability, resilience and excellence in terms of profitability.

Moving to free cash flow. As of September 2024, Interpump Group cash flow generation almost reached €160 million, even higher to the €150 million reached in the first 3 quarters of 2020, the best year in our group history in terms of cash flow generation. Today, we are well on track to a new record.

After the usual snapshot on the most relevant achievement of the quarter, let's focus with more details on the evolution of the most important financial KPIs and topics for the group, sales, EBITDA and cash generation. In the third quarter, sales decreased by almost 8% in total and by more than 9% organically, therefore, in line with the organic decrease of the previous quarters of this year.

In the quarter, the material difference in terms of performance between group divisions was once again confirmed. Hydraulic sales decreased by almost 17% on an organic basis, with sales of the Water Jetting division increased by 14% on total and by almost 9% on an organic basis. Therefore, in the Hydraulic business normalization trends are going on, while in the Water Jetting business, the post-COVID recovery is going on.

Let's explain the perfect storm of Hydraulic. I mentioned you in my introduction. One year ago, in the third quarter 2023 sales, some of the application started to normalize

with some others were still growing. This different evolution resulted in an organic increase of sales of a bit more than 2% in that quarter.

Exactly this different evolution within the Hydraulics division went on in the following months, and it was consequently the base of our double assumption for this division in 2024. A gradual recovery for application, which started to decline in summer '23 and the start of normalization for applications, which were still growing at 2023 end.

Unfortunately, only the second phenomenon happened. The start of the normalization trend for the application, which were still growing at the end of '23 and not the first one. I mean, the gradual recovery for application, which started to normalize in summer '23.

The organic sales decrease of almost 17% in the third quarter is, therefore, the result of this perfect storm. The combination between ongoing stagnation, for example, in agriculture application that is still down around 25% and ongoing normalization, for example, in the construction application that started this year and is still lasting.

After the perfect storm, let's move to the Blue Sky, the Water Jetting division, whose strength is becoming more and more noticeable. In the first quarter, organic sales were almost flat for the tough comparison base. Today, sales are up by almost 9%, the same results of the third quarter 2023, and therefore, a 9% growth on a 9% growth of the same quarter of last year. This evolution perfectly reflects the late cyclical nature of this business, and the strength of some specific businesses as pressure pumps, flow processing accessories and revenues for projects.

We are now switching to EBITDA. Starting from Hydraulics, I believe it's important to praise again the ongoing and effective cost adjustment activities implemented by our colleagues and the group, which limited the sales decrease worsening. This is a really impressive result for a very integrated industrial manufacturing business, which demonstrates both the flexibility of the business model and the focus of our operations in terms of processing, labor cost and G&A management.

Moving to Water Jetting vice versa. While last August, I frankly admitted you my disappointment for the profitability performance of this division. Today my comment is quite different and with a more positive color. Reasons were causing the dilution impact of the acquisition are becoming weaker and weaker. As I will mention later in the usual focus on acquisitions, the cash recovery we saw in Waikato became a profitability recovery.

Our restructuring efforts on the New Zealand activities are paying off and the integration of the abroad network is going on. Notwithstanding, we cannot deny that there is still work to do from an organic point of view. We still must find the best and consistent way to manage inefficiencies coming from sales mix or temporary situation, such as changes in production flow in some subsidiaries plants.

Now let's move on to the cash flow generation and its different components. In terms of CAPEX, finally, the normalization of CAPEX level we anticipated due in last February is becoming more and more noticeable. With pay year-to-date CAPEX decreased by close to 20% with an incidence on net sales that went down from more than 7% to around 6%.

Exactly last year, we started construction activities of the new headquarters of Interpump Hydraulics in Bologna, which is progressing steadily. Next month, new machines will be installed and the gradual transfer of all activities, shipping department first will start in January, aiming to protect operations continuity and minimize inefficiencies.

Moving to acquisitions. In the first part of 2024, we performed acquisitions, which reflected 2 Interpump strategic acquisition drivers, the strengthening of group's global network and the completion of group product catalog. For the first driver, PP China and YRP in the Water Jetting Flow Processing segment and Alltube in the Hydraulic hoses and fitting segment for the second driver, Alfa Valvole in the Water Jetting Pressure Pump segment.

A few weeks ago, we announced another deal consistent with our desire to strengthen group's global network, Hidrover in Brazil in the cylinder segment of the Hydraulics business. Hydraulic company with an EBITDA margin around 26% that is more similar to Water Jetting margin.

How did Hidrover top management achieve this result with a strong focus on operations and in particular, on product quality, focus on customers and flexibility and a streamlined organization? I hope you will recognize this as the same strength of Interpump Group as a whole. Moreover, the aspiration of these companies to grow, offering new products and application to consolidate customers and looking for new businesses. And we will support, of course, this path with our already existing commercial forces. The strong similarity between us and Hidrover allowed us to overcome the extreme cautious we have versus South America, which I guess somebody of you is for sure recalling.

A final remark correlated to this acquisition, the soundness of group acquisition strategy from both a geographic and technical approach point of view. We are an Italian-based group and the bulk of our acquisitions were done in Italy. But this does not mean that Italy is our only and exclusive fishing pond. For that, we are able to exploit our acquisition capability only in Italy.

Let's evaluate our acquisition achievement, not only in terms of number of acquisitions, but in terms of strategic fit. We bought Walvoil, Reggiana Riduttori in Italy, but also Hammelmann in Germany, in Austria [ph] GS Hydro in Spain, Muncie Power Products and NLB in the United States and White in Poland. Until now, this year, we acquired 2 companies in China, 1 in UK, 1 in Brazil and 1 in Italy.

Finally, please keep always in mind that we are buying companies where the best companies are. And in the Hydraulic business, Italy is the only country of some of the best companies in the world. Probably, if we were a luxury group, we would have both companies in Italy or France.

I mentioned before the soundness of our acquisition strategy from a tactical point of view, too. We have our long-term acquisition strategic goals to strengthen group's global network and to complete our group product catalog, but we are ready to change the implementation in the medium, short-term if needed. We gave up buying flow handling companies some years ago due to the crazy competition of financial sponsors and private equity.

Starting from last year, we bought 4 companies because the condition in this market changed. Today, agriculture and construction sectors are heavily influenced by the normalization process that is underway. And now, we will take the opportunity to buy...we took the opportunity to buy a very interesting company operating in this sector at an attractive valuation.

To conclude the overview on acquisition, a few words on Waikato, which is getting a bit more attention compared probably...compared and it probably deserve considering its very limited size. I already anticipated to you the positive updating the integration and restructuring plan that was giving results in terms of cash generation today is bearing fruit in terms of profitability, too.

In these 9 months, the EBITDA margin of the entire group improved significantly from a bit more than 4% to almost 8%, driven by the business in New Zealand, which represents today more than 70% of Waikato and that improved its EBITDA margin from less than 10% to close to 20% at the end of September. And therefore, profitability improvements are following the cash flow generation improvement.

Going on, a few additional words on what I define the best results achieved until now this year, the free cash flow generation from around €100 million to almost €160 million in the first 3 quarters of the year. We took a commitment in summer '22. Now we are well on track to achieve the best results in terms of cash generation in our history. CAPEX is normalizing.

Trade working capital is normalizing after the extraordinary effort implemented to support the exceptional organic growth of '21, '22 and '23. On trade working capital precisely, it's important to underline that for the second quarter in a row, the cash generation related to trade working capital is not driven by a reduction of cash absorption, but from a real cash generation.

Let me hand over to Ms. Cugnasca now, who will bring you up to date on group ESG plan before the usual overview on most recent market trends and more details on the 2024 expectations.

E. CUGNASCA: Thank you. Last August, I gave you a short updating on the work in progress of the 6 actions related to 2024 of 2023-2025 group ES journey, having underlined you that all activities were in progress according to the related timetables. For these reasons, G4 action, tax compliance consolidation in line with best practice was approved by Interpump Group S.p.A., Board today and subsequently announced. Therefore, please allow me to elaborate a bit on this action through which our group's aims.

To integrate the fiscal strategy inside the group's strategy definition and execution and to take an important step towards fiscal transparency. As a matter of fact, hopefully, next year, the parent company could be entitled to receive the attestation from authorized certified according to the new provision of the legislative...Decreto Legislativo 221/2023 and subsequently adopt the Italian tax cooperative compliance program 2 years in advance. Being aware that taxes is a boring or even worrying topic, I will keep the long story short, and I suggest you refer to both the official documentation and summary presentation available on the website.

Only a final remark. The Tax Control Framework adoption is not a compliant exercise. Compliance would have been in 2028. It's a sustainability exercise, which show once again the transparency and the commitment of our group.

Moving to the still pending 2024 action, E7 product eco-design, last 13 June, the European Regulation 1781, the awaited European regulatory framework on these

topics was issued, and we start to work again after implemented in the first part of the year, all preparatory activities. The analysis of the regulation confirmed the quality of the preparatory activity done and now the last step of the fine-tuning process is undergoing.

S1, injury rate improvement. As usual, related data will be available in March for our first CSDR. S6 ESG supply chain evaluation model extension to all Italian manufacturing entities. After the definition in 2023 by Valvole of the new supply chain evaluation model, incorporating ESG criteria, corporate function fine-tuned it to incorporate features of other group business model and immediately before summer break, the new draft was distributed internally for an additional feedback round.

Subsequently, a few weeks ago, the new ESG supply chain evaluation model was deployed to all Italian entities and distributed to suppliers in Valvole with December end as due date for feedback. All this in relation to 2024 action. But as you probably already noticed from our press release, today, we announced group board approval on an action originally foreseen for 2025. S4, the global mobility program. What did originate this anticipation? One of the common features of 2024 action is the important and material coordination and centralization work implemented by corporate function. Since this action is another action driven by corporate, we seized the opportunity to anticipate the related activities. Global mobility is a driver to achieve some important factors.

Implementation of group strategy. Manager's mobility is designed to support the group presence in the key markets, facilitating the transfer of critical skill, meeting local needs of hosted company. Alignment to group 2023-2025 ESG journey. Mobility promotes greater diversity, equity and inclusion within the organization.

Fast track for professional growth, it enhanced skill development and speed up achievement of career milestone, offering diverse experience and exposure to different roles and environment.

Value creation. Mobility is the key tool for driving growth by enabling strategic allocation of talent and expertise where needed. Summarizing, we are on path on 2024 journey action, and we already started to work on 2025 ones.

F. MARASI: Thanks again, Ms. Cugnasca. Now, the usual overview on most recent market trends and future expectations. On most recent evolution confirmed the previous month evolution. From one side, the perfect storm is still present in the Hydraulics division with the mix between stagnation and stabilization and from the other, Water Jetting is still benefiting of the Blue Sky with acceleration trend confirmed.

2024 expectation, the consistency between previous trends and most recent evolution make us confirm our sales guidance of high single-digit sales decrease on an organic basis. Even if to be fully transparent with you, we will probably be closer to the worst part of the range and not to the middle or the best one.

Obviously, this change pushed us to redo accounts in terms of profitability. This minimal variation in terms of sales means a minimal variation of profitability. And therefore, again, to be fully transparent with you, our EBITDA margin expectation is now between 22.5% and 23% instead of around 23%. We don't want to play with wars, and we don't want to mislead our stakeholders. We want to be transparent, reliable and trustworthy.

On top of this, I would like to broaden our horizon. After 2009 and 2020, 2024 would be the third worst year in our group history in terms of organic sales evolution with an high single-digit sales decrease, and this could result in a margin erosion from 23.5% of 2023, excluding IMM positive one-off to 22.5% to 23% of this year, which means 50 to 100 basis point margin dilution. I consider this limited dilution the best possible evidence of Interpump stability, resilience and excellence in terms of profitability and margin protection in good years and in bad years.

Going to the topic probably perceived as the most important one by this audience, by far more important than third quarter results or even more important than full year results, I mean 2025 expectation. I would like to explain why it is really too early to say something meaningful. Due to our group decentralization management approach, our budget process follows a bottom-up approach, which started at subsidiary level at the end of October and that the fundamental moment of sharing in the brainstorming with corporate function is mid-November. Exactly this week, the process is starting, and it would be absolutely misleading to elaborate meaningful assumptions based on the indication of some company in the group before the conclusion of the entire process.

Our businesses, as you know, very well, are very different, not only between the divisions, but even within the single division. The indication at this stage still more qualitative than quantitative coming from White Drive are completely different from the ones coming from Hammelmann, for example. And the indication coming from Hammelmann could be way different from the ones coming from Interpump within the Water Jetting division.

Based on the business structural features and backlogged past evolution, only one indication could be given. The Water Jetting division will remain strong even after the very good results of 2024. And this will be a very important support in particular to protect our margins. On top of this, another indication can and not could be given. Leveraging on our business model flexibility, we will go on in adapting cost structure to sales evolution, and we are ready to consider and implement even more severe and strong countermeasures in case of need.

I share with you this thought to avoid misunderstanding during the Q&A session, but I would like to underline one important topic. We are thinking to 2025, but we are focused every single day between tomorrow and 2025. Today we released 3 numbers which clearly demonstrate our group capability to deliver its commitment, protecting profitability, and increase cash flow generation.

First is that despite the 3 almost 10% sales decrease in a row, we limited the profitability reduction in a range around 10% to 15%. And therefore with a very limited EBITDA margin reduction. The second point, September year-to-date free cash flow, almost €160 million. Today, we provided you a short, but interesting overview of acquisition performance till now, acquisitions which perfectly fit with group strategy, paid the right price, and are ready to contribute to group growth ambitions. We will go on exactly on this path with exactly the same commitment. Thank you.

Q&A

OPERATOR: Excuse me, this is the 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." We kindly ask to use handsets when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question comes from Matteo Bonizzoni with Kepler. Please go ahead.

M BONIZZONI: Thank you, and good afternoon. I have 3 questions. The first question is on the evolution...the different evolution of the 2 divisions. So we have seen during the year a progressive acceleration of the organic trend in Water Jetting, which in Q3 was very strong, 8.6% up. And on the contrary, deceleration in Hydraulic, which in Q3 was minus 16.6%. The question is, for Q4 should we expect Water Jetting to remain so strong or maybe still positive, but a little bit less? And as regards Hydraulic, we remember that December last year was jeopardized by this abrupt reduction of the production rates by some of your OEM [ph] customers, which also impacted negatively your margins? Should we expect maybe a slightly softer decline organically in the fourth quarters or not?

Second question is, exactly as regards your idea of what could happen December this year? So do you expect a risk? Do you see a risk that also this year there should

be a quick reduction or production rates? Are you prepared for that or you can exclude more or less this scenario?

And the third and last question, we have understood that you are not ready and I mean, it's clear you're not still ready to share any projection for the next year, you are preparing the budget, you are speaking to your young customer and that's very clear? But maybe you can share some qualitative details? For example, what is your feeling on the level of stock across different end markets, dealer inventories or in general production inventories? Do you think we are mostly over in the cleanup or not? And maybe, yes...if you can maybe comment on this point, if you have some reference on the different relevant markets in Hydraulic, agricultural construction tracks, and maybe also a flavor by geography, thanks?

F. MARASI: A lot of questions, Matteo, thank you, very comprehensive. The first one, a comment regarding the evolution of the businesses. You're absolutely right in commenting. The different trends between Water Jetting and Hydraulics during the year. In reality, Water Jetting accelerated quarter-after-quarter, and now is in a very, very good shape and we expect that this very good shape will remain in place based on the discussion with the customer, based on the order backlog and so on.

On the contrary, like I was commenting in my speech, we were in some way disappointed by the deceleration quarter-after-quarter of the Hydraulics division, since we were expecting a recovery at least in the second part of this year in some application fields, agriculture above all. A recovery of this trend that is not materializing yet. And this is the reason why we had to adjust and to review our guidance and our indication for the year. But this trend, these discrepancies, the difference between the performance, and the status of the 2 divisions is well evident and I believe that we remain in place for some time going forward.

The second question was related to December, luckily we are still in November then, it's too early to comment, but it is clear what happened in December 2023, because we commented in details last year how we were caught by surprise by the

sudden deceleration in manufacturing activity by our important customer, by OEMs. We do not expect a significantly better environment this year. And we expect a reduction in production in the month of December as well for this year. But the good news is that we are way more prepared in comparison with last year.

Last year we were caught by surprise by the sudden deceleration in demand by the order cancellation and the order postponement. This year we are more prepared, and I believe that we have already put in places many flexibility actions and we have a slightly better visibility on the evolution, and then as a consequence we believe that we will be far less impacted by the reduction in business in terms of EBITDA margin.

Regarding the third point I commented during my speech in order to avoid this question, of course No, apart from joking, the budget session, the budget preparation is underway, and is a very serious process in our group because of the complexity, because of the diversification, because of the different businesses, and many business units and legal entities that we have. The feeling is, what I have commented in the first answer. I mean, Water Jetting is remaining strong or in some cases even accelerating. Hydraulic is remaining weak, at least in the first part of the year, weak at this level but everyone is considering that at least the normalization level...normalization of the stock level that our customer or that customers' customer is ending in some application field, in particular in agriculture. Then we believe that in 2025, we will have at least some recovery and some support coming from the end of this stock level normalization, but it's too early to comment and to conclude on final numbers on a group level.

M. BONIZZONI: Thank you.

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

A. TORTORA: Yes, thanks. I have 3 questions, good afternoon to everybody. The first is on...

E. CUGNASCA: Sorry, Mr. Tortora, we hear you with a very metallic voice. Can you please speak slow, perhaps this sound will disappear? Thank you.

A. TORTORA: Okay. Now is it better or is still metallic?

E. CUGNASCA: It's a bit, but much lower. Thank you very much for your help.

A. TORTORA: Okay. So the first question regards to the Water Jetting performance, if you can help me understand you mentioned before a robust order intake. So if you can comment also a little bit on the trend of the order, let's say, back of this division. And then as you mentioned before on the profitability side, should we think about the level we see in this quarter as something, how can we say normal also considering the measure, okay, you made in order to restructure Waikato. So this is the first question.

The second question is on the CAPEX. Considering the outlook you mentioned and your going normalization if you can give us an indication on CAPEX, on sales for next year?

And last one Fabio, is on M&A. Clearly, we saw let's say, bolt-on, value accretive addition, okay, considering the strategy you mentioned before on the M&A side. But there are any specific reason why today or at least this year or so far, we haven't seen, let's say, larger size deal for the Interpump? Thanks.

E. CUGNASCA: So, I will start with the easy question, the easy question of CAPEX. As you probably remember, last February, we underline you...we gave...we share with the market 2 information. The first information was the CAPEX budget of 2024 between €100 million and €130 million and we are confirming it again. Then we had an additional guidance more a medium long-term guidance because we underline when we were explaining you our big CAPEX project, we underline you that 2024 would have been the first year of normalization trend. The normalization trend that

would bring us back to the usual historical number of Interpump of CAPEX to see the ratio between 4% and 4.5%. So after 9 months, we absolutely confirm you the CAPEX guidance of 2024, 100 to 130 and we absolutely confirm you the immediate...the normalization process is starting and that in the future you will go gradually back...not so much gradually but we will go back to our range of 4%...4.5% on net sales.

A. TORTORA: Okay. Thanks.

F. MARASI: On the first question regarding Water Jetting confidence and order backlog. I can say that the order backlog at the end of September is record high number, and I can underline easily that we have seen an acceleration in the performance for this division in the 3 quarters of this year, almost flattish was the first quarter plus 2.5% was the second quarter and plus 8.6% is the organic increase of the Water Jetting division in the third quarter. Please do not project this trajectory, but this give you a sense of how the business and in particular the project size of the business is evolving, and this is the reason why we are confident that this will be the foreseeable trend also for the next few months.

Regarding Waikato, we have commented the progresses that we are making despite a tough and the challenging level of the mixed price, but what is important is that the restructuring actions that we already have in mind when we acquired the company are finally paying off and we are finding efficiency and we are optimizing the cost structure in particular on the foreign operation network that was clearly the weakest point in this organization.

Moving to your last question regarding M&A large deal, you know very well that in terms of M&A strategy cannot be budgeted. You cannot have a budget in particular on quarterly level and we have an opportunistic approach. We are satisfied by the acquisitions that we have made this year, nothing fancy in terms of size but very significant in terms of reinforcement or...reinforcement of our geographic presence or completion of our product catalogue. If something bigger

will appear on our screen, we are more than prepared, more than happy to evaluate and to discuss considering also the very strong balance sheet and a very strong free cash flow generation that we have, but we are not obliged to do this, and then I wouldn't comment such a disappointment not having had any large deal this year.

A. TORTORA: No, Fabio, let's say it wasn't related to any comment on let's say disappointment, but to the fact that I remember, your previous comment on let's say very favourable let's say M&A environment or multiple environment, and you know this is let's say basically my question was related to that. No, I was expecting that this favourable environment would have also, let's say, involved larger deal. Okay.

F. MARASI: It's not immediate. It's an opportunity. It's a possibility.

A. TORTORA: Okay. Thanks.

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

D. GHILOTTI: Good afternoon, everybody. I have a few questions. I am starting from the Water Jetting, just to have a clarification because you are saying that...you are commenting that you are expecting some strong 2025 given the good order intake and good backlog. So I wanted to understand how...so what is the visibility provided now from...by the backlog and in particular, I also saw a quite strong APAC region. So if you can comment any specific structural improvement in your position in there or it's just a matter of say, temporary contribution.

And last on Water Jetting, so I'm trying to understand so the topic that you are...have been discussing for a few quarters about the profitability. So, a bit lower than usual. If there is something that we should assume as a more structural element or if you think you can go back to the, let's say, record highs or closer to 28%, 29% profitability in the division.

Then I'm moving to another topic, that is the price mix. I am interested in understanding in general the price environment. So, if the weakness in Hydraulic is pushing also some discussion about price reduction from your clients and what was the contribution of price mix versus volumes in Q3?

E. CUGNASCA: Okay. I will start with the question of the Water Jetting, profitability evaluation on organic base. You correctly mentioned and remind that this is the phenomenon that we start to see last year in 2024 where we had some always speaking on organic basis, where we had very good results organically and vice-versa where we had some poor results. The poor results are very honestly admitting that we are overwhelmed by the order. And especially we are overwhelmed by order of complete system. This...and this is creating some way one efficiency and we needed to underline one characteristic.

The characteristic of this complex system is that we are...they are not produced all with component produced by our group or other company of our group. At least taking into account a dairy machine for tomato, a dairy machine for milk and so on. We need to buy spare parts and other parts from third party suppliers. Therefore by definition the marginality and the profitability of these products are a bit lower compared to the products that are fully produced internally with full component of our group. So, this was more say, I will say, a sales mix effect that in some quarters we have been able to manage and in some other quarter, we have not able to manage.

Then it also happened some inefficiency, because again, you know that our streamline and our operation are very strength and very strong, but the order that we'll receive were really higher compared to our production capability. Therefore, so we had to have more shift or to use the machine in a different way and probably not in the best way in term of efficiency, but in the best way in term to be able to support and to answer properly to the question. So, this creates some inefficiency.

That's again, in some quarter, we have been able to manage or to minimize, in other quarter not. We are working very hard, but because this is a learning curve process, so we hope to be able to improve from this point of view and to deliver not only very nice sales results, but also very nice profitability results.

F. MARASI: Okay. Moving back to your first question regarding the Water Jetting visibility, I would like to be more precise because I have not commented that we expect a very good 2025. It's too early to conclude on next year...expectation or next year budget for Water Jetting. What is clear, based on recent evolution and based on the backlog that is covering 5, 6 months depending on the company or on product line. We may expect a good evolution and a good performance in this business also in the following months and the following quarter. But it is too early to comment on the whole 2025.

On your last question regarding price mix and price pressure, of course everybody is now focused in trying to optimize this cost base. But unfortunately there are not much room for agreeing on price reduction considering the significant increase in labor cost. Increase in labor cost that we have already commented in several other occasions is offsetting the reduction in raw material cost. And then in reality, I believe that we will conclude this year with a minus 0.5% price effect not more. And we do not expect a significant change, a significant variation next year because of this reason.

D. GHILOTTI: Okay, clear. And if I may follow up on a previous question related to the Hydraulic in Q4, if I understood properly your comment, despite the easier comp that we will see in Q4 and particular in December, you are not suggesting to say okay, that this will drive a significant improvement or so moving from double-digit to high-single-digit for example in organic decline in Hydraulic. So, you still think that Q4 will be probably as weak...okay.

F. MARASI: It's a little bit too precise and too early, but I was commenting on the general mood. The general mood in Hydraulics remains poor and weak and then despite the easier

comparison base. I've commented the expectation that soon at least in some application or for some customer. The stocking trend will be over or will be completed, but it is too early to expect a reversal in the trend for the whole division.

D. GHILOTTI: And last on Alfa Valvole integration process, can you give us an update?

F. MARASI: Yes. Alfa Valvole is performing very well. We are very satisfied by this acquisition. We are very satisfied because of the reason that we have already commented in terms of expansion of our product range and the good financial profile of the company, the attractive multiple that's paid. But the very good news is that we have found in this company a very good management team. We have bought this company from an American corporation. As you know that structure of the company very well, and we found a very strong and very professional management team that can be a very good base for developing also through add-ons the Alfa Valvole business moving forward. And we are already evaluating some possible add-ons, thanks to the proposal and thanks to the support of the top management of this company. Then we are very pleased with this acquisition.

D. GHILOTTI: Thank you.

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

E. CUGNASCA: Okay. Therefore thank you very much for your time and your questions. You will hear us again in a few months. Thank you.