

CARRARO GROUP: results for the third quarter of 2020 examined by the Board of Directors

Net of the effects of the cyber attack that affected the Group in the last week of September, the results for the third quarter would have been in line with the positive trend of the first three months of the year, prior to the spread of Covid-19, and would have confirmed the full reabsorption of the contractions due to the production lockdowns.

In fact, the temporary stoppage of the IT systems led to a 15 million euro shift of turnover to the following quarter, with a negative impact on profitability.

- Quarterly turnover of 109.4 million euros, down by 11.2% compared to the same period of the previous year (123.2 million euros). Cumulative turnover as at 30 September amounted to 325.3 million euros, down 23.4% on the figure as at 30 September 2019 (equal to 424.9 million euros).
- EBITDA for the quarter amounted to 6.5 million euros compared to 7.3 million euros in the same period of the previous year, aligned with the same in percentage terms (5.9% of turnover). YTD EBITDA adjusted in relative value amounted to 17.7 million euros (5.4% of turnover) compared to 35.6 million euros (8.4% of turnover) in the same period of 2019.
- Net financial position of operations as at 30 September 2020 was a negative 147.2 million euros, an improvement on the figure of 166.6 million euros as at 30 September 2019.

The fourth quarter sees significant growth in volumes due to both the postponement of sales in September and market dynamism.

The outlook for the full year 2020 remains positive, with improved earnings compared to the first half of the year, although down compared to the previous year due to the lower overall annual turnover.

Early departure of the Chief Executive Officer, Alberto Negri, before the natural expiry of his three-year period.

Management of the Group's operations has been taken over by General Manager Andrea Conchetto who, by co-optation, has joined the Board of Directors of Carraro S.p.A.

Campodarsego (Padua), 26 October 2020 – The Board of Directors of Carraro S.p.A., a leader in power transmission systems for off-road vehicles and specialised tractors, met today under the chairmanship of Enrico Carraro to examine the Group’s results for the third quarter of 2020.

“I can only express my heartfelt gratitude to Alberto Negri for what he achieved in these nine years of fruitful collaboration. He was a very important mentor for me and allowed us to achieve a solid turnaround following the severe contingency of 2009, making the Group evolve with significant dynamism.” – says **Enrico Carraro, Group Chairman** – *“Now, with a view to natural continuity, the baton will pass to Andrea Conchetto, our General Manager, with whom the roadmap for the new Carraro Business Plan will be defined in the coming months.*

“The good start to the third quarter of 2020, following the recovery of orders after the lockdown, was partly frustrated by the severe cyber attack that affected our IT structure at the end of September, causing a shift of approximately 15 million of euros turnover to the following quarter – Enrico Carraro goes on, talking about the data for the third quarter – “These effects will be completely reabsorbed during the fourth quarter, which is already showing growth in volumes, and the outlook for the full year 2020 remains positive with good profitability”.

Following the slowdown in global markets as a result of the measures implemented by governments to contain the spread of Covid-19, the third quarter of 2020 saw volumes growing again, thanks to recovery of the order backlog that had been forecasted at the beginning of the year, before the onset of the health crisis. The visibility on orders in the fourth quarter shows an acceleration in demand, the extent of which will depend on the evolution of the pandemic.

The result for the third quarter was negatively affected by a cyber attack on the Group's IT infrastructure with a consequent precautionary stoppage of information systems in the last few days of September. This affected the results for the period, shifting part of the turnover, estimated at approximately 15 million euros, to the following quarter. These negative effects have now been fully recovered, also thanks to restoration of the IT systems that have substantially returned to normal at the global level.

The outlook for 2020 remains positive and earnings with good profitability ratios are expected, although down compared to the previous year as a result of lower annual sales.

During the third quarter, through its subsidiary Carraro International SE, the Carraro Group also made a bond issue of 150 million euros to support a programme of growth in size and technological development in order to achieve a significant acceleration in the improvement of results.

Target markets

Agriculture

Following the blockage of vehicle sales, due to the progressive expansion of the various lockdowns, which marked a good part of the first half of 2020, the third quarter showed a reversal of trend, with good recovery of agricultural activities in all areas of the world.

In **Western Europe**, demand for vehicles showed widespread signs of recovery, a fact that leads to moderately positive expectations for the remainder of the year. Sales of specialist (vineyard and orchard) tractors also followed a similar trend.

The third quarter for the Turkish market was marked by a significant increase in sales of tractors compared to the same period of 2019. A significant recovery in sales volumes is underway following the destocking phase. The market now seems to be firmly on track to recover to pre-crisis levels.

In **North America**, demand for machinery for the production of agricultural raw materials in the third quarter was affected by the continuing trade tensions with China (one of the main export markets for American agricultural products). Contrary to expectations, demand for agricultural machinery recorded a marked increase.

In **China**, the first country to resume operations after the lockdown, the recovery of the sector already fully underway at the end of the first half of this year is confirmed. After a long period of recession for the agricultural sector, demand for new vehicles is consolidating at good levels (in particular tractors from 60 to 100 hp). More substantial declines, on the other hand, were recorded in other Asian markets such as **Japan** and **South Korea**.

In **India**, sales of tractors confirmed robust growth, thanks to a good winter harvest and good farm produce prices. The market seems to be firmly on track to exceed last year's levels. Despite the spread of the pandemic in the area, market fundamentals remain positive for the remainder of the year and their evolution will depend on the effectiveness of the Covid-19 virus containment measures.

Also the third quarter closed with a continuation of the recessionary trend in **South America** and expectations for the remaining part of the year remain difficult to determine.

Construction and mining equipment

The lockdowns imposed due to the spread of the Covid-19 virus had a significant impact on the construction machinery sector, with different effects in different areas worldwide.

The **European** market showed signs of recovery in contrast to the dramatic drop in sales in the first half of the year. Expectations for the rest of the year are positive.

Turkey also showed a positive demand trend in the third quarter. To date, the impact of Covid-19 does not seem to have been significant for this geographical area.

The **North American** market confirmed the negative trend already underway in the first part of the year. In addition to the health crisis, this area is also affected by the end of a growth cycle that has lasted several years.

The expansive phase of the **Chinese** market continued and the third quarter ended with sales growing significantly, with demand again driven by strong demand for crawler excavators (CEX). Given the government's continued significant investment in infrastructure, the current positive trend is expected to continue for the remainder of the year.

In **India**, the third quarter recorded a sharp decline due to the blockage of construction activities in various states following the decline in investment and the spread of the Covid-19 pandemic. Overall sales to date are significantly lower than those measured in the same period of the previous year. 2020 overall is therefore expected to record volumes well below those of the previous year.

In **Brazil**, demand for new vehicles was overall more robust than the previous year, thanks to the release of certain new investments in the construction sector. Nevertheless, the outlook for the remaining part of 2020 is negative due to the critical health situation in the country.

Results as at 30 September 2020
Quarterly revenues

<i>amounts in €/000</i>	30.09.2020	30.09.2019	Var. %
Quarterly turnover	109.390	123,234	-11.2

The quarterly turnover was down 11.2% at 109.4 million euros compared to 123.2 million euros for the same period of the previous year.

Consolidated revenues as at 30 September 2020

<i>amounts in €/000</i>	30.09.2020	30.09.2019	Var. %
Consolidated turnover at 30/09	325.303	424,941	-23.4

The cumulative consolidated turnover was down 23.4%, standing at 325.3 million euros compared to 424.9 million euros for the same period of the previous year.

The decrease in turnover is due to the effects of the spread of Covid-19 and the restrictive measures implemented by the governments of the various countries to contain it, as well as, as regards the third quarter, to the shift in turnover resulting from the temporary precautionary stoppage of the entire IT network.

EBITDA
EBITDA for the quarter

<i>amounts in €/000</i>	30.09.2020	% of turnover	30.09.2019	% of turnover	Var. %
EBITDA for the quarter	6,508	5.9	7,285	5.9	-10.7

EBITDA for the quarter as at 30.09.2020 came to 6.5 million euros (5.9% of turnover), down 10.7% in absolute value but stable in percentage terms, compared to 7.3 million euros, 5.9% of turnover, in 2019.

Cumulative EBITDA as at 30.09.2020

<i>amounts in €/000</i>	30.09.2020	% of turnover	30.09.2019	% of turnover	Var. %
Consolidated EBITDA at 30/09	17,616	5.4	34,325	8.1	-48.7
Adjusted consolidated EBITDA at 30/09	17,662	5.4	35,617	8.4	-50.4

The adjusted EBITDA as at 30.09.2020 amounted to 17.6 million euros, 5.4% of turnover, a 50% decrease compared to 35.6 million euros (8.4% of turnover) for the same period of 2019.

Due to the decrease in sales for the reasons mentioned above, margins for the quarter were affected in absolute terms, but remained positive and stable in percentage terms compared to the previous year, thanks to improvement measures as well as the containment of overheads. Consolidated margins at 30 September 2020 were more significantly affected by the decrease in volumes, which did not allow full cost absorption.

It should be noted that at 30 September 2020, margins were negatively affected by the restructuring costs incurred by the Argentine subsidiary and by the subsidiary Driveservice Srl amounting to 46 thousand euros, while at 30 September 2019, margins were negatively affected to the tune of 1.3 million euros by the restructuring costs incurred by the Argentine subsidiary.

Net financial position of operations

amounts in €/000	30.09.2020	30.06.2020	30.09.2019
Net financial position of operations	-147.238	-149,609	-166,611

The consolidated net financial position as at 30 September 2020 was a negative at -147.2 million euros, an improvement compared to the same period of the previous year (negative at -166.6 million euros) thanks to the actions taken to reduce the net working capital of operations.

Resignation of the Chief Executive Officer Alberto Negri

Today, Alberto Negri, as part of and in execution of a settlement agreement signed with the Company, resigned with immediate effect from his position as Chief Executive Officer, in order to facilitate a transition already envisaged at the top management level and instrumental to the launch of a new organisational structure of the Group.

The agreement – the terms of which, consistent with the Company's current remuneration policies, were approved today by the Board of Directors, subject to the favourable opinion of the Remuneration Committee – provides for the payment, within 30 days of today's date, of an amount of 435,000 euros gross for early termination of the directorship (in addition to an amount of 20,000 euros gross by way of settlement).

Alberto Negri, who also acted as director in charge of the internal control and risk management system, holds 46,460 shares of the Company's share capital.

Andrea Conchetto will be responsible for operational management of the Company within the scope of his role and powers as General Manager, and has also today taken on the role of Director by co-optation to replace Alberto Negri.

It should be noted that the figures as at 30 September 2020, examined by the Board of Directors, are not subject to audit by the independent auditors. The undersigned Enrico Gomiero, the Financial Reporting Officer, declares, pursuant to paragraph 2 of Article 154-bis of the Consolidated Finance Act, that the accounting information contained in this document is consistent with the accounting records.

This press release uses some "alternative performance indicators" not stipulated in the IFRS accounting standards: EBITDA (understood as the sum of operating profit/(loss), amortisation, depreciation and impairment of fixed assets); EBIT (understood as operating profit/(loss) in the income statement); NET FINANCIAL POSITION OF OPERATIONS: ESMA Net Debt determined in accordance with the provisions of paragraph 127 of the recommendations contained in the ESMA document no. 319 of 2013,

implementing Regulation (EC) 809/2004, deducted, where applicable, non-current receivables and financial assets, and the effects of the application of IFRS 16.

Carraro is an international group, a leader in transmission systems for off-road vehicles and specialised tractors, with consolidated turnover in 2019 of 548.8 million euros.

The Group's activities are divided into two Business Areas:

- **Transmission systems (axles and transmissions) and components** mainly for agricultural and construction equipment, and also markets a wide range of gears for very diverse sectors, from the automotive industry to material handling, agricultural applications and construction equipment.
- Specialised (vineyard and orchard, from 60 to 100 hp) **Tractors** for third parties, namely John Deere, Massey Ferguson and Claas, as well as a specialist range under the Carraro brand; Agritalia also provides engineering services for the design of innovative tractor ranges.

The Group's holding company, Carraro S.p.A., has been listed on the Italian Stock Exchange since 1995 (CARR.MI) and has its headquarters in Campodarsego (Padua). As at 30.09.2020, the Group had 3,223 employees – of which 1,446 based in Italy – and has manufacturing facilities in Italy (4), India, China, Argentina and Brazil. For additional information visit carraro.com.

Press office contact details:

Massimiliano Franz, Head of Communication - Carraro Group

m. +39 334 6627367 / mfranz@carraro.com

Carlo Prato, True Public Relations

m. +39 335 6506483 / c.prato@true-rp.it