BREMBO

CONFERENCE CALL

9 MONTHS 2013 RESULTS

November 12, 2013 – h 14.30

Chair:

Good morning, this is Chorus Call operator. Welcome to the presentation of Brembo quarterly results at September 30th, 2013. After the presentation, there will be the possibility to ask questions.

Now I would leave the floor to Matteo Tiraboschi, Brembo's vice CEO. Please.

Tiraboschi:

Thanks for having connected to comment the results of Brembo's third quarter. Here with me there is Andrea Abbati Marescotti, Brembo's CEO, and Laura Panseri, Brembo's I.R.

I would immediately start with my presentation, so as to quickly leave the floor to questions. I would start from slide number 2. It shows the results of our third quarter. The first line of the profit and loss statement is around 391 million Euros, meaning a 14.5% increase as compared to last year.

The EBITDA is also progressing with a 28% increase, meaning 51.4 million Euros, that is 13.1% of the turnover.

As for consumption of fixed capital, it increases in absolute terms, but it diminishes in relative terms if compared to the turnover: 22,4 million Euros with a 5.7% impact against almost 21 million Euros and a 6.1% impact last year.

I think this is a good indicator, because it shows how the important investments we have made in the last periods are well absorbed by the business growth.

EBIT accounts for 29 million Euros, that is 7,4%. Last year it was 19.4 million Euros, or 5,7%. Once again an almost 50% increase.

Financial charges. I will comment them more into details on the slide concerning the first three quarters. They are 5.2 million Euros. Last year they were 2 million Euros roughly, meaning an important increase.

Taxes: 3.2, last year they were 4 millions, with a 13.2% impact. This means we still have a quite low impact. Everything is bringing us towards a 20 million Euros bottom line, against 13.4 million Euros last year, with a 50% increase.

Slide 3 shows the results over the first three quarters. The turnover accounts for 1,154,000,000, last year it was 1,045,000,000, meaning a 109,000,000 increase. The EBITDA is of 150 million Euros, against 129 million Euros last year. This year impact is of 13 million Euros against 12.3 last year, meaning a 17% increase.

I think it is interesting commenting on the EBITDA increase. As well as that of the EBIT, it is significantly higher than the turnover's growth. These are new businesses, having entered with important margins. There are also different sites which we have invested on and which are performing and contributing well.

As for consumption of fixed rates, the same comment on the quarter is also true. The impact is in line with that of last year, on the turnover, as percentage points, despite the absolute value is 6 million Euros less.

EBIT: 84.5 million Euros, that is 7.3%, against 68.6 million Euros last year, that is 6.6% with a 23% increase.

Financial charges: 13.7 million Euros, accounting for 1.2. Last year they accounted for the half, 7 million Euros roughly.

These data also include funding in foreign currencies. Conversion into Euros is negative for us. Until recently, these accounting records were considering only those investments made in Poland. Today we are experimenting the same

effect on investments made in Czech Republic, some investments made in Argentina and some in China.

Taxes: 7,4 million Euros with a 10.4% tax rate. Last year they were almost 13 million Euros, with a 20.7% tax rate. We are clearly still profiting from the tax holiday we have in Poland and of the active deferred taxes we have in Czech Republic.

Bottom line: more than 63 million Euros. Last year they were 49 million Euros, meaning an increase of more than 29 percentage points.

Slide 4 shows how this turnover is made. Let's start from the 1.045.000.000 Euros of last year. The volume, organic growth, has contributed for almost 130 million Euros. Prices have slightly reduced the turnover factor for a million or so, while exchanges have been negative in the consolidation for almost 19 million Euros. I am basically talking of the Brazilian currency, but also of the US dollar more importantly of the Indian rupee as far as the motorbikes business is concerned.

The sum of all these items is turnover of 1.154.000.000 Euros.

Concerning the quarter we are commenting on, slide 5 shows how all our sectors are positive. We have positive passenger cars for more 16 percentage points in the quarter and almost 16 percentage points in the three-quarter period. Motorbikes have a quarterly increase of 21% and of more than 7% in the three quarters. However they suffer from the deflation of the Indian rupee. In relative terms, motorbikes seem having grown of more than 28% and of more than 10% in the three-quarter period

Commercial vehicles: inversion at last! We can see how they are positive again in the quarter, with a +4.4%, even if they are negatively scoring in the three-quarter period, with a -4%.

Competitions: +9% in the quarter. The year on year is quite stationary.

Slide 6 shows performances on the markets Brembo operates. Once again the quarter is positive in all markets. However we must note a -9.5 in Brazil. This is basically due to the effect of the Real, which loses part of its value once it is consolidated. Did it not, it would represent a 8.4% growth.

All markets are positive, even the Italian one. Germany continues growing, even if the North-American market has overcome it. It represents 25% of our turnover in the quarter we are examining.

France is doing well, almost +30%, as well as the English market. India continues growing, even if exchanges bring to incorrect considerations. That is why it should be considered in local currency terms. In this framework India grows of almost 30 percentage points in the quarter, and of almost 15% on the year period.

China is also performing well, with an almost 15% increase in the quarter and an almost 30% on the three-quarter period. Japan: +25% in the quarter and +4% over the three quarters. Even the US are performing very well. Once again there is a negative effect of the dollar-Euro exchange. However we are recording a 20 to 30% growth.

As for margins, slide 8 shows how the EBITDA – which over the first three quarters of 2012 was of 128 millions – increased of around 24.5 million Euros. Prices have been positive for 10 million Euros. Operating costs include both fixed costs and direct costs for almost 13 million Euros (12.6 million Euros). This is the result of the industrial enlargement of Brembo's footprint around the world. It also includes some items showing industrial inefficiency due to the new plants having started.

Exchanges are basically neutral. When summing these items we get an EBITDA of more than 150 million Euros over the three-quarter period.

Slide 9: let's see the lower part of the profit and loss statement. Slide 17 shows how financial charges account for 10.6 million Euros, against 9 million Euros last year, having worsened for 1.6 million Euros. As for exchanges, they are negative (-2.9 million Euros), while last year they were positive (+3.2 million Euros), meaning that we have a negative delta of around 6 million Euros.

This is the effect of the conversion of the debts of our foreign subsidiaries. During the consolidation debts in the local currency are turned into Euros. This can generate positive effects, as was the case last year, or negative effects as this year.

Financial charges deriving from equity consolidation of some participations: negative (-200-000 Euros). In total, we have financial charges of almost 14 million Euros in the profit and loss statement. If we analyze costs related to those financial charges which are there because of the debt, you can see that we are around 10 million Euros, against 8.7 million Euros last year, with an average net borrowing of more than 387 million Euros over the period, against 371 million Euros last year, and an impact of 3.4 against 3.2 last year.

This slightly negative score is mainly due to the fact that subsidiaries having run into debt in order to invest in local currency – I am thinking of China but also of South America – have rates which are more important than those we have in Europe or North America.

Just to give you an idea, in Brazil the cost of money is close to 12%. In China it is 8%. Impact on the turnover is always less than 1%.

Slide 11 sums up the situation of the tax rate and tells us what the normalized tax rate is as compared to extraordinary events. As you can see active deferred taxes in Czech Republic account for un million Euros, but they are not correctly counted. In Poland the tax shield benefit we have on investments accounts for 6.5 million Euros. Some other minor items we have all around the world account for more than million Euros.

Had we not this extraordinary perimeter our taxes would have been close to 16 million Euros, with a tax rate of more than 22%.

Let's see how the debt progressed. At the beginning of this year, we were at 321 million Euros. The EBITDA has positively contributed with more than 150 million Euros. In the three-quarter period we have invested more than 100 million Euros; to be precise 101.5 million Euros. Working capital has expended 45 million Euros, despite a good balance in terms of warehouses. We have lowered warehouses of about nine days and both debts and claims have been well compensated.

M&A: here we have part of Argentina and above all China. We have purchased 100% of our Chinese subsidiary. We have paid it 26 million Euros. Financial charges, taxes, payments on account and so on for roughly 17 million

Euros. Summing all these items we get an NMP for this period of 172 million Euros.

Next slide, page 13, shows how our debt is composed. I will give more details on page 14. In particular, 20.3% is about the short term, while 79% is about the medium-long term. Our strategy is that of keeping 80% for the medium-long term and 20% for the short term.

Slide 15 shows investments as compared to debt, but I will not discuss this farther.

Slide 16 shows the impact of company performances on some indexes. ROI accounts for more than 14%, better than last year. ROSE is also good, with 21%, as well as the net debt/EBITDA ratio, which is below 2%. Even margins, as compared to financial charges, are in good shape.

Next slide, number 17, shows the trend of our equities as compared to those of some peers, some excellences in the world of automotive. Since the beginning of this year Brembo shares have performed well (around 92%).

In the next slide if we have a look at stock indexes, I would say we have had good performances.

My presentation is over. I now leave the floor to questions. Thanks.

Chair:

This is Chorus Call operator. Let’s start the Q&A session. The first question is from Niccolò Storer, from Mediobanca. Please.

Storer:

Good afternoon and many compliments for such results. They are really impressive. I have a couple of questions for you.

First of all I would like to know something about the quarterly growth of the automobile sector. What is the contribution of the old Brembo with its high quality products and what was the contribution of the mid-premium?

As for motorbikes, I was wondering why they are performing that well. Maybe a one off event boosted performances?

Then I would like to know if you confirm that you want to come to a normalized tax rate by 2016 and that your normalized tax rate accounts for around 25%, despite the 22% we see in the three-quarter results.

The very last question concerns future trends. With the development of electric engines – I am thinking of BMW – or of alternative fuel engines – I am thinking of Volkswagen which is investing on methane – how is Brembo performing with such vehicles? Thank you.

Tiraboschi:

I will answer the first question, on the automobile sector and our growth in the high quality and mid-premium sectors.

In the automobile sector we have two different businesses: that of systems and that of discs.

As far as systems are concerned, the sector with the high quality branch and the mid-premium one – even though this is not properly correct – business is equally increasing in both branches.

Within the automobile sector we also have discs. Here we do everything, for both high-performance cars and for passenger cars. These sectors are consistently growing.

As you could appreciate from my slides, the American market continues growing significantly. It is absorbing everything at an impressive pace. We have even been forced to enlarge again the Homer site, close to Detroit, and the Apodaca site, north of Mexico, in order to follow a significant growth.

Motorbikes continue growing. Despite the market is decreasing we manage to grow. This is due to the fact that the applications we produce have a greater success. Moreover, some Japanese companies are using Brembo breaking systems for the first time. They have realized that their market shares, which were

more and more decreasing, were purchased by producers of high quality motorbikes, with high-value components. In order to change this trend, they are purchasing Brembo systems. Both Suzuki, Yamaha as well as Honda have shown new models, new applications with our systems even at the recent Milan motorbikes show. Moreover, our traditional clients continue performing well. Harley Davidson, in particular, is performing more than well in the European markets.

As for the question on our tax rate, the question is not an easy one. We have said “around 2016”, but we cannot give it for granted. Most of the trend will depend on how rapidly we will consume the tax holiday we have in Poland. We are confident 2016 can be the date. I can still confirm the 25% normalization. While programming all aspects of an Italian company, the fiscal aspect is the most difficult one because it depends on the legislator. I am not only talking of the Italian one, but also of the Brazilian one the Chinese. The data we provide are to be contextualized and are always relative, because they are extremely complicate to determine and quantify.

Abbati Marescotti:

Let me answer to the question about the trend of electric engines. Whatever electric alternative engine makes the vehicle slower while breaking. Therefore it is necessary to provide the electric vehicle with a traditional breaking system.

Clearly the electric vehicle offers the possibility to better integrate the traditional system with electronic components. We are ready to do that. The answer, then, is: “Very well, another technological revolution offering us possibilities, as usual”.

Storer:

Thank you.

Chair:

Next question is from Monica Bosio, from Banca IMI. Please.

Bosio:

Good afternoon. Some questions. First of all about the trend of the turnover, which has been very positive despite the impact of exchanges, +10,5% on the three quarters. Your target is between 8% and 9%. I was wondering: is it possible to think of a full year 10-11% growth, despite another impact of exchanges in the last quarter, due to a comparison effect?

I would like to know more about such a positive trend in the Italian market. Is this +7% due to specific orders by Maserati or something similar?

And, on margins: 13% EBITDA, with the new businesses contributing more. I would like to have more detailed information on which businesses are contributing more as compared to traditional ones.

Last question: what is your idea about Brazil? How is the market evolving there as far as discs and you as a whole are concerned? Thanks.

Tiraboschi:

Let' start from the first question. It is true, we said +8-9%, but we are doing much better. I can easily say that 10% is feasible. Our orders are good, meaning that we can reach +10%. Probably 11% is a bit aggressive. From 8-9% I would say 10%.

Second question. In Italy +7% is due to a series of product mixes. Maserati is contributing a lot. They have produced new very attracting models. We hope they respect the volumes they have declared. For the moment being, the impact on Italian accounts is helping.

As for EBIT, the aspect of splits is a tricky one. 13% is the average. Some countries are performing very well. Some other countries are growing but are suffering from a productive point of view.

Brazil, for example, is a country which is suffering a bit as far as we are concerned. We have closed a site. We have opened a new site outside Sao Paulo. Because of the costs of closing and opening sites, they are finding it hard to start being a performing plant. Moreover Brazil is not living easy times and it is difficult to predict something. There are social tensions but also economic difficulties. Some see the future of Brazil in negative terms. It seems that after the FIFA World Cup they will suffer from important unemployment even if the FIFA World Cup will be followed by the Olympic Games. It is a country it is important to be cautious about. We are confident Brazil will perform well in the mid-term. In the short one, they will have some problems.

Bosio:

Is it possible that by 2014, Brazil will suffer from increasing rates with a decrease of their internal market and a consequent impact on you top line there?

Tiraboschi:

Maybe, because we have an important market share in Brazil. Therefore it can be hard to compensate the market contraction with an increase in our market share, as we do in other regions. We are close to 60%. It is hard to support and to maintain. If the market decreases we will inevitably suffer from repercussions.

But I must admit that in this period we are building and fine-tuning our new site. This allows us to work calmly.

Bosio:

Thanks.

Chair:

Next question is from Emanuele Isella from Fidentiis. Please.

Isella:

Good afternoon. I have three quick questions. The first one is about 2014. 2013 will score a +10%. Do you have an idea of what will be your growth and that of the premium market, since you will have a Capex of about 130 million Euros this year?

Second question: is it possible to experience a breakdown – even though I know you will hardly provide us with such answers – in the automobile sector?

My last question concerns generating cash flows in 2014. Will you start using less Capex and start thinking to reduce your debt or will continue working as you are doing now?

Tiraboschi:

You asked questions which are very difficult to answer.

About 2014 I am not that confident in offering a guidance, because our budget is in progress and I cannot count on shared data. That is why I cannot say something we have not yet formalized.

As for a breakdown in the passenger cars sector, we have never provided information about that and I prefer continuing doing so.

Concerning cash flows in 2014 and investments, we keep on investing a lot. From the beginning of the year, we have invested 100 million Euros. I think we will have invested 120-130 million Euros by the end of the year. And we will probably do the same in 2014. Probably something less, but not significantly less.

When investing we always focus our attention not just on a quick return on investments – in line with the automotive sector – but on sustainability. This means that when we invest on businesses we add capacity to those same businesses; these are all investments dedicated to a growth which had already been contractualized with the client.

Our debt is increasing a little bit year after year, but such an increase is a minor one if we consider investments and cash generation. If we look at what we did in 2012, we had a 185 million Euros cash flow, but our NMP was 5 million Euros less, meaning we generated 180 million Euros. Should we reduce investments – that however would imply a growth slowdown – we would have an important cash flow, that would allow us to be virtuous.

Isella:

Thanks.

Chair:

Next question is from Giorgio Iannella, from Kepler Cheuvreux. Please.

Iannella:

Thanks and good afternoon all. Three quick questions. The first one concerns the growth of the turnover, of volumes. Apart from those productions you are only suppliers of, how is your market share increasing? Can you provide us with a qualitative reason why your turnover is so importantly growing? And, do your clients apply a further outsourcing which has contributed to increasing volumes?

My second question is about the production capacity for next year. What its impact will be as compared to this year according to your investment plans? Do you think it will be saturated during next year?

My third question is on possible new investments in new countries. I remember well in the past you talked of Russia. Are there other sectors you are focusing on or are you engaged on investments so much that you do not think it is time to enter new markets? Thanks.

Abbati Marescotti:

On the current growth of market shares, we are benefiting from a progressive growth in terms of penetration, both of discs and of systems, in North America for major producers.

The important Mercedes plan is deploying, as communicated 12 months ago or so. Even in China new productions are entering the market. In the three main regions a market trend is added to the trend of the market share.

As far as current disc producers are concerned important outsourcings are not known, even if in North America a couple of operations could pave the way to future changes, even though volumes are not particularly important.

Should I give an answer, big changes are not predictable in Europe. Since the two big German producers, BMW and Volkswagen, are producing their own discs, I can't see any possibility the market will change. In terms of heavy volumes, our capacities are well saturated both this year and more importantly next year.

We have not reached 100%, there are still margins. From the point of view of our clients when assigning businesses, this means that we always have the capacity to rapidly react to new increases whenever should they happen.

Today every Brembo site in the world is undergoing an enlargement process. We don't declare that so often, because such enlargements are not that structurally visible even if they have excellent benefits on the economic account due to the immediate higher saturation threshold they imply.

It is hard to establish how saturated we will be next year; a lot. Tons are saturated, this is the most important aspect, because they imply fixed costs, while

manufacturing can easily react even in case of increases. In some continents people work 5 days a week, while in other continents they work 6 days. This means saturation has reached an optimum.

New regions: we are open to whatever opportunity, but you know that we are very cautious when we invest. We are evaluating some initiatives, both in terms of countries and in terms of businesses. Up to now nothing concrete is there. There are many projects. We are very active. Should we find the right chance, we will try to get it, in line with the risks that may be run.

Tiraboschi:

As far as Russia is concerned – we have already said twice it is a target market – we are attentive observers. However it is a complex and complicate market. That is why I think that it will take longer than what we had planned.

Iannella:

Thanks and many compliments.

Tiraboschi:

Thanks.

Chair:

Next question is from Gabriele Gambarova from Banca Akros. Please.

Gambarova:

Good afternoon all. I would like to go back to the question that was raised earlier with regards to the capacity expansion. I understand that it is not a case of

specific facilities being installed but rather of a gradual extension of those already in place. Can you give us an idea, even if only quantitatively, referring specifically to volume, of the extent to which the capacity could be increased? Obviously only if you can.

Tiraboschi:

If we´re going to answer this question, let´s state the turnover which was requested earlier. Stop joking. I can´t confidently give you a figure at this time, because we are finalizing at 360°, both with regards to turnover and the installed capacity.

Clearly we expect 2014 to be a year of growth. We require a little more time to finalize our studies and work in order to offer a figure which can be challenged.

Gambarova:

Agreed, thanks.

Moderator:

The next question comes from Renato Gargiulo from Banca Aletti. Go ahead.

Gargiulo:

Good afternoon all. I have a quick question about the motorcycle segment. As with the others, can we imagine a trend for next year based on, not only market trends, but also an improvement in market share, and therefore perhaps on new platforms, new contracts? Thanks.

Tiraboschi:

I imagine so, in the sense that the Japanese have now launched these top of the range vehicles, very sporty, with our systems. In the hope that these models are a success, this could help towards the growth of our business.

The other is India, which remains an important market for us. From memory I would say 50% of the motorcycle discs.

Increasing market share is difficult, but it is a market which is satisfying year on year. Unfortunately, the rewards are watered down somewhat when we do the conversion into Euros, but when we consider it in rupees, in other words the local currency, the growth is nevertheless very important. All in all then, even if currently the motorcycle scene is not one of the rosiest, we continue to remain upbeat for 2014.

Gargiulo:

Thanks.

Moderator:

The next question is a follow up by Giorgio Iannella from Kepler Cheuvreux. Go ahead.

Iannella:

Very quickly, with regards to the numbers you scarcely gave us, I was wondering if you would like to share with us a very rough estimate of the addressable market for the avionics market.

Tiraboschi:

I don´t understand.

Iannella:

An estimate, even if vague, of your potential available market for avionics. Possible even for sub-segments or individual sub-segments you are looking at and when, perhaps even next year, we shall see a separate revenue line for this business.

Abbati Marescotti:

At this moment, the avionics business is being followed up and is in a development stage, a development cycle, and incidentally, also the company´s certification as an avionic supplier, a phase which itself calls for 24 months on a dual channel, of the active and passive safety products.

We have ongoing assessments and discussions with our clients both for seat belt components and brake system components.

On the one hand, once a business of this nature is taken on, it goes into production for twenty years, on the other hand, the insertion times are connected to the platforms and certification and replacement mechanisms, which are very long, therefore I can´t rule out that 2014 could start with a small line of aerospace revenues, but I can´t even say that will happen.

I won´t look at it from the point of view of “quantifiability” of the Brembo top line for next year. It is a medium to long-term course which will certainly bring rewards but it´s not something which is immediately visible on the income statement.

Chair:

The next question comes from Michele Baldelli from Exane BNP Paribas. Go ahead.

Baldelli:

I have two questions. One regarding the bridge of EBITDA in 2013: I see prices are increasing and I ask myself if this should be set, next year, by a negative effect, instead, in light of the adjustment to the cost of the raw materials.

The second question concerns, however, the losses you´ve had in the new systems, which perhaps are included in the “operations” terms of the bridge. Can you give us a sense of the degree, more or less, that you expect the positive effect to be for next year? Thanks.

Tiraboschi:

In regards to price lines, there is a clear pattern between costs and turnover of clients. During this phase they are positive, during next year it will depend on the movement of the raw materials. We are affected by the performance of the raw materials. If the raw materials continue to go down we will continue to have benefits, if they start to climb this line will intersect and therefore won´t have an increased effect.

With regards to the operations costs you see numbering 12.6 millions, the ramp-up costs of the new plants are also summarized, and of the inefficiency I mentioned earlier regarding Brazil.

This is something we have voiced for a long time and we have never assessed the ramp-up costs of the new plants, deliberately so, because they are recurring costs in the end, given that they are implicit every year. Once Brazil, once the US, once Poland, once the Czech Republic, it is to a degree the life of Brembo which continues, fortunately, to grow and invest and therefore every year there is an area which expands.

It is obvious that in the past three-year period this has been the case in Poland, the Czech Republic and China, which were three new ones, and which

have had considerable weight. Now such effect has diminished and our international presence is well structured, even if we have something similar every year.

Should you ask me the countries, I can name them: Brazil for sure; a part of the Czech Republic, the United States and Mexico.

To me figures would be misleading, because next year I will very probably tell you the same about other countries.

Baldelli:

Do you mind specifying something about the cost of raw material? You said that the effect would be there both in case they increase and in case they decrease. Should costs be stable, is there going to be a negative effect in terms of EBITDA bridge?

Tiraboschi:

On some businesses yes, but not that much.

Baldelli:

Thanks.

Chair:

Next question is from Jacopo Tagliaferri, from Intermonte. Please.

Tagliaferri:

Good afternoon. I have a question on the working capital: last year, in the last quarter you generated 30 million Euros or so. I was wondering if this year you could do the same. Thanks.

Tiraboschi:

No, last year we did very well even with warehouses. Probably too well, because on some businesses we found it hard to start again in a correct manner. Probably we have been too aggressive. I don't think the 30 million Euros performance will be repeated this year.

Tagliaferri:

Thanks.