

## Brembo's quarterly results – English Version

### Chorus Call Operator

Good afternoon, this is the Chorus Call operator. Welcome to the presentation of Brembo's quarterly results (1<sup>st</sup> July-30 September 2014). After the initial presentation, there will be a Q&A session. I now give the floor to Dr Matteo Tiraboschi, Brembo's executive vice-president. Dr Tiraboschi, please.

### Matteo Tiraboschi

Thanks, good afternoon to you all and thank you for joining us today to comment on the results of the third quarter. Here with me are Andrea Abbati Marescotti, our CEO, and our IR, Laura Panseri.

Now let me quickly comment on the presentations you found on our website. I will start from slide number 2, which shows that the results of the third quarter. Our sales volume has had a significant increase by 12% (438.6 million Euros) as compared to the same period in 2013.

EBITDA, is worth 14.5% of the sales volume (63.7 million Euros). Amortization accounts for 26,6 million (5.6%) and, similarly to 2013, is worth 5.7% of the sales volume, thanks to an increase by more than 10%. EBIT accounts for 39 million, close to 9%. Last year it was worth 29 million, meaning 7.4% of the sales volume. This means EBIT has increased by 34.5%.

The financial burden is 1,7 million (0.4% of the sales volume). As compared to last year they diminished by 67%. In 2013 the financial burden was of 5.2 million, that is 1.3% of the sales volume. Taxes, 7 million roughly, meaning 1.6% of the sales volume. They doubled as compared to last year. Last year they were 3,3 million. The tax rate equals 18.6%. In 2013 it was 13.2%. This means 30.4 million Euro, 6.9% of the sales volume. Last year the tax rate equalled 20.1 million, 5.1 of the sales volume.

Let's go to slide 3, where we see the results of the first three quarters. The sales volume is over 1,340 million. It has increased by 16.1% as compared to the same period last year. EBITDA is over 203 million, meaning 15.2%, 35% better than last year. As said before, amortization equals to 5.5%. Even though it is similar to that of last year, it actually increased by 11% roughly, because of the investments made. The EBIT reaches 9.7%, meaning about 130 million, 53.8% better than last year. The financial burden is lower than last year, 5.6 million, compared to last year 13.7 million Euro, meaning a decrease by 59%. This is due to that fact that the debt costs much less – EURIBOR is close to zero – and to the exchange rate of some funding made with a local currency. This mechanism is sometimes useful and sometimes it is not. During these first three quarters it helped as compared to the same period last year. The tax rate is about 24%, while last year it was 10%. This is due above all to what we have done in Poland. They have basically finished benefiting from the tax shield for enlarging the foundry. We are trying to have another tax shield for the new site in Niepolomice site. In the first 3 quarters we haven't added anything to the balance sheet because we are waiting for all authorisations. At the end of the year we should see positive results thanks to this. By summing all this entries we have a net profit over 94 million Euro, accounting for 7% of the sales volume. Last year it was 63.4 million in the same period, meaning an increase by 50% circa.

Slide number 4 shows the trend of our sales volume. The first 3 quarters accounted for 2013 1,154 billion Euro. The business volume has positively influenced for about 121 million. Discounts we offer to customers have a negative trend: - 9.4 million euro. The exchange currency, above all in the US, South America, and

India, had a negative impact of about 25 million Euro, accounting for 2% of the sales volume. The total amount of the sales volume is about 1.340 billion Euros.

So, how did our businesses perform? Slide number 5 shows that the passengers car business increased even in the third quarter of 15%, with an increase which close to 20% as compared to the first three quarters; the motorbikes business grows of 13%, both in the third quarter and as compared to the first three quarters. The rupee has a negative effect. Should the exchange rate of the rupee be the same as last year, the growth would account of 19.6%; commercial vehicles perform a - 4.7% on the third quarter , but a + 1.8% on the first three quarters. The negative result of the quarter is not due to equipment, which is positive, but to spare parts, which had very bad results, probably because of previous refurbishments; competitions grow of about 7% in the third quarter, more than 8% in the first three ones.

Slide number 6 shows Brembo's markets. They are all positive. The US market accounts for 25% of our sales volume, with a growth of 24.6% (27.6% if the exchange rate had not had negatively impacted). Germany performed well, +18%, being worth 122 million Euros. Italy is also positive, thanks to 16% increase in the three quarters. Basically, all Brembo's markets are performing well. South America is the only market performing less well, because of the negative macro-economic scenarios of the region, especially in the automotive sector. However, results would be positive, + 4.2%, hadn't the exchange rate negatively impacted.

Let 's now see margins. Slide number 8 shows data about EBITDA in 2013, which was worth 150.5 million Euro. The business contributed with 75 million Euro. Prices, + 6.1 million Euros. Thanks to the positive balance between the discounts we offer to our clients and the discounts we get from our suppliers, profitability is also positive. Operations account for 24.1. In the first half it was 24.6 circa, because of an important effect of some operations in North America, like the enlargement of the Homer plant and the workflow with Harley Davidson being rearranged. Exchanged rates have negatively impacted, - 1.5 million Euro. Summing all these aspects together, we come to an EBITDA of around 203 million Euros.

As for the financial burden, they account for 5.6 million, because of 4.5 million proceeds. This is due to the consolidation of companies we are shareholders of, but which we do not control. They have all well performed. By consolidating them thanks to the equity system, we get the 4.5 million proceeds. The incidence on the debt is of 2.7%, better (0.7%) than the same period last year. The reasons are basically two: one is the EURIBOR being close to zero and the other one being the finances we have got during the year which cost us much less as compared to the expired ones. The influence of the debt on the sales volume is of about 0.6% as compared to the 0.9% last year.

Next slide shows the tax rate which was normalized and which is in line with that of last year which was about 29.3. This year it is 28.7. Last year we had a benefit of 13 million Euro from Poland which was particularly important. As said before, I hope to get this new tax shield by the end of this year, derived by the investment made in Niepolomice.

As for our finances, slide number 12 shows that we started this year with a 320-million stock debt. EBITDA contributed in an important way for more than 203 million Euros. We have invested around 90 million all around the world. Money in circulation has consumed cash for over 60 million. We have paid dividends for over 32 million. We have spent more than 21 million in financial burden, invoices, taxes and so on. The total amount is close to the debt we had at the beginning of the year, meaning 320 million Euro.

Slide 14 is about the structure of our debt. It is well structured, 93.6% of our debt being on the long term and 6.4%, on the short term. Slide number 15 shows our net worth, but I haven't comments to make.

Slide 16 shows some indicators. In the last three years ROI has performed better and better and it is now (September 2014) over 20%, ROE accounts for almost 25%, the ratio between the net debt and EBITDA is at 1.2. The incidence of the financial burden on margins is absolutely good.

The next slide shows the trend of our title as compared to competitors. It performed well. TRV performed the best, over 38%. A German company wants to acquire it. This has a positive impact on all other indicators, meaning that the title has performed well.

My presentation is now over. Let's now leave the floor to the audience. Thank you

### **Operator Chorus Call**

This is the Chorus Call Operator. We will start with the Q&A session. The first question is by Monica Bosio from Banca IMI. Ms. Bosio, please.

### **Monica Bosio**

Thank you very much and good afternoon everybody. I have three questions. 1) As far as your EBITDA margin, your target hasn't changed, since it is 14.5. Considering the three quarters, during the last quarter your EBITDA, both in absolute and percentage terms, should decrease significantly. Your EBITDA margin should be around 12.5% against 14.9% the same period last year. Can we say that the group margin will be close to 15%? 2) Since you know all the trends of your sales volume, can you provide us with some highlights about 2015? Considering the positive trend in the US market, the flat panorama in Brazil, and the situation in Europe which is recovering, can we expect double-digit growth rates? I don't expect results like those in 2014, but maybe sales volume over 10%. 3) Are you considering possible developments in the field of aerospace business? Thank you.

### **Matteo Tiraboschi**

Let's start from your first question. As an indication, we thought that for 2014 our EBITDA could be 14%. Then, we slightly modified it, at 14.5%. You are right when saying that we cannot expect 14.5% even in the last quarter. We think that this 14.5 is in reality closer to 15%. As for your question about the business trend in 2015, these days we are finalizing our 2015 budget. Half of December we will present it to the Council. I don't think we are going to predict a double-digit growth. In the last three years we had a 60% growth, roughly. We cannot expect to continuously have a 10-12% growth even in 2015. Of course, we will do our best to do even more, but this cannot be given for granted. Up to now, I cannot provide any piece of data because we don't have a complete view of all final data. To me, we are going to grow less than 10%. Finally, the aerospace business. We always say we are going to enter this business. We even had a positive news this morning. We need to have a meeting with the top managers of the client company. We will agree on a communication campaign, which is very important to us. I think by December we will be able to tell you more about this. Let me add that the aerospace business will not modify Brembo's sales volume significantly. However, it is a clear sign that the job done by our R & D is starting getting its first positive results.

### **Chorus Call Operator**

The next question is by Martino de Ambroggi, from Equita. Mr. De Ambroggi, please.

**Martino de Ambroggi**

Good afternoon, everybody. Let me start with a couple of remarks. About 2014, we have said that margins are around 15% and the sales volume around 12.5%, if I am not mistaken. Since you haven't talked about the top-line guidance, will you please tell us more about your sales volume?

**Matteo Tiraboschi**

We have said that it is going to be 13% or even a bit more. Last year, during the second half we performed very well and we had a very good sales volume. That is why we grew a lot more in the first half this year as compared to the third quarter this year. Even for the last quarter I am not expecting a particularly significant growth. Results will be a little less than those of the first three quarters.

**Martino de Ambroggi**

It was 16%! Do you think it is going to be a double-digit growth?

**Matteo Tiraboschi**

I cannot answer this question because I miss all data about November and December. **Operator Chorus Call**

**Martino de Ambroggi**

As for 2015, you have talked about sales volume but not about EBITDA margin. Since the target for 2015 was 15%, and since 15% is something you have already had this year, can we expect even better results for 2015?

**Matteo Tiraboschi**

As you know, in 2015 we have predicted investments in the North American foundry. This will imply some extra costs. So for now I cannot confirm anything, not even the 15% target. It's too early. As said before we haven't finalized our budget yet.

**Martino de Ambroggi**

I don't know how much will the foundry impact on the EBITDA margin, but to me it is clear you are going to do more than 15%.

**Matteo Tiraboschi**

You said that!

**Martino de Ambroggi**

OK. As for operations, you have only made a little comment at the beginning of your presentation but you haven't entered into details. Why is it zero? You are not going to make operations in the last quarter?

**Matteo Tiraboschi**

Operations are + 0.5. This was due to a misleading effect caused by our business with Harley Davidson in the US. We are forced to consider it as an operation in the balance sheet but this does not correspond to

reality. Among operations, we have the enlargement of the Homer plant with new lines. They have immediately generated cash flows, meaning that they have basically covered our costs. In the last quarter I expect a 0.0 result.

**Martino de Ambroggi**

What can you tell us about the tax rate, then?

**Matteo Tiraboschi**

Talking about the tax rate is a very difficult task. We have performed a 24.2 in the first three quarters. In the last quarter I hope it is going to be a little less. If we will be able to profit from the new Polish tax shield, I think the tax rate is going to be a little more interesting. These days we are completing the file in order to be authorized by the Polish authorities.

**Martino de Ambroggi**

In 2017, when the situation will be normalized, do you expect a 25% tax rate?

**Matteo Tiraboschi**

It is always very difficult to predict a tax rate, but I think 25-26% is a possible scenario.

**Chorus Call Operator**

Next question is from Niccolò Storer, by Mediobanca.

**Niccolò Storer**

Good afternoon everybody. I have a few questions. The first one concerns investments in the US. Can you tell us more about how positively they are going to impact, even in terms of tax rate? Secondly, can you also explain what the + 4.5 million financial charge from investment is? Are we going to have it also in the future? My third question is about the CAPEX decrease in the third quarter. Did something happen or shall we stick to previous indications about the end of the financial year? Last but not least, did you calculate how much will you benefit from the possibility allowed by the last budget law to deduct the labor cost from the IRAP tax base?

**Matteo Tiraboschi**

I cannot answer to your last question because information about it is not that clear and even contradicting. At a given moment we thought it was close to zero, but it is difficult to tell. As for CAPEX, in the third quarter we spent a lot, but I can safely say that we are going to stick to previous indications. As for the + 4.5 million financial charge from investment, it is the result of positive performances by some subsidiaries we do not control. BSCCB performed particularly well. It is the joint venture we have with SGL group on carboceramic discs. Finally, in the US the tax rate doesn't have positive effects as compared to the investments we have made. The US tax rate is around 35-36%. So, investments don't help in diminishing it.

**Chorus Call Operator**

Next question is by Emanuele Isella, from Fidentiis. Please.

**Emanuele Isella**

Good afternoon. I have a question about the US market. How could you possibly perform so well? As for 2015, do you expect to continue such a growth, corresponding to a 5-6% of the market share, or will the situation normalize?

**Matteo Tiraboschi**

For sure, the growth of the US in the last 2 years also implied a market share growth for us. Last year we had a very important order from General Motors. This allowed us to have an unexpected growth which positively impacted in the sales volume, because it was a competitor market share. Chrysler is to be considered as a special actor in the market, because it is growing the double as compared to the general trend in the market. Since we are their favourite suppliers, we benefit from a very positive client mix. Our relationships with Ford and the German manufacturers keep being unchanged and good, even though they do not produce that much in the North-American market. With Volkswagen Mexico our market share increased significantly and we are starting having orders from Japan. And as you know, Japanese manufacturers play a very important role in the American market. All these shares are following a positive trend. For the future we are expecting normal trends, but further positive market shares are also possible.

**Chorus Call Operator**

The next question is a follow-up by Niccolò Storer, from Mediobanca.

**Niccolò Storer**

Two more questions. As for operations, three months ago you said that out of the 24.6 million, 21 million Euros derived from that sort of “intraday transfer” in the US. What can you tell me about the three quarters in the North-American market? My second question is about the market share increase in the North-American market. Is this going to have an impact on prices?

**Matteo Tiraboschi**

As for operations data haven't changed. As for prices rising, this is a generalised and continuous trend, with all clients in the world. Of course our strategy is that of letting technical managers speak before the purchase one. This is our current trade approach. We prefer being the favourite technical interface with our client so that it is then easier for the purchase managers to do their job. However this is a hard job, which is healthy for our business because this helps always doing the best job, without letting us indulge in thinking we are the best.

**Niccolò Storer**

If next year the market is not growing at the same rates as those of the current market trends, don't you think you are running the risk of having your clients asking you to reduce prices?

**Andrea Abbati Marescotti**

I will answer this question. Let's not consider possible adjustments due to changing trends of the raw materials, like a significant and unexpected increase or decrease. Let's not consider possible explosions (+ 50% or so) or collapses (- 30% or so) of the market. For example, the Brazilian market is performing so bad that all suppliers ask their clients to take the responsibility of absorbing fixed costs in case orders are less than those which were agreed. In all other cases, clients cannot ask for reducing costs. We have written agreements with them. This means that for the period of time we have agreed on, we cannot ask them

anything and they cannot ask us anything. The daily impact on prices is related to new negotiations which will start in 3-4 years. However, in case you sign an agreement for an order in 3-4 years at competitive prices, it is possible that you are asked to provide for previous discounts. Let me reformulate: all agreed prices cannot be modified. In case the same clients ask me for a further order in 3-4 years, they can start asking for discounts now on the current prices in view of the future order. So it is a preliminary discount motivated by future margins.

**Niccolò Storer**

Allow me one last question. Are you renouncing to some businesses because of your will to maintain profitability? Do you say no to possible clients asking for extremely low prices?

**Matteo Tiraboschi**

Absolutely yes. This is also strategic, because we leave possible poisoned baits to competitors.

**Chorus Call Operator**

The next question is by Gabriele Gambarova from Banca Akros.

**Gabriele Gambarova**

Good afternoon. I have three quick questions. The first one is about the trend of the tax rate. For 2014 you expect something less than 24%. In 2015, once you will have started benefiting from the Polish tax shield, what kind of tax rate are you expecting? My second question is about the commercial vehicles market. It performed badly in the third quarter. What do you think about it for the future? My third question is about the use of the productive capacity. Since you are expecting a little less than a double-digit growth in 2015, what can you do with the productive capacity you have now?

**Andrea Abbati Marescotti**

Let me start from your last question. As far as our productive capacity is concerned, our use of our productive capacity is excellent. All over the world we are able to work on Saturdays and Sundays, which is our normal set. I don't expect saturation problems in our foundries, which would require longer-term adjustments. In those marginal cases there are small adjustments in our productive capacity we don't have problems. We are performing very well all over the world. The only exception is that of South America. On the one hand, we have marginally increased our production volumes in Brazil, where the market is collapsing; on the other hand we have got important orders, meaning that we had to increase more. This means we have a saturation-related problem in Brazil and Argentina. However we are generally very well saturated and well balanced. All Italian assets are perfectly used. As Matteo said before, it is hard to quantify the 2015 growth. We will be more precise once we will have concrete data. As for commercial vehicles, the market has slightly grown in the last months, with important differences depending on our clients, but it is basically stagnant. Volumes are discrete but not excellent. We expect we are performing the same next year. Maybe we are going to perform a 2-3%, maximum 5% increase, no more.

**Matteo Tiraboschi**

Your last question was about our tax rate. It was 24% in the three quarters. As for the whole 2014, it is hard to be precise about how will the Polish tax shield impact on it, maybe some percentage points less. As for 2015, it is really impossible. Let's think that we are going to have the same tax rate as that of 2014.

## **Chorus Call Operator**

The next question is by Michele Baldelli, from Exane BNP Paribas.

### **Michele Baldelli**

Good afternoon everybody. I have a couple of questions. My first one is about the FOREX. As for the results in the third quarter, there was a significant impact on profitability as compared to sales. What is the reason for this? My second question concerns the US in 2015. If I look at what you expect for next year, is this growth basically originating from the US?

### **Matteo Tiraboschi**

As for the exchange rates we have an impact on the first line of our sales volume of around 25 million Euros which is quite important, but it is originally in Dollars because it is the economic account of Brembo North America. If we translate it into Euro we don't have effects on marginality. The data you see on the line of the EBITDA are related to many currencies. The – 1.5 million Euros you see has nothing to do with the first line of the sales volume.

### **Michele Baldelli**

Yes, I understand it is basically due to your core structure, but since these data are only negative in the third quarter I was wondered what the reason was for that.

### **Matteo Tiraboschi**

There is not a real reason. The main reason is that we operate in many places in the world, with many currencies. Positive and negative trends are always possible and do not depend on major factors.

### **Andrea Abbati Marescotti**

As for next year growth in the US, I think the most serious approach is that of looking at the whole picture. We expect a stable Europe. Forecasts about China are around + 10% in the automotive sector. In this framework, in the Unites States they expect an important growth, but we are very cautious about that. They think they are going to grow of about 6-7%, but we prefer to wait and see. What we really hope is that the Brazilian market is going to recover, because it is really collapsing. All manufacturers have changed their hyper-optimistic behavior into an extremely cautious one. To me it is going to perform a + 5-6-7-8%. What does this mean for Brembo? We expect an equally distributed growth in all regions. Probably Europe is going to grow less. But since we generally produce in the target market, we hope the markets which are going to generate our growth are the North-American one, the South-American one, and the Asian one. I am not expecting the US being preponderant in terms of growth, even though I will be more than happy to be contradicted by their performances.

### **Matteo Tiraboschi**

Concerning your previous question about currencies, the exact figure is 1.290 million Euros. The most important impact is of 240,000. Generally currencies have an impact which is worth 30,000-40,000 Euro, no more. They are all very low values.

## **Chorus Call Operator**

The next question is by Jacopo Tagliaferri from Intermonte

**Jacopo Tagliaferri**

Good afternoon everybody. I have a couple of questions. The first one is on money in circulation. You normally perform a good fourth quarter. However investments in the first three quarters have diminished as compared to last year, meaning that you are probably going to have a gap in the fourth quarter as compared to your guidance. Do you expect a neutral effect on your Net Financial Position? My second question is about the quality guidance you provided about your revenue growth in 2015. Can you tell me more about how you calculated the effect of the different exchange rates, in particular the Euro-Dollar one?

**Matteo Tiraboschi**

As for our 2014 Net Financial Position, this is not going to be that different as compared to that of the last three quarters. Hopefully it is going to be slightly better. We have plants which are running well. We don't have plants which cost a lot and do not generate cash flows. They are all performing well and have generated quite a lot of cash flows. On exchange rates, the risk of being mistaken is quite high. In 2015 I expect the Dollar is going to be worth the same as today.

**Chorus Call operator**

The next question is a follow-up by Martino de Ambroggi, from Equita.

**Martino De Ambroggi**

Can I ask you a question about China? After the authorities intervened in the prices of non-local products, can you tell us of your direct and indirect exposure to China? Do you expect an impact from these measures by the national authorities?

**Matteo Tiraboschi**

To us this is not going to change anything. However, if you want to know the amount of sales volume which from Germany goes to China, I can tell you that today we have a sales volume of around 9% in Asia. If we subtract from this sales volume what we sell in Italy, Germany or in the US and add what from these countries is sold in China, we are going to have a result which is the double than that, probably 20-22%.

**Andrea Abbati Marescotti**

There is not going to be an impact on our sales volume. All our prices are scheduled for the coming years, regardless of the target market. This means that I can sell materials, regardless of where the manufacturers sell their cars. So, be the effect on the client positive or negative, they can decide to change their productive localization system, by deciding, for example, to produce more in China for the Chinese market. In this case, we are ready to follow. However, they cannot ask us for reduced prices if China changes the rules in terms of import-export.

**Matteo Tiraboschi**

Keep in mind that the Made in Germany is a very important brand in China. This means that in the case of Porsche, some applications can only be manufactured in Germany. They cannot be manufactured in China. They would lose an important part of the value of the brand.

**Andrea Abbati Marescotti**

Let me add that out of the 25 million vehicles being sold in China, Germany probably sells around 8 million vehicles. And only 500,000 of these vehicles are produced in Germany. This means 6-7% of all the cars they sell. This doesn't seem an important risk to me. Not even for them.

**Chorus Call operator**

The next question is a follow-up by Jacopo Tagliaferri, from Intermonte.

**Jacopo Tagliaferri**

Another question about investments in 2015 and 2016. About the investment in the American foundry, can you tell us the period of the investment? Can you also provide some preliminary indications on the basis of your outlook about investments in foundry lines?

**Matteo Tiraboschi**

Traditionally, we have been investing 140-150 million Euros per year in the last years. This also includes the American foundry, which is not financed in one year. One part of the investments in the American foundry was financed in 2014 and the rest is going to be financed in 2015 and even in 2016. So, the period of the investment is quite large. An investment of around 140-150 million Euro per year seems to me quite plausible even for the next years.

**Jacopo Tagliaferri**

Is target market are going to perform better than expected, do you think you can also think of increasing your investments as you have done in the last years?

**Matteo Tiraboschi**

Of course.

**Chorus Call Operator**

Dr. Tiraboschi, there are no further questions.

**Matteo Tiraboschi**

Thank you all and good bye. Have a good day.