

# **Brembo S.p.A.**

**“First Quarter 2016 Financial Results Conference Call”**

**Tuesday, May 10, 2016, 12:00 CEST**

**MODERATORS:     MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN**  
**ANDREA ABBATI MARESCOTTI, CHIEF EXECUTIVE OFFICER**

OPERATOR:

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo First Quarter 2016 Financial Results Conference Call. After the presentation, there will be an opportunity to ask questions. Due to flight departure, the conference will last only 20-25 minutes. At this time, I would like to turn the conference over to Mr. Matteo Tiraboschi, Executive Deputy Chairman of Brembo. Please go ahead, sir.

MATTEO TIRABOSCHI: Good morning everybody. Here in Dabrowa with me there is also Andrea Abbati Marescotti, our CEO. I will go quickly through the presentation.

In Slide #2; we can see the Q1 results of the Group. We had sales growth of about 9.6% to €563.6 million. EBITDA is close to €110 million that is 19.5% of our total revenues. EBIT is quite good close to 15%, to €84 million. Financial charges are negative for €4.5 million, and taxes are €19 million, with the total tax rate close to 24%. The net result of the quarter is more than €60 million that is 10.7% of revenues.

In Slide #3, we can see our revenues are more during the period, with the business that is positive for €68 million, price negative for close to €3 million. Our exchange rate is negative for €5 million and the scope is negative for €11 million. Scope is, just to remember, because last year also Sabelt was consolidated in our results.

Slide #4, we can see our business, we are positive in all business where we are involved, with just one exception that is racing, that is negative for more than 21 points, but this is just, also in this case, for Sabelt; like-for-like also racing is positive for about 5%.

Move to Slide #5, we can see the revenues for the area where we are, and more or less all positive with just one important exception that is South America, that is very negative, it has maintained a very difficult position. But the other markets are very positive, and the US maintains a very important growth, also in this quarter.

We can jump directly to Slide #7, where there is the bridge for EBITDA, where the business is positive for more than €19 million, price is positive for more than €10 million, operation is negative for €7.5 million, exchange rate is helping us for €3.4 million, and scope - another time Sabelt- is negative for €1.4 million.

Let's jump to Slide #9; we can see then our financial charge. I think it is important to underline just the cost of our debt that in Q1 is 2.5%, compared to last year it was close to 3%.

Slide #10, there is reconciliation with the tax rate. The tax rate in this quarter it is close to 24%, trying to normalize this tax rate, we are in the range of 25% to 26%.

In Slide #11, we can see our net financial position, we generated EBITDA, positive cash about €110 million, investments are negative for €51.5 million, net working capital is negative close to €50 million, financial charge, and tax and other are negative for more than €11 million and other positive for €7.5 million. The net financial position at the end of the period is close to €155 million.

Slide #12, we can see the structure of our debt, but I think that the next one slide is more representative, where we can see that the long-term debt is more than 150%: this is just because we are preparing the cash for the ASIMCO payment and also for the dividends that we will pay at the end of this month.

In next slide, there is the financial structure, and I will jump directly in our ratio, where we can see ROI that is quite positive, more than 37%, ROE is more than 33%, gearing is quite good 21.1%, and the ratio of net debt on the EBITDA is positive for 0.4, also the other ratios are quite good.

The last two slides just represent the performance of our shares, that are positive in this period for + 7.2%, we performed better compared to the main indexes, and also in the last slide compared with our peers.

With this quite quick presentation, I finished. We can open the Q&A section. Thank you.

## Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Monica Bosio with Banca IMI Intesa Sanpaolo. Please go ahead, madam

MONICA BOSIO: Hi, good morning, everyone. And I would have a few questions. The first one is, maybe it seems stupid, could you explain me such positive EBITDA margin in 2016, and you hit the records. And so, it's just a better absorption of costs or whatever? And in relation to this question, I know that in the second part of the year there will be the ramp-up costs related to the Mexican and the USA foundries. But as things are...you exceeded my EBITDA expectation by €12 million. So don't you think that even accounting the ramp up costs, it would be more feasible for year-end an EBITDA margin in line with 2015? I remember that during the last conference call, you indicated that EBITDA margin is slightly above 16%. And the second question is, from when will the Company start to consolidate ASIMCO? And just another one, if you...could you please give us some indication on the order book so far if you see any sign of slowdown or acceleration and if yes, in what areas, excluding Brazil? Thank you very much.

MATTEO TIRABOSCHI: I will try to give you an answer about your question. EBITDA is, yes it's very good for Brembo, it's just because we all the plants are working at full capacity. And this is really fantastic for us. The market is performing very well, and these are the consequence in our number. The ramp up cost, that in the previous period, we thought that we could have something in the first and second quarter, in reality we don't have

and we will have in the second part of the year. And probably, yes, we can have EBITDA margin in line with last year. I remembered last year was 17.2% or something like that...

MONICA BOSIO: 17.4%, if I remember well about...

MATTEO TIRABOSCHI: Thank You. Probably, yes, we will close to 17%. It is not very easy because the ramp up cost will be quite important in the second half, but we are really concentrated to manage in the best way this ramp up and we will try to achieve these results that will be very good result for us.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: ASIMCO, ASIMCO we are finalizing the acquisition in this week probably, and I think that we can have the evidence in our number, starting from next month. So we can consolidate, seven months of ASIMCO in our number.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: About the order book, Andrea will be happy to answer to you.

ANDREA ABBATI MARESCOTTI: Yes, the order book for the second quarter, as of today is basically in line with Q1, in terms of dynamics. So the countries which were really good in this first three months, Germany, UK, China and North America, we see them basically on the same order of magnitude. Germany and UK you read here the astonishing performance on the market of Mercedes and Jaguar-Land Rover and consistent data from BMW, Audi and Porsche, and this should last. So for what I see, the second quarter should really be in terms of volume in line with the first one. Difficult to say what will happen in the second half of the year. I

only have to say we don't have today any bad condition foreseen. So as of today, the year should be consistent.

And one word on the light commercial vehicles, as you know well, the European market on light commercial vehicles is going well, about 10% growth; this also should last, which is good to us.

MONICA BOSIO: Okay. Thank you very much. Just a quick follow-up, I've seen that Italy had a slight decrease, was it related to Maserati, yes, or maybe to...

ANDREA ABBATI MARESCOTTI: There is...yes, some small change in Maserati and some de-stocking of Ferrari. Ferrari has produced well, but closed the year with some more stocking of our products so they are very marginally de-stocked.

MONICA BOSIO: Okay, perfect. Thank you very much.

OPERATOR: The next question is from Martino De Ambroggi with Equita. Please go ahead.

MARTINO DE AMBROGGI: Yes, good morning, everybody. One question to Andrea, in your last conference call, you mentioned there were new platforms under discussion. First, any update on this issue; second, are they all additional or the substitutions that is in phase outs. And I will add something more later...

ANDREA ABBATI MARESCOTTI: Yes, of course, the dynamic of the business growth is continuous. And as you know, I cannot tell you the names because the new platforms are for products which are going to be launched in two years, three years and of course, we cannot disclose the progress of our customers three years in advance. But yes, we had a couple of very great success for the disc Division and one for the system Division. The two successes for the disc Division are one Europe and one in North America.

And the one for the system Division is in China, which is good because basically I am saying that we are doing business prospectively in two-three years, in all the continents. There is another couple of very important worldwide new businesses in discussion and we hope to finalize in the next three, four months.

The three I mentioned before were totally additional and the two big worldwide that we are now negotiating are partially substitution, partially additional. But in terms of business growth, these are being good months

MARTINO DE AMBROGGI: Okay. But what you mentioned as additional business was already included in your €200 million CAPEX in order to build up new capacity or we should expect additional CAPEX going forward for these new contracts?

ANDREA ABBATI MARESCOTTI: You should expect new CAPEX which is unlikely to impact the 2016, but certainly we are growing our view of CAPEX plan, let me say in the next two, three years' timeframe.

MARTINO DE AMBROGGI: Okay. So the three...two discs in Europe and North America, plus system in China, are all additional to be added to the CAPEX plan?

ANDREA ABBATI MARESCOTTI: Future...

MARTINO DE AMBROGGI: Okay.

ANDREA ABBATI MARESCOTTI: Unlikely 2016, because two years in advance you expect development but you don't expect any CAPEX.

MARTINO DE AMBROGGI: No, no, perfect, perfect, this is what I was looking for. One more question on the EBITDA margin, so if you project a volume growth similar to Q1, and the start-up costs are projected in the second half, okay,

may be there is a dilution due to ASIMCO consolidation, but I presume the 19 plus percent margin can be achieved also in Q2.

MATTEO TIRABOSCHI: In Q2, I don't know to be honest. The first quarter was very positive. We grew +9.6%, and we didn't have start-up costs. In Q2, may be some start up costs, probably we will have and the growth, I think will be not so strong. And ASIMCO has not this kind of result, to be honest. So 17% in Q2 is very, very tough to be honest.

MARTINO DE AMBROGGI: Okay. So maybe 18 is, okay. Now a very last on the EBITDA bridge, there is a minus €7.5 million for operations and plus €10.4 for prices, if you could just elaborate on these two issues. Thank you.

MATTEO TIRABOSCHI: Prices is the effect that we have we manage what we buy, so all the time we receive pressure from a customer and we have pressure to our supplier. Operations all the time we invest in our plans and the growth that we have in the first quarter is also because the costs are increased. It's just a normal increase of cost for a normal life of our company, nothing particular.

MARTINO DE AMBROGGI: Okay should we see...

ANDREA ABBATI MARESCOTTI: Operation is basically growth of dimension exactly.

MATTEO TIRABOSCHI: Yes.

MARTINO DE AMBROGGI: Okay, and for prices should we expect similar trend going forward?

MATTEO TIRABOSCHI: We work very hard about it, it is not very easy but we try.

MARTINO DE AMBROGGI: Okay, thank you.

OPERATOR: The next question is a follow up from Monica Bosio with Banca IMI Intesa San Paolo. Please go ahead.

MONICA BOSIO: Yes, thank you. A follow-up from Martino's questions about the additional CAPEX. I understood that starting from 2017, there will be an additional CAPEX, could you please just give us an amount, rough amount over the three...next three years?

ANDREA ABBATI MARESCOTTI: Monica, it's really too much early to give you a reliable number, the same number of 2016 could against our forecast change in the second half if we have good luck on the business, so even numbers of 2017 is bearly impossible.

MONICA BOSIO: So because we...all the market is expecting €200 million for 2016 and maybe little bit lower for 2017. But maybe we can see a slight...€200 million for the next years?

ANDREA ABBATI MARESCOTTI: If we have more capex we will have more growth, in the end it is a good equation, but it is really impossible to give you a real number

MONICA BOSIO: Okay, thank you very much.

OPERATOR: As a reminder, if you wish to register for a question, please press "\*" and "1" on your telephone. The next question is from Niccolò Storer with Mediobanca. Please go ahead.

NICCOLO' STORER Yes, good morning to everybody. My question is about the good growth in commercial vehicles, Andrea, before you said that the European market was up 10%, how can we explain your plus 24% of growth? Thank you.

ANDREA ABBATI MARESCOTTI: Yes, of course, it is a combination of factors. The European market is, it is the right number exactly up 11%. Of course, we have a mix of customers and our mix of customers was going very well. I also get that they were a little under stocked, so that portion is going to the pipeline for the distribution. But the sales are good, so I don't see any alarm in terms of too much stock on the market. So basically when the market comes back, there is a positive...a higher sales for us and so the market when goes up, when it goes down like there is a slowdown. Average of the first quarter could be maybe 15%, the commercial forecast us in terms of sales.

NICCOLO' STORER Okay, perfect. And very last question. Talking about stocks also on the car side, you see a market in good equilibrium?

ANDREA ABBATI MARESCOTTI: My only exception, which I am not so sure, is North America. Stock in North America is a little higher, not so much but is a little higher than normal. Let's see. The April sales in North America were good, so maybe there is no alarm, but I am always cautious about that market.

NICCOLO' STORER: Thank you, thank you very much.

OPERATOR: Mr. Tiraboschi, gentlemen, there are no more questions registered at this time. I am sorry. There is a follow-up question from Martino de Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Yes, sorry, very, very quickly, so you mentioned that for the full year the EBITDA upgraded, EBITDA margin, but you didn't mention the mid-single digit growth like-for-like, if I...

MATTEO TIRABOSCHI Probably it's not middle, but it's a high single-digit; we increase also the view for the revenues.

MARTINO DE AMBROGGI: Okay, sorry if I missed it. Thank you.

MATTEO TIRABOSCHI: No, I didn't say it, thank you.

MARTINO DE AMBROGGI: Okay, thank you.

OPERATOR: Mr. Tiraboschi, there are no more questions.

MATTEO TIRABOSCHI: Thank you very much to everybody and bye-bye.