

Brembo S.p.A.

"First Quarter 2018 Financial Results Conference Call"

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo First Quarter 2018 Financial Results Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Ms. Laura Panseri, Head of Investor Relations. Please go ahead madam.

LAURA PANSERI: Good afternoon to everybody, and thank you for joining us today to discuss Brembo Group's first quarter 2018 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Andrea Abbati Marescotti, CEO of Brembo. Since the slide presentation has been made available on our website in advance, we suggest that we go directly to the Q&A session.

Before we begin, let me remind you that any forward-looking statements that we may make during today's call are subject to risks and uncertainties that can cause actual results to be materially different. I also remind you that this call is being recorded. With that, we can start with the Q&A session. Please, operator.

Q&A

OPERATOR: Thank you. 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. Please go ahead madam.

MONICA BOSIO: Thank you and good afternoon for taking my questions. The first question is the usual one, but for this quarter it's more important. Given the negative impact of the currency, I was wondering if you are still confirming your guidance for the top line, for the full year between 7% and 8% including the FOREX effect. So this would mean that in the second part of the year you should have a strong revamp of the revenues

or from the backlog a better comparison base. And at the same time I remember that during the last call, the EBITDA margin qualitative guidance has been set in line with 2017. Are you still confirming this? And the third question is on the top line by country. I had a look at the breakdown by the country, and I was wondering if you can just give us some update on the Italian trend, which if I have seen correctly is down by 5.3% and on France, which is down by 7.1%. Thank you very much.

MATTEO TIRABOSCHI: Hello Monica, Matteo speaking. Starting with the first question, about the growth for the full year, yes, we confirm that we can achieve a growth of about 7% or 8% for the full year. Obviously it's not easy, but we are confident to achieve this result. This same answer is for EBITDA, the full year last year was 19.5%, again it's not easy to achieve this number, but we are working very hard to reach this result. Market: you asked about Italy: we are losing 5.3% compared to last year; it is in particular one customer, one business, that is not performing in line with last year, but is something that we are confident to recover the next two months. About France it's something, again we are speaking about 1.5 million, so it's nothing, and is something related to the after market business, but it's not an issue.

MONICA BOSIO: Okay and as for the EBITDA margin target, given that you are confirming, so this means that in the second part of the year or starting from the second quarter, the ramp up costs which are basically the operations would be lower. Is it correct?

MATTEO TIRABOSCHI: We are trying to manage in the best way all the costs for the ramp-up of the new plants. Please remember that there are three different plants. The new cast iron foundry in Mexico, the new plant in Dabrowa and the third is in China for the system division; so it's quite a complex situation to be

managed, but we are working very, very hard and we are confident to manage in the best possible way the costs for the ramp up.

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

OPERATOR: The next question is from Lello Della Ragione with Intermonte. Please go ahead.

LELLO DELLA RAGIONE: Hi, thank you for taking my question. A couple from my side. The first one relates to raw material, looking at the line of the P&L it seems that you don't have any material headwind on that line. I suppose that this includes the effect on...to the dollar and I was wondering given the fact that you have a lot of close with the pass through on raw material if you have any delay that might have affected the first quarter which will...which you...should we be able to recover in the remainder of the year or is that effect in material on your figures? And the other question relates actually again on the operation on the ramp up you mentioned again about the three plants, I was wondering if you are assuming that by the end of the year given the fact that these plants are arriving on...into your...if your capacity utilization will remain more or less at the level that you saw in this quarter or you should see an acceleration given the fact that some order will start on the point? And if I may ask another on the patent box if you can update us if you have any news on the potential timing for the agreement given the fact that other companies are signaling third quarter or fourth quarter this year are the potential deadline for this? Thank you.

ANDREA ABBATI MARESCOTTI: Okay Andrea speaking, #1, raw materials. You know, the raw material season, it is certainly not an easy season because worldwide there is an increase in the cost of scrap for cast iron and a difficult trend also on alloy. On our side our coverage on contracts with the customer is good, but certainly there is some delay effect. There are also some other

additives, so materials which can make some difference, so certainly there is some cost in this quarter linked to material; it is absorbable depending upon also the movement of the exchange rates, it could even soften in the rest of the year. So, I don't envisage a major impact or at least not a tangible impact by raw materials, certainly something on which we work every day with our customers.

Operational ramp ups: they are at different seasons. Mexican cast iron foundry is potentially ramping up to the right level of capacity by the end of this year, even if having more capacity available for further growth in the following years. The foundry in Poland is already operating on the casting portion; the machine portion will become operating soon and will contribute. Potentially the third one - the China aluminum caliper plant - is the one which will deploy let me say ramp up costs tangibly across the year, but also there it should be at a nice level of production by the fourth quarter. So, if you look at the total operation impact of the first quarter, I do really think this is likely the worst one (the first quarter of this year) in terms of impact on operations.

For patent box, I leave to Matteo.

MATTEO TIRABOSCHI: There is no update about the patent box, we are still working on it. I think that we can discuss about this topic maybe next year, but for the time being there is no update.

LELLO DELLA RAGIONE: Okay, thank you.

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

MARTINO DE AMBROGGI: Good afternoon, everybody. Follow up on the sales guidance for the current year, ex-currency in Q1 you were up 9% year-on-year, could

we consider this is the trend for the rest of the year based on your order book?

MATTEO TIRABOSCHI: Maybe yes, of course it's quite difficult to say something in this period of the year because we have nine months ahead, but the book order is pretty good.

MARTINO DE AMBROGGI: Okay, the second is on CAPEX because in Q1 they were particularly low, I don't know if it's my not clear understanding or there is something that is going slowly or slower than expected and connected with this, if you could quantify a little more precisely the more than 200 million CAPEX guidance you provided during last call for the current year.

MATTEO TIRABOSCHI: If I remember correctly during last call that we said 200 € mio or something more; maybe we'll be close to €250 million on the full year.

MARTINO DE AMBROGGI: Okay, so Q1 is just my idea they are lower than what I would have expected.

MATTEO TIRABOSCHI: Yes, just a bit lower.

MARTINO DE AMBROGGI: Okay, and I know this is an unusual question and you usually do not provide the guidance for the free cash flow. But if I ask you what could be the free cash flow for this year?

MATTEO TIRABOSCHI: To be honest in this moment, I can't give you correct answer.

MARTINO DE AMBROGGI: Okay, because...okay, you had the usual net working capital absorption in Q1. But was it impacted by the need to build up inventory because of the new plants or is absolutely totally normal?

ANDREA ABBATI MARESCOTTI: If you compare their net working capital total end of March last year and end of March of this year, you are right, the major portion of that number, which you see has increased versus the last of the year, is the seasonality; all the same we are likely -wrong number- 30 million, 35 million higher than the best utilization. The reason is double: one, the need to give food to the plants, that are in ramp up, which is the major portion, second we are making some pre-stock for a couple of very important customers, which have a very good order book and we prefer to be a little ahead of production even if not yet deliverable at the end of the first quarter. So this variance of 30-35 millions will not have an impact of the free cash flow of the year, it will be absorbed major portion through the end of the second quarter, certainly by the end of third quarter and it is just an operative choice of having the best level of service to our customers in the next months.

MARTINO DE AMBROGGI: Okay. Thank you.

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

MONICA BOSIO: Yes excuse me. I forgot to ask about the tax rate in the first quarter, actually I included in my estimates a lower tax rate because I remember that you were guiding for a full year tax rate in the region of 18%, 20% is still the case?

MATTEO TIRABOSCHI: First of all, it's quite complicated to calculate the correct tax rate of the full-year. As you can imagine that it's a very complicated exercise. Probably it will be something less than 23.5%, we said between 18 and 20%, maybe more 20%.

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

OPERATOR: The next question is a follow-up from Lello Della Ragione with Intermonte. Please go ahead.

LELLO DELLA RAGIONE: Hi again. Just a clarification on the bridge...on the EBITDA bridge, can you just give us a little bit of color on the price bucket there, which was somewhat higher than the past year. What are the drivers and that are affecting the line, if there is some strange effect because that it should be net of FOREX. I was wondering if this is a trend that occurred just this quarter related to order and deliveries or some markets or what are the drivers behind that -3.6 million this quarter? Thank you.

ANDREA ABBATI MARESCOTTI: It is a combination of many small numbers coming up through the regions and it is just, you are right, it is just slightly higher than normal; I'd not be surprised if this number does not change as year-to-date second quarter, so you are correct that it is a little wider, nothing special. You know that we have long term contracts with all the specific discounts and so on, and normally we are able to offset all these effects through operational efficiencies.

LELLO DELLA RAGIONE: Got it. Thank you.

OPERATOR: The next question is from Gabriele Gambarova with Banca Akros. Please go ahead sir.

GABRIELE GAMBAROVA: Yes, good afternoon to everybody. Couple of questions from my side, the first is on the good performance...organic performance you recorded in the US. The production as a whole if I am right was down by

4% and you grew by 3.6. The question is if you can give a little bit more of colour on this good recovery if there is any particular or specific reason behind this and if it is going to happen again if you want and then I have a second question, but I don't remember it at this time, so please answer my first and then I will tell you my second. Thanks.

ANDREA ABBATI MARESCOTTI: Okay. Yes, the US market, you are absolutely right in the market which is losing some percentage we are gaining. It's the combination of two factors, on one side we are confirming that the decision of verticalizing the cast iron disc production through the double foundry footprint in North America and in Mexico is paying in terms of competitiveness of our offer to our customers; so mildly but we are increasing our already leading market share in the market, so that we are number one with basically one-fourth of the market in North America. We see day-after-day that our offers to our customers are competitive so we are there wherever there is any business. By the way, the combination of our customers is going well. Adding to this of course the fact that the investment we deployed for the alloy callipers is developing volumes, you know without me making names that there is a very important Californian OE producer who is engaged in an important ramp up of the new model. We are the one producing that one, so the more they will be able to produce cars and delivers cars the more you will see volumes growing up in the next month so yes, this kind of growth - if the market stays like it is, we will confirm that this market will grow.

GABRIELE GAMBAROVA: Okay. Just a follow up on this. The growth in the net working capital deals with specific regions maybe NAFTA more than with others or is across.

ANDREA ABBATI MARESCOTTI I don't know how much this is really important. Should I say that...should I name the major regional impact for Top Four customers which are growing, it's in Europe.

GABRIELE GAMBAROVA: Okay. Last question regards the start up costs. Could you repeat...I mean when do you expect...in which quarter do you expect the strongest, let's say way impact of these start up costs, please.

ANDREA ABBATI MARESCOTTI: As you can imagine the start up costs are the sum of the fixed cost of the new structures, and the variable costs of people which are not able to deliver an output, which is proportional. I do really think quarter one was the worst one.

GABRIELE GAMBAROVA: Okay. Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. The next question is a follow up with Lello Della Ragione with Intermonte. Please go ahead.

LELLO DELLA RAGIONE: Hi again. Just the very last one. Last time during the call, we spoke about nonorganic growth and we mentioned...we discussed a lot about potential size. One thing that wasn't touched and not even in the press article that came after the results where it was related to the field that you might be looking into meaning that you are looking for some business that are at least linked to the business that you are producing at the moment or you are looking to a very different kind of business line that might have some interesting organic growth path or some other interesting feature? Thank you. If you can comment on that and if there is any update of course? Thank you.

MATTEO TIRABOSCHI: We are looking for some acquisition, but I want to be very clear, there is nothing on the table at this moment. We are looking on two different sectors: obviously one is automotive sector and the second one is in aerospace. To be honest in this moment, we are more focused on the automotive sector, but -again- there is nothing concrete on the table in this moment.

LELLO DELLA RAGIONE: Very clear. Thank you.

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

MARTINO DE AMBROGGI: Yes, on the sales growth by segment if you can just elaborate a bit on the commercial vehicles which were up 11% if it is can be considered normal growth for the current year and what are the main drivers? And on the negative side the racing segment which on the contrary was down quite significantly. So, just to understand if these are trends for the rest of the year?

ANDREA ABBATI MARESCOTTI: There is the numbers on the commercial vehicle segment are really good, some portion outpaced the market; you may remember Martino, that we were somewhat explaining at the end of last year that we are growing a little less than the market. So, on one side this the combination of the cumulative of the two quarters. On the other side, there are three of our customers of reference - European ones - both in the light commercial for calipers, and in the mid commercial and light trucks for rotors, which are really doing very well in the market. And since we are the only ones giving the breaking system to them, we are enjoying their success on the market. So, I don't know of course if it is the same percentage of growth in the second quarter but the order portfolio is good and they are doing well. So, it should really stay a market of satisfaction in

the next quarter without discontinuity. Our plants are really working at strong effort both for the calipers in Czestochowa and for the heavy rotors in Dabrowa.

Racing: there is a couple of customers which required some effort to have extra volumes at the end of the year which were anticipation versus the beginning of this year. So, some of the phases that you saw in racing at the end of last year, were an anticipation of this quarter, of course, in this segment 1.5 million and 2 million can make the difference. No discontinuation on any specific customers, there was specifically a private category, which was absorbing unbelievable material last year for a specific change of a regulation, which is not repeated this year, nothing systemic, just really a combination of a couple of changes in the market.

MARTINO DE AMBROGGI: Very last on the aluminum calipers I know you are still working on the last plant in China. But, what are your medium terms plans on the aluminum calipers knowing that the demand that should remain quite strong. So, I am not asking you the CAPEX for next year. But, just to have an idea on specifically on the aluminum calipers, what is the visibility you have going forward?

ANDREA ABBATI MARESCOTTI: Now, it is strategically a very important question. The Mexican plant is a 2 million plant caliper, in the current set up. Should I say what I see in the three years, the capacity will be implemented with further more increase, but it's likely that in the mid-term, we don't need a major expansion of this plant, which could serve the needs of the North American plant at something more than the current capacity but without exploding.

In Europe the combination of the Italian and Czech Republic plants is exploding, we're working seven days in a row with continuity, we should really seriously think if in the mid-term this footprint is sufficient to us.

Both plants are really big and complicated, so we are open to evaluate different alternatives, maybe expanding the two plants could even be too much. Certainly the capacity is totally bought and we should really evaluate mid-term if this is enough. China: the plant which has just been started for 2 million pieces capacity is very likely to be properly full by the beginning of next-year, and at normal EBIT. We have double land available; if any moment, we see the market increasing - as we do hope - we're absolutely ready to reply with an expansion of the plant. So making it short, Nafta is okay, Europe could evaluate mid-term and increasing in the footprint, but likely China will come first.

MARTINO DE AMBROGGI: Okay. So may be 2 million should be doubled in China or?

ANDREA ABBATI MARESCOTTI: Depends on how many years you take for that, because 2 million calipers means a million of cars equipped or even more if you put them on the front axle, which is currently the size of the Chinese market because our market share today is 100 so if you're asking three years to five years, yes.

MARTINO DE AMBROGGI: Okay. And very last, competitors are still where they were a few years ago or they are becoming more aggressive?

ANDREA ABBATI MARESCOTTI: There is no competitor localized in China, the best competitor is offering to China from Europe, I don't know if this will change with the growth of the market, it could, but as of today we are the only ones.

LELLO DELLA RAGIONE: Okay. Thank you.

OPERATOR: Ms Panseri, gentlemen, there are no more questions registered at this time.

LAURA PANSERI: Thank you. I wish you a pleasant afternoon to everybody. Good Bye.