

# **Brembo S.p.A**

**"Nine Months 2018 Financial Results Conference Call"**

**Wednesday, November 7, 2018, 15:00 CET**

MODERATORS:     **MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN**  
                      **ANDREA ABBATI MARESCOTTI, CHIEF EXECUTIVE OFFICER**  
                      **LAURA PANSERI, HEAD OF INVESTOR RELATIONS**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo Nine Months 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 apologies for this delay. Thank you for joining us today to discuss Brembo Group's nine months results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Andrea Abbati Marescotti, CEO of Brembo. This 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, thank you.

## **Q&A**

OPERATOR: Thank you. This is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Monica Bosio of Banca IMI. Please go ahead.

MONICA BOSIO: Good afternoon, everyone, and thanks for taking my questions. The first one it's my usual question on the EBITDA margin for the full year and on the top line guidance. Are you still confirming your top line guidance growth and an EBITDA margin flat year-on-year or are you expecting that

the ramp up cost of the new initiatives will continue to impact also in the fourth quarter, and you are more confident for an EBITDA margin slightly below the 2017 numbers?

And the second question aside from the 2018, the second question pertaining to the outlook for 2019. I know that maybe it could be too early to ask, but the market...the reference markets in the automotive are slowing down. And I was wondering if you can give us just some good qualitative indication on what you are expecting for 2019. can we figure out let's say in this way a mid single-digit growth for the top line with maybe Discs that are slowing down and the aluminum calipers that are still growing? Thank you.

**MATTEO TIRABOSCHI:** Ciao Monica, Matteo speaking. I'll try to give you the answer starting from the last point about the next year. To be honest it's very...too early to give you some indication about 2019 and you need to wait some months to better understand what will be the future of our sector next year. Today it's very, very complicated to give you some idea about numbers. And about the full year this year, obviously the last quarter would be not an easy quarter. We think that for the top line of our profit and loss, the sales will increase for the full year something around 7% compared to year before and about EBITDA margin, probably it will be in line with the 9 months of this year, something around 19%.

**MONICA BOSIO:** Okay, thank you very much. Can I add a follow up? Can you comment on the performance on China which in the third quarter was up by 9.6%, if I remember well. And on the other side, the still strong performance in NAFTA, are you still gaining market share, is it right?

**ANDREA ABBATI MARESCOTTI:** Monica, Andrea speaking. Markets and the market share because of course, as usual they are two portion of the same cake. Markets are behaving with some lag differently sales and production, so while it is true that there is some hysteric movement in both markets

month against the other month, our North American customers are selling well. The market is likely easing versus the last year, current data after 9 months is minus 2.8% (total market); you see that we are doing well, certainly there a very significant market share, specifically penetration of the calipers, but also good consolidation of our leadership on the disc. China, China is facing potentially as total market a very difficult end of the year, this is clear. It is...should I say the first priority, first point is an issue about sentiment of the final customers. If it is the right moment or not to buy their car, which says it is very likely is short term momentum but certainly sales in China in September, October, November, December will not be gorgeous. I would not be surprised if at the end of the year China total market increases just slightly against last year. The current level in terms of production, which is what we look at, is + 0.3%, which is really nothing, if you think of the history of China. Our sales, on the other hand, are going very well, of course in these sales the major momentum is driven by the very important progressive ramp-up of utilization of alloy calipers in China. So we see continuity, I should say forget the hysteresis of August, September, October, we see continuity of orders, October sales were consistent and as of today, we look at the market everyday because our customers are strange animals, but the orders of November and December and some outlook on the first quarter is consistent.

MONICA BOSIO: Okay.

ANDREA ABBATI MARESCOTTI: With all the carefulness of the moment to be looked very deeply.

MONICA BOSIO: Okay, thank you very much.

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

MARTINO DE AMBROGGI: Yes, thank you. Good afternoon, everybody. The first question is on the margin because in the first 9 months, you had a negative contribution from the operating line, operational line that you usually do not comment because it's a rather complex line, but it's the highest level ever because looking at the full year results over the last few years, you were always below €38 million which is just the first 9 months of this year. So I understand you had simultaneously startup of different plans but should we expect these lines to have a positive contribution next year because of the finalization of the ramp up procedures? This is my first question.

ANDREA ABBATI MARESCOTTI: Yes, what you see in the third quarter in terms of negative increase of the operation which was already significant in the first 6 months is the sum of different specific issues, which for the major portion are specific and momentaneous. It is sum of some excessive fluctuation of the orders from our customers, specifically the European customers. Everyone managed the phase-in/phase-out of the WLTP orders with different approach to the number of production, so we saw crazy change of the orders. In total you see a very positive behavior of the orders in total of the quarter, but you don't know what happened week-after-week. I mean, since you know that for us the level of service to the customers is the priority, we experienced a specific inefficiency and extraordinary costs to try to allocate at best the service to our customers. Plus some ramp-ups, plus – you didn't mention the prices – but some existing hysteresis on the raw material costs, which is in this case of course are not yet recovered. And this is the short history behind the margins of this quarter, which tells that yes, versus the operation impact 2018, we certainly plan a positive recovery on this item in 2018.

MARTINO DE AMBROGGI: Okay, thank you. Could you...I know it's a difficult question, but could you quantify what is considered non-recurring due to the excessive fluctuations of the orders you mentioned?

ANDREA ABBATI MARESCOTTI: You knew before you asked, that we prefer no to...

MARTINO DE AMBROGGI: Okay, but from another point of view, the 19.5 for the full year would have been achievable or approachable without these costs, just to have a rough idea if the 19.5 in normal market conditions would have been achieved in any case or not?

ANDREA ABBATI MARESCOTTI: Looking at the market in the short time frame of the three months, it is a very different market than the one it was in February - March. I'd say that certainly it has become a more difficult market because some of our main customers are now under pressure, so it is really difficult for me to answer Martino because it depends on so many variables; overall the global automotive market, temporarily, has certainly worsened.

MARTINO DE AMBROGGI: Okay. The second question is on the revenues implicit in your guidance for the fourth quarter would be only up 3%. Is it mainly due to the WLTP fluctuations or is something that evidence the slowdown in some areas or in some segments in particular?

ANDREA ABBATI MARESCOTTI: Yes, they are two concurring effects, one on some specific things, the last quarter last year was somewhat influenced by specific sales, so the comparison quarter-on-quarter will be slightly unfavorable. Second, a portion of the orders and sales that you see in the third quarter this year was somehow is anticipation of the fourth quarter, so you need to look...you need to look at the second-half of the year (3Q+4Q) as a whole.

MARTINO DE AMBROGGI: Okay. The last on CAPEX, this year 250 I suppose is confirmed. I know, Matteo, you don't want to talk about next year, but you have a clear visibility of what is the capacity utilization. What are the projects you have in mind for output additions and so on. So just to have an idea, if they would be lowered or higher than the 250 of this year?

MATTEO TIRABOSCHI: CAPEX for this year, yes the number that you said, is correct. For next year it will depend on the volumes and the budget. So in this moment we prefer not to comment on 2019 figures.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Renato Gargiulo of Fidentiis. Please go ahead.

RENATO GARGIULO: Yes, good afternoon. Well, my question is related to operations and start-up costs. Could you give us an update about your current utilization rate related to your new investments, please? Thank you.

ANDREA ABBATI MARESCOTTI: The situation is not that different compared to what I said 3 months ago. Regarding the alloy calipers: the ramp up of China is really approaching high saturation, but it was very near already on the second quarter, but let's say that basically near all the part numbers that had to be validated are validated, and the plant is approaching by the end of the year a very satisfactory level of saturation, which we can repeat in the next years, progressively adjusting the capacity depending upon the volumes that we will see. The Mexican plant is stable at a decently good saturation, certainly when the new customers come, we'll have the possibility to allocate their orders, but there are already platforms awarded ready to start in the next months. So also the future of that plant is good. Europe is very good, very well saturated, so I would say, I don't see any

specific issue on the calipers. We could even think, this year or in the mid-term, about a necessity to increase the total capacity.

Discs: we can host further volumes as needed basically in all the regions, on the other side the saturation is good in the regions. Should I mention where there is a little more space than in the others, we are planning the right actions to better saturate the sum of the two NAFTA foundries, because we could host some more volumes in the sum of Mexico, North America and a good supplier that we have, because you know that we are not totally moved.

RENATO GARGIULO: Okay. Thank you.

OPERATOR: The next question is from Michele Baldelli of Exane. Please go ahead.

MICHELE BALDELLI: Good afternoon everybody. Thanks for taking my questions. I have got few of them. First one on China, given that there has been the ramp up of the new foundry for the aluminum calipers and also the sales to the customers in China of aluminum calipers, I would like to understand why I don't see an acceleration of the growth trends quarter-on-quarter in China from the reported numbers? And on the other side linked to this probably also why minorities which are mostly linked to the Chinese ASIMCO has gone down, so if you can elaborate about it, please.

ANDREA ABBATI MARESCOTTI: We didn't understand the second question about ASIMCO minorities.

MICHELE BALDELLI: So basically, from your P&L, I see that the lines minorities is going down. So let's say in the last quarter in Q3, it was in particular stronger the decrease, and given that most of it should be if I am not wrong linked to the minorities that you have got in ASIMCO in China. I was wondering what happened to the profitability there?

MATTEO TIRABOSCHI: The minorities are in Spain and in ASIMCO. To be honest, I don't know.

LAURA PANSERI: We can come back to you, Michele with an answer, we will double check.

MICHELE BALDELLI: Thanks.

MATTEO TIRABOSCHI: And about the China, the China quarter, this quarter compared to the quarter for the year before is a positive plus 9.6%, and even the same FOREX is close to 11% of the growth, so it is quite important I think.

MICHELE BALDELLI: Which is similar to the last quarters', if I am not wrong?

MATTEO TIRABOSCHI: I don't get the point.

MICHELE BALDELLI: No, the point is that, the more there has been this ramp up of the aluminum calipers and the more I thought that we could have seen an improvement of the sales for the Chinese operation. So I am wondering, shall we see the sales of the aluminum calipers be more in 2019 than in 2018, because this is a significant amount if I am not wrong of additional sales?

ANDREA ABBATI MARESCOTTI: Yes, of course, the days of matching is different because, in June we were matching the periods till June, now we are making the confrontation on a different volumes. It is different from the third quarter and of the nine month.

MICHELE BALDELLI: Sure, and on the outlook for the sales of aluminum calipers in China, let's say at what kind of, let's say, percentage out of, let's say, 100 when you will get the full, let's say, sales of this opportunity. At what stage are you...are you at the start or at middle...

ANDREA ABBATI MARESCOTTI: I can reply, if you allow me, reverting the question. You know that the investments on alloy calipers find a good balance around the capacity of 2 million calipers. So I can tell you that the saturation across the end of the year against the installed capacity of 2 million is really good.

MICHELE BALDELLI: Okay, perfect. And then just another thing that...just to clarify the Q4 guidance...can you repeat the guidance, please.

MATTEO TIRABOSCHI: For the full year it is something around 7% of the growth. EBITDA is something around 19%.

MICHELE BALDELLI: Okay, perfect. Thank you very much.

OPERATOR: The next question is from Valentine Forsans of Kepler Cheuvreux. Please go ahead.

VALENTINE FORSANS: Yes, hi, Valentine Forsans on behalf of Alex de Ravendry from Kepler Cheuvreux thanks for taking my question. I have three if I may, first one, can you please comment on the working capital, as in Q2 inventories and receivables were higher than usual, has the trend reverted in this quarter? The second one, what are your internal assumptions in terms of global light vehicle production for Q4 in 2019, which level of outperformance can we expect, can you provide any color on that please? And third one, if I may, what is the Chinese market decreased by 10% in volumes, what kind of sensibility could you provide regarding the impact on your volumes and margins, please?

LAURA PANSERI: Sorry, can repeat the questions, because we can hear you very badly, sorry.

VALENTINE FORSANS: Okay. And so, the first question, can you please comment on the working capital? Has the trend reversed this quarter because if I am correct in Q2 inventories and receivables were higher than usual? That would be my first question.

ANDREA ABBATI MARESCOTTI: Okay. I can reply to this question. It is the other face of the medal of giving the best level of service to our customers. Should I say a number, today we closed the third quarter, at my operational approach we are starting around 15 million extra inventory and we are doing our best to recover that extra inventory through the end of the year

VALENTINE FORSANS: Okay. Thank you. And what are your...for my second question, what is your internal assumption in terms of global light vehicle production for Q4 and for '19? Can you provide some color on that?

ANDREA ABBATI MARESCOTTI: Global production: we see North America flat where it is (-2 point something versus last year); China losing the major portion of the increase of the first seven, eight months, as already happened in September, so nearly closing flat versus last year; Europe very, very marginally positive versus last year. Of course this is not Brembo, this is what the global sales of vehicles does. It is impossible to throw precise numbers on what will happen in the first quarter of next year. I can only say, as I already said, where today I am serene enough for the orders I see, I don't see major changes, I see constancy of the market.

VALENTINE FORSANS: Okay. Thank you. And for the last one, why is the Chinese market decrease by 10% in your view, can you provide a little bit of sensibility regarding the impact on your volumes and margins?

ANDREA ABBATI MARESCOTTI: From what we understand the tariff war between China and the U.S. is creating a clear sense of discomfort in the end consumers and is creating some inefficiencies for all the Chinese companies which found an important portion of their business in export, which made so that there was a heavy loss of sales last month, which is I guess what are asking, -11% on sales, and -11% on production. Year-to-date all the same, both sales and production in China are +1%, or plus 0.9...0.3. We had some slowdown of the orders versus our opportunistic scenario on the disc side, but which is confirmed is the guidance we gave. Our China will grow significantly this year, of course in our hopes it could have been even better. While, of course, the aluminum calipers are less affected by this and the order book is really good.

How long will this last will depend upon the decisions the policymakers will do in the next month in China. You know that they are very quick at taking decisions. There are rumors that they are thinking again about giving some incentives in terms of tax reduction for new cars under some displacements. But they are good at managing their market. So I do believe that China policymakers could make short-term decisions to try to support better confidence in the market.

VALENTINE FORSANS: Thank you very much.

OPERATOR: The next question is from the Gianluca Bertuzzo of Intermonte. Please go ahead. Excuse me...

GIANLUCA BERTUZZO: Hi, good afternoon, and thank you for taking my question. I have just one question. Given the level of investment we've seen...we are expecting for this year, could you maybe help us modeling the run rate for depreciation and amortization going also into 2019? Thank you.

ANDREA ABBATI MARESCOTTI: A general comment on all the questions on 2019, which I undersatnd very well. Our point is that giving one number out of a 360° scenario does not make sense. So the reason we we resist to give any guidance on the CAPEX, depreciation, and so on, are because they go one with the other. The level of sales will define our policy on CAPEX, which we will decide the impact of depreciation and so on. Giving one number without the others would not make sense.

GIANLUCA BERTUZZO: Thank you.

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

MARTINO DE AMBROGGI: Yes. If I may, just an additional comment on the motorcycles and commercial vehicles, which had a very strong performance in the quarter. Just to understand what are the drivers and maybe this trends affected the operating performance because of unfavorable mix or it's a wrong assumption?

ANDREA ABBATI MARESCOTTI: There are two different realities. Motorcycles is experiencing a nearly stable western market, NAFTA is suffering more, USA total sales of motorcycles are suffering a little more, Europe is more stable and a boom in India. This market is also changing regulation, which allows us to increase the value per unit of Brembo material of motor. And so this is the major contributor of motorcycle. Since our marginality is nearly perfectly balanced across all the markets, it does not change the marginality of the specific business. Commercial vehicles, you know that while the light vehicles for European market is not so astonishing, basically production is 0%, Sales are +2.3%, the commercial vehicles are doing a little better, again forget September

which was a specific month, but year-to-date commercial vehicles in Europe are + 3.4% sales, plus 5% production.

Again, you need to understand the mix of the different customers and so on, but we are seeing good orders for our commercial vehicles, European specifically.

MARTINO DE AMBROGGI: And do they impact the mix in particular or not?

ANDREA ABBATI MARESCOTTI: To comment the mix I would have to comment which customers are doing better or not, which I prefer not to...

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: Gentlemen, there are no more questions registered at this time.

LAURA PANSERI: Okay. Thank you for your attention and good afternoon to everybody. Bye-bye.