

Brembo S.p.A.

"First Half 2018 Financial Results Conference Call"

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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 First Half 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 half 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.

But before we begin, let me remind you that any forward-looking statements that we may make during this 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. So we can start with the Q&A session. 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 Renato Gargiulo with Fidentis. Please go ahead, sir.

RENATO GARGIULO: Yes, good afternoon. Well, my first question is on your outlook for the second half of the year. I've seen that you have reduced the strong acceleration in the organic sales growth to above 11% in the second quarter. So I was wondering if you can give us any more indication about how you see this trend evolving over the next two quarters.

Then second question is a more general question, an update and if you made any indication about what you are seeing in terms of orders related to the potential impact of duties, or if you are seeing any disruption in production from your customers? And then third question is on tax rate, if you can provide guidance for the full year tax rate and if you have any update about potential patent box? Thank you.

ANDREA ABBATI MARESCOTTI: Thank you. Andrea speaking. As you already saw in the detail of the results for the second quarter, you see a progression of the sales. We are cautiously optimistic also on the second half of the year. Certainly, the world is complex, but as of today the order portfolio - binding your second question - is really good. So the order portfolio through the whole third quarter and the beginning of the fourth quarter is more than consistent. So before you ask, we confirm what we already fixed as a guidance for the year. The volumes are good. Potentially also the exchange rate impact of the consolidation of the sales is progressively decreasing. So the outlook is consistent with what was already communicated and the order portfolio fully supports it.

Our customers' orders are consistent through all the regions and through the customers; as of today no impact at all from the duties. And also the very remarkable change in regulations for the initial data homologation being applied the September 1st and causing some decision on the sales schedule of our German customers as a fact has not impacted as of today our portfolios which are good.

For the tax rate I leave it to Matteo...

MATTEO TIRABOSCHI: Tax rate is quite complicated to give you current estimation. I think for the full year, it will be something around 21%, 22% and about Patent Box, no, no news for the moment; may be something close to the end of the year.

RENATO GARGIULO: Okay, thank you. If I may, just 2 very quick follow-ups. First, so you are...basically you are confirming your previous indication of the total growth around 7%, 8% including FOREX for the full year? And second question, do you have any update about the...on the Tesla ramp up in production, are you seeing any changes, improvements there? Thank you.

ANDREA ABBATI MARESCOTTI: First question, answer is yes. Second question, I don't comment what our customers are doing. I am just telling you that we are producing very well, stop. What Tesla is doing, please ask Tesla.

RENATO GARGIULO: Okay, thank you.

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

MONICA BOSIO: Okay, thank you and good afternoon, everyone. The first question is on the ramp up costs related to the launch of new initiatives. I was wondering if you had some ramp up costs also in the second quarter and when do you expect to full absorb it. Basically my question is to try to figure out the EBITDA margin trend for the second part of the year that...can we imagine might be more or less in the same range in the same...at the same level of the first half?

And the second question is on the capacity utilization rate of your plans. Can you give us an update and just indicate to us if they are rising or if they are decreasing? And the very last question is more general, reading your press release I had the impression that you are a little bit more cautious on the future trend or potential trend of orders of the customers. Even if so far you have not seen any impact, I was wondering if there is a region which concern you the most and why? Thank you.

MATTEO TIRABOSCHI: Starting from the last point, but Andrea will explain you better later, no, we have no problem with the orders for the second part of the year, we are confident to continue with the same speed as in the first half, across all the regions.

Regarding your first question about the ramp up costs, yes, we have an important portion of ramp-up costs in the first half, you can see them in the item “operations”, which was negative for about €24 million; obviously the major portion are in the first half, but also in the second half we will have some additional ramp up costs.

MONICA BOSIO: Okay, I remember that in occasion of the first quarter you were expecting the highest impact in the first quarter and then decreasing, this is still the case, so the second quarter had lower ramp up costs than the first one?

MATTEO TIRABOSCHI: I think the most important ramp up costs are in the first and the second quarter.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: In the third and the last quarter, they will decrease.

MONICA BOSIO: Okay, thank you.

ANDREA ABBATI MARESCOTTI: Which as a fact covers also the other portion of your question, the capacity utilization. The start-up cost in the second quarter are also consequence of the fact that some plants are today over-stressed to support and cover the ramp up of the calipers plant in China and of the foundry incremental capacity in Poland.

MONICA BOSIO: Okay. Very clear..

ANDREA ABBATI MARESCOTTI: Both plants will be able to cope with the demand from the third quarter, which means that we will balance better the capacity utilization and we will incur lower ramp up cost, because we will produce the volumes in the right region near the customers.

MONICA BOSIO: Okay, perfect, got it. Thank you.

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

MARTINO DE AMBROGGI: Yes. Good afternoon, everybody. It's clear you have no problems on the order inflow. I was wondering if you could elaborate a bit on China because looking at some of your main clients, yesterday Maserati but also other players mentioned a slowdown...quite a significant slowdown in China. Could you elaborate a bit on this?

ANDREA ABBATI MARESCOTTI: Yes Martino, you see from our slides, that our sales China are increasing very significant; in the 2nd quarter the increase is really very big (+23.7%). This is basically driven by the localization of the caliper production, but also by a very virtuous trend of the discs combined capacities of Nanjing and Langfang. Our customer base is really wide in China, and we are not suffering at all. By the way, the premium models produced in Europe are represented in our charts under Europe sales, so you will see Maserati sales as "Italy" notwithstanding where they are delivered.

The market as a total trend in China is not booming, it has increased consistently; sales in China in the first 6 months have grown 5% on average, so you see that our growth 4 times outpaces this market.

And we really have a positive view also for the second half; of course at full year level you'll see a lower percentage growth vs the previous year because the combination of the ramp ups will compare the second half in

China, which was already significant last year, more than the first half of last year, but really the market is going well. Very competitive market, but we are growing well both portions of the OE business and calipers and rotors.

MARTINO DE AMBROGGI: Thank you. I understand the top line guidance is reiterated. And EBITDA was 19.5%, is it still the case?

MATTEO TIRABOSCHI: Yes, we confirm it.

MARTINO DE AMBROGGI: Okay. And in terms of CAPEX, you guided for 250, I suppose based on your comments that this figure is more than confirmed, maybe it could be higher?

MATTEO TIRABOSCHI: No, more or less 250 is the number.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Alexandre Raverdy with Kepler. Please go ahead.

ALEXANDRE RAVERDY: Good afternoon and thanks for taking my question. I have 3 questions, please. The first one is on M&A. There is something new and on capital allocation as a whole, do you plan for instance to pay an extraordinary dividend as you did some years ago?

The second question is on net working capital. I see it has increased as a percentage of sales compared to the past, maybe linked to inventories and receivables. Is this only temporary or should we expect a reversal in the trend going forward?

The last question is on competition, do you see an increase in competition and if you could please remind us your market share by region? Thank you.

MATTEO TIRABOSCHI: On the M&A, no news. We are looking for some opportunities but there is nothing concrete on the table at the moment. About the dividend, we don't have a policy about extraordinary dividend.

ANDREA ABBATI MARESCOTTI: Net working capital: at the closing of the first half, I regret to admit it because it is one of my responsibility, we are a little fatter than usual on the stock, let's say we are 4/5 days more on the stocks which we're used to; it was a combination of decisions made to support the ramp up of the new plants, but as a fact we paid it in the net working capital. We plan to go back to our normal days of stock through the end of the year, so I guess that we'll recover the stock level progressively in the second half of the year. The balance of payments and receivables was marginally influenced by the strange calendar of this year, in which the end of the first, the second, the third and by the way also the fourth quarter is in a weekend. There is some marginal impact, but I'd really say that the difference in the working capital, major portion, is our inventory which is conscious and we will progressively go back in terms of days.

ALEXANDRE RAVERDY: Okay and please on competition.

ANDREA ABBATI MARESCOTTI: Competition: the competition landscape has not changed, competitors are the same. I can't go through the whole market share by regions, I will try to make it easy. Alloy calipers: we are the only producer verticalized in the world, and we are the only with foundries in the 3 regions, machining, assembly, production in the three regions. We have a very good European competitor only based in Germany (and we

will not make the name) and we have a couple of other credible Asian competitors, one Korean, one Japanese, which have some inheritance *keiretsu* with Japanese/Korean customers and are trying to localize themselves in Europe.

Today, our market shares worldwide on Alloy Calipers are dominant, because we are something like 85% in the world. This market will double in the next 3-4 years. And certainly in terms of evolution of the supply chain and protection of a fair marginality, it will be not be possible to stay at a 85% market share, but we plan to be certainly something around three quarters of the market, let's say around 75% of the doubled number.

Discs: again, we are the only global verticalized producer in the world. We have very good regional competitors; our best 1- 2 competitors Europe are different from the ones in the United States, and from the ones in China, which puts us in a very privileged position in the moment a global customer asks for a global offer through the 3 regions with localized production. If you account as total market, the volumes of discs, which are produced by suppliers, so not counting the discs which are still produced internally by OEMs, we are something like 20%-22% market share globally, nearly similar across all the regions. The only exception is the small market in South America, in which we are really dominant. But for the rest is 20 something percent across the main regions. In China, we are approaching 20%, there we have 15%, but it is already a huge number if you consider the market of China.

ALEXANDRE RAVERDY: Okay very clear. Thank you very much.

OPERATOR: The next question is follow-up from Renato Gargiulo with Fidentiis. Please go ahead.

RENATO GARGIULO: Yes, just a follow-up on EBITDA margin, if we assume you are saying a lower setup cost up cost in the second half of the year versus the first part

of the year. And also, likely there was FOREX impact, we are getting to a higher margin than the 19.5% you are guiding for, can we consider it somewhat conservative or what are the drivers we are missing. Thank you.

ANDREA ABBATI MARESCOTTI: No, because if you look at last year, last year (1H) we were 0.8 better EBITDA because of the seasonality. We had some margins better in the first half because of some seasonal businesses. So confirming at full year, what is actually today already the marginality of the first half, means that the recovery in the items you mentioned, we will cover the small portion of lower seasonality.

RENATO GARGIULO: Okay, thank you. And second very quick follow-up on China. So you are saying that you are not seeing any kind of slow down, some of your main clients are talking about a slowdown in June due to the introduction of lower tariff starting in July, and then a recovery and then acceleration going forward. Are you seeing anything that in your orders? Thank you.

ANDREA ABBATI MARESCOTTI: Absolutely, nothing. You can imagine that what are their sales figures in the specific month has really no impact on our plans, because there is the absorption of their stock, and of the stock of the market. So we don't see this kind of fluctuations. So we see a stable growth across all the customers.

RENATO GARGIULO: Okay. Thank you very much.

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

MARTINO DE AMBROGGI: Yes, thank you. In your previous call you mentioned you were thinking about new capacity to be added in Europe and China, which was

not included in the €250 million CAPEX for the current year. Have you the same decision-making process ongoing or you already decided?

ANDREA ABBATI MARESCOTTI: Martino, the discussion was on mid-long term. The capacity we have in Europe and China is absolutely sufficient for 2018. I should really get also for the first half of 2019, then we will see what happens, you know, that our lead times to increase capacity is very short. But really the main work in 2018 and 2019 is progressively saturating our capacity till getting crazy. So we are not yet at that moment.

MARTINO DE AMBROGGI: Okay. And then, raw materials, I know you have indexed contracts for aluminum, the steel is skyrocketing and you have a portion...not a big portion I suppose of your costs related to steel. Could you remind as if you have a index clauses also for steel or if you see the risk to suffer some negative impact?

ANDREA ABBATI MARESCOTTI: The real implication for what you call steel is – as a fact – what we call scrap iron plus additives. In general terms, we are indexed through the world with the exception of Latin America, where the culture of indexation is not common. All the same, I have to tell you that this year 2018, we were able, both for the first half and for the second half, to negotiate fair allocations of this cost to the customers. So even if not covered contractually, we were able to offset it. The other subsidiary in which we are not covered because we did not create it, is ASIMCO. We are working to sign the agreement with the customers mid-term, of course, we cannot ruin the relationships with the customer on already signed contracts, we respect the contracts. Progressively with the renewal of the contracts during the year, we will be able to offset it. That said, generally speaking, certainly in our figures in this moment there is some impact of raw materials, because it's always impossible to be 100% indexed. But you see that the quality of earnings stays all the same.

It is a tough season, but we are able to cope with it. Again, our global footprint really is an unbelievable level of flexibility to absorb this impact.

MARTINO DE AMBROGGI: Okay. Thank you and very last one, I know you are not accustomed to talk about new business, but without sharing the name and the size of the contract, did you get some new contracts over the past few months/ quarters?

ANDREA ABBATI MARESCOTTI: You can imagine Martino that with tens of millions of parts which we produce every year if I don't get new contracts, I am writing my death... [laughing]

I can tell you that in the last six months we got award for both discs and calipers in a portion which exceeds the percentage of the business which will be fading up; so again the award is more than the substitution volumes, across all the regions; we are building the growth across all the regions. The outlook of the volumes long-term is really healthy.

MARTINO DE AMBROGGI: Okay. Thank you.

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

LAURA PANSERI: Thank you so much to everybody and enjoy your afternoon. Bye-bye.