

Brembo S.p.A.

"Full Year 2017 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 presentation of Brembo Full Year 2017 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 IR of Brembo. Please go ahead.

LAURA PANSERI: Good afternoon, ladies and gentlemen, and thank you for joining us today to discuss Brembo Group's full year 2017 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 the Q&A session please.

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. Please go ahead.

MONICA BOSIO: Good afternoon, everyone, and thanks for taking my questions. The first one is my usual question on the expected trend in 2018. According to the press release, the Company sees a sustainable revenue growth trend ahead.

I was wondering if you can quantify an indication in term of top line growth, including the FOREX effect and excluding the FOREX effect. And at the same time given that you recorded a 19.5% EBITDA margin, I was wondering if you can give us some indication on potential progress or stability of this trend. The second question is on the raw materials. Can you just remind us the weight of steel and of aluminum versus your revenues, and how much in term of steel and aluminum you buy when you operate in the United States, which is the weight of aluminum and steel both outside United States? Thank you very much.

MATTEO TIRABOSCHI: Monica, Matteo speaking. I'll try to give you an answer about the third question but to be honest it's quite difficult. What we can say is that for the current year, we expect,...we are working very hard to maintain more or less the same speed that we had the year before. I mean, probably for the sales we can imagine a growth in single-digit but single-digit similar to the single-digit of last year (7% or 8%). And about EBITDA, we had I think a very good result for 2017. You have to remember that there are some important costs for the starting of production of new plants, the ramp-up in Mexico and in China. In this year, there will be also have the start-up in Poland. We are confident to work very hard to maintain more or less the same percentage that we had last year. I mean something around 19%, 19.5%.

MONICA BOSIO: Okay. And the same speed in revenues, even including the FOREX effect?

MATTEO TIRABOSCHI: If there aren't incredible swings about FOREX, yes.

MONICA BOSIO: Okay, thank you very much.

MATTEO TIRABOSCHI: About aluminum and the cast iron, it is very difficult to give you an answer, and to give you a split about the quantity that we buy in the US.

What is important for us is that all the prices in the agreement with our customer are indexed, so all the increases and the decreases in raw material costs are passed through to our customers. So in the end of the day, in three, four or five months, there is a complete pass-through of the increase of cost of raw material, for taxes or anything else.

MONICA BOSIO: Okay, thank you very much.

OPERATOR: The next question is from Niccolò Storer with Mediobanca. Please go ahead.

NICCOLÒ STORER: Hi, good afternoon to everybody. Thanks for taking my questions. First of all, congratulations on the results. Questions are again on your guidance for 2018. Could you please remind me which are your projection in terms of contribution from the three new plants, namely the China alloy, Mexican alloy and the new Polish plant?

Second question on US tax reform. Did you calculate the impact on your tax rates going forward, which kind of tax rate should we expect, I imagine something below the previous 25%? And third question, on car production trends. We have seen particularly strong fourth quarter in particular in Europe. What are you seeing, are you seeing production going hand in hand with demand or you are seeing a sort of build-up in inventories? Thank you.

ANDREA ABBATI MARESCOTTI: Thank you Niccolò, Andrea. I will cover the first and the third and Matteo of course will reply you on the taxation. Contribution, I guess you are asking contribution in increase of sales by the Mexican alloy, the China alloy and Dabrowa 3. It's really not the way I look at it because I look at the customer side. The reason for which we built those plants of course was being fully competitive across all the world. We were rewarded very important award in very important business, the business

will take years to grow up, but certainly...my personal view that we somewhat feel the possibility to replay the same kind of...to make again the same kind of growth that we did in 2017, we are counting upon this kind of growth.

Even if we are able to do this so firstly around 8% in terms...8% in terms of growth 2018 like we did in 2017, certainly these new investments allow us the capacity to offer further capability, further volumes on the market which is somewhat making us confident in the mid-term growth, because we are still active on the market, across the new platforms everywhere in the world and in all the main regions, so NAFTA, Europe and China.

In terms of consistency - your third question - consistency of the market dynamics versus the production dynamics. As of today, I see virtuous behaviors by our customers. I mean, I see Europe pushing on volume growth. We are really somewhat struggling to deliver 100% of the request of some customers in Europe which is a very good problem in our business. So Europe is doing very well. I don't see inventory building across our customers, and you know that it is not so usual to us to give some clear numbers early in the year, so if you are giving them to you is because at least for the first six months, we see an order portfolio which really looks stable; then this business is strange, but really it looks like stable specifically in Europe.

China is doing better than we were envisaging till three, four months ago, it is increasing well on our segment, we are doing really well. And NAFTA is doing not so bad so we are closing an year in which they lost two, three points and we all the same, with the sum of all the NAFTA region increasing. Also at the beginning of this year, the orders are consistent, we are not targeting to make significant increase this year in North America, because of the total market dynamics, but we are continuing gaining market share. And by the way, cars stock in NAFTA, which was increasing a little six months ago, is nowadays stable. So today, I really see that what we are selling to our customers is basically being

sold to the final customers. I don't see the reasons for a bubble for the next six months.

For the tax, I leave it to Matteo.

MATTEO TIRABOSCHI: Thank you, Andrea. To give you an answer about tax rate, it's really very, very complicated. You have in the presentation a slide where you can see the tax rate around the world and the normalized tax rate.

In 2017, the tax rate of the Group was about 20.2%, we had a good contribution from Poland and obviously from the tax cut in US, that for last year it was something around €10 million. We think that also for this year, we can have a good advantage, and maybe we can reduce the tax rate about one or two points, it means that we can have 2018 with a tax rate around 18% and 19%.

NICCOLÒ STORER: Okay, thank you. Thank you very much. Thank you.

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

MARTINO DE AMBROGGI: Yes, good afternoon, everybody. A follow-up on the last question, so the 18% and 19% tax rate for the current year can be considered normalized going forward?

MATTEO TIRABOSCHI: We had some we had some extraordinary contribution of about 400 maybe above Czech Republic and also for the taxes cut in US. You have to remember that in Italy, we have quite a good contribution for the reduction of IRES, that from this year is 24% versus 27.5% of the previous year. So also in Italy in this moment there is a good opportunity, also for the iper- amortizing...super-amortizing and so on. We have a good opportunities to have saving about tax rate.

MARTINO DE AMBROGGI: Okay, so something in the region of 20% is a reasonable level going forward?

ANDREA ABBATI MARESCOTTI: It depends how many years. Maybe for two or three years, yes, but it is quite difficult to give you a number that is absolutely stable.

MARTINO DE AMBROGGI: No, no, just an indication, I know. The second question is on the operations, because looking at your EBITDA bridge in Q4, they were negative by €10 million almost entirely offsetting the positive volume mix effect. I know, it's always very difficult to have a clear understanding on what is going on, on the operations line. But could you just give us some indication on what it's referring to, if it is just temporary because of the start-ups and what we should expect going forward?

ANDREA ABBATI MARESCOTTI: This is the sum of fixed and variable costs; it is negative €11.3 million, because we are accounting here all the fixed cost for the new structures of the new plants which allow you the volume-mix increase.

So you see €15 million of volume-mix increase in which we have a very important, variable cost positive effect, which is neutralized by a little bigger fixed cost increase which gives you the mass of €11 million negative. But you see very well that in the end of the performance...better performance positive, and new fix costs all the same we are buying only 23%-24% of the added capacity volume-mix on operational costs. So it is a really virtual dynamic.

MARTINO DE AMBROGGI: Okay, it doesn't include any non-recurring costs?

ANDREA ABBATI MARESCOTTI: Absolutely nothing.

ANDREA ABBATI MARESCOTTI: The ramp up execution in 2017 was really, really good. So the effect of the new fixed cost was absolutely forecasted but the impact in terms of real cost was by far better than we envisaged.

MARTINO DE AMBROGGI: Okay. Two questions more, one on CAPEX, in the last conference call, you mentioned something in the region of €200 million, and I suppose it is confirmed?

MATTEO TIRABOSCHI: May be something more than €200 million.

MARTINO DE AMBROGGI: Well, as usual. Okay, and then very lastly it's on the M&A activity, it's considering the declining in CAPEX you will be debt free very, very soon. So instead of an aerospace division to be acquired that I don't know if it would materialize or not, are you looking for something different target or diversification initiatives?

MATTEO TIRABOSCHI: No, Martino, there is nothing on the table at this moment, unfortunately, we want to grow also by M&A activity, but to be honest, in this moment there is nothing on the table.

MARTINO DE AMBROGGI: Okay. And if tomorrow you are debt free, and you are unable to find acquisitions what would be the cash destiny?
When you are debt free because in a couple of years time you will become debt free, if you are not spending money for acquisitions would you consider really buyback, because the authorization is always there, but it is not utilized or extraordinary dividend or what else?

MATTEO TIRABOSCHI: To be honest, we didn't discuss about this point. So I don't have a precise idea. At the moment, we are concentrated in the investments for our business and - cross fingers - we want to grow also in a non-organic way, with a good M&A operation.

MARTINO DE AMBROGGI: Okay, not Magneti Marelli?

MATTEO TIRABOSCHI: Magneti Marelli is a very nice company, but it is not our target.

MARTINO DE AMBROGGI: Okay. Thank you.

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

LELLO DELLA RAGIONE: Thank you for taking my questions. A couple from my side, the first one is ASIMCO, from the bridges it seems that contribution at EBITDA level is around 24...25%, is that level sustainable going forward especially looking at the growth in China?

The second question on is again on raw material. I understand that the time lag in contracts required 3 to 5 months to obtain a full pass-through to clients. So this implies that in the first half of the year, we will see some negative effect on P&L level. And the last question on M&A, going back, I understood your answer, your straight answer on Magneti Marelli, I was wondering what kind of actual size you could look for meaning that you have some limit in terms of leverage that you imposed to yourself, if you will go to another target or everything...meaning that you will be able also to use equity if you find a good target? Thank you.

ANDREA ABBATI MARESCOTTI: Okay. Your first question, Brembo Meilian: in six months ASIMCO will become Brembo Meilian. They have a very good contribution; certainly China is really competitive and dynamic market. The ratios that you make - which by the way is marginally influenced by some other small things - tells that certainly, as of today, Meilian has contributed a few points even more than our average. There is no reason for which we target different level of marginality in the future. So, China market is really dynamic, a lot of opportunities for new customers for

Meilian, so it shouldn't change. It's very long-term investment, really important to us. We've always told you that Meilian contribution was in line with the Group and this will continue.

Second question, the impact in the first semester because of the timing of the contract indexation of raw materials are somewhat negative. I don't see any tangible effect. And of course, I cannot know the number of first semester, first quarter if it will be minus, one single-digit million. But really something that - if you are good - it will be absolutely offset as our normal attitude by operational efficiencies.

MATTEO TIRABOSCHI: M&A: it's quite difficult to give you the size of acquisition that we can attempt. I think that we have the possibility to spend something like € 1 billion -1.2 billion, something of that size, it that depends on the target, on its margin and so on. For the moment, our financial position is quite good, banks are very happy to work with us, they are continuously offering money for our investment and for our decisions. So, for the moment, we don't have any kind of limits about the cash. But of course, we don't want to put Brembo under stress from a financial point of view because of an acquisition.

LELLO DELLA RAGIONE: Okay. Just a very last one on D&A, given the increasing capacity over the last year, we see an increase in terms of percentage on sales of D&A, should we see this continuing in the future or the level achieved was 5.4% in 2017 is a correct level if we have to model it going forward?

MATTEO TIRABOSCHI: D&A are increasing about 0.3% on the sales. Obviously, we are investing a lot of money in new capacity, this new capacity is not working 100% and we are confident that when all the new plants work at full capacity, we'll return to something around 5%-5.3%, D&A on sales.

LELLO DELLA RAGIONE: But, looking at '18, when you are ramping up activities so...?

MATTEO TIRABOSCHI: No, in 2019, we need to have a very good growth of the plants.

LELLO DELLA RAGIONE: Got it. Thank you.

OPERATOR: The next question is a follow-up from Niccolò Storer with Mediobanca. Please go ahead.

NICCOLÒ STORER: Yes, thank you. My follow-up is on CAPEX. We have seen in 2017 probably a number much higher than your estimates. So what happened there, basically, did you anticipate some investments from 2018 to 2017 or did you get involved in some additional activities, what happened there? The second question is on tax rate clarification, is the 18%, 20% that you are targeting for '18 and onwards including the potential benefits from the patent box or the patent box is something that still has not been quantified and so remains on top? Thank you.

MATTEO TIRABOSCHI: No, about patent box, we are working on it, but in this moment we have not a clear idea, so this is without patent box.

ANDREA ABBATI MARESCOTTI: Going back to your question on the CAPEX 2017, actually if you consider the level of our current CAPEX, and you apply a normal let's say 6%-7% as maintenance CAPEX and you add all the initiatives that we announced, you get to the actual number 2017 CAPEX. By the way we had some carryover to 2018 of some initiatives, which is leading to the guidance that Matteo gave previously. So it is absolutely in line with what we were expecting for 2017. 2018 as of today is a little lower, but all the same way we have become bigger, so only the maintenance capex is around €70-80 million every year.

NICCOLÒ STORER: Thank you, Andrea.

OPERATOR: The next question is from Michele Baldelli with Exane BNP Paribas. Please go ahead.

MICHELE BALDELLI: Hi, good afternoon to everybody. Just a quick question about the timing of the ramp-up of the new plants, can you elaborate about the let's say main plants, Mexico, China, Poland, when do you see the sort of full capacity or anyway the exploitation of all the orders that you have acquired to be operational at full speed, please?

ANDREA ABBATI MARESCOTTI: Yes, on an operational view it is easy to me, and then I understand how do you want to project in terms of sales. China alloy has an unbelievable ramp up this year, it goes from zero let me say 80% of installed capacity through the year - I really hope to be able to execute it-; partially it is a transferal of machining activities which were done in Czech Republic. So sales are not all additional, which is on the other side good because we can try to do it in the best way in the transferment, so being sure that even if there is some issue in China we can totally cover from Czech Republic. This will not determine any kind of collapse or decrease in volumes in Czech Republic, because we have important orders from the Germans arriving to Czech. So allowing plus or minus six months, it is the increase which by the way is the backbone of what we are reporting as our guidance for 2018.

Remember, you can understand that easily that what we report to you as total growth of Brembo in this year is very strongly focused on Asia, because Europe is growing 3%, NAFTA is somewhat stable if not worse (Brembo target some mild increase), but the backbone of the growth is in Asia.

Mexican alloy is growing significantly. We are already at something like 60% saturation. We target to be in, two-three years at full saturation, which is absolutely in line with the programs of our customers.

Dabrowa 3 (Poland) is basically adding the capacity which is needed for long-term platforms of the Germans. The growth will be not so sharp in 2018, but it will be progressive, we really see a good progression for many years in the total orders of Dabrowa for the next 6, 7, 8 years, depending upon the progress of our customers.

MICHELE BALDELLI: Okay. Thank you very much. And just a follow-up generally about these import duties in US, what do you see as a possible repercussion for your business for your customer's behavior? Do you think that more cash would be produced in the US, outside of US? What do you think about it?

ANDREA ABBATI MARESCOTTI: This is a difficult question. As of today, I should reply none, because in terms of import duties to our imports from what I know, today is basically very negligible. In North America, where we buy only scrap materials for cast iron, so I don't see any kind of impact from these import duties. Alloy is imported to Mexico, so potentially is not involved. Again, all of this is covered through our contracts. If our customers are going to change their localization, their footprint mid-term because of this import duty fight, if we even assume the worst scenario in which Europe replies with some counter duties to North America, China said like that, really should I decide, which is the company in the braking system, which is better settled to reply to this with a competitive offer to the customers, it's Brembo, which is the only Company having verticalized capacity in the three regions in both businesses, alloy and cast iron. Wherever our customers decide to go to produce, we are there.

MICHELE BALDELLI: Yes, it's clear. 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 a follow-up from Lello Della Ragione with Intermonte. Please go ahead.

LELLO DELLA RAGIONE: Hi, again. Just two quick ones, one is related to Tesla and growth coming...that you forecast for 2018. I was wondering, how this forecast...the current forecast, the one that you made at the start of the call is central [ph] to the ramp-up of Tesla production? And the second one is more a strategic one, not looking at your sales forecast, but actually to your order on aluminum calipers, at this stage in...at this point in time. Do you see a significant material step-up in terms of order for the solution or it's evolving as normal, not a real step-up in orders from customers around the world? Thank you.

ANDREA ABBATI MARESCOTTI: We try to...the audio quality not the best. So if I am not able to reply 100% you may please tell me.

Tesla ramp-up in 2018 is unbelievable, of course, I cannot give any detail, please ask them; but I will only tell you that as they were saying that there will be massive production in 2018, what I do see that is they are really in massive production. Then ask them their details. But I am only telling you in line with what they declared.

Second questions - step-up in alloy calipers orders: we treated this in the last calls. We have really numbers that the alloy calipers market is doubling in 3 - 4 years. They are becoming smaller calipers. So this implies that in terms of sales, you will not see a similar number in consolidated sales even if we will see that number in terms of number of objects, because they are really going down the segments becoming smaller. So in terms of numbers, it is really a step-up. In terms of sales that you consolidate, it is the kind of growth that you are seeing.

LELLO DELLA RAGIONE: Okay, just...

ANDREA ABBATI MARESCOTTI: We are moving from calipers €80- €100 to calipers of €40- €50, same marginality, so I don't have any issue about the margins, but they are smaller; they are 2.5 something kilos calipers instead of the 4.5 something kilos.

LELLO DELLA RAGIONE: Okay, I just wondered...I was most focused on the impact on your, say meaning, how much your guidance relies on the step-up that they are doing and you have in your budget rather than what they are planning to do?

ANDREA ABBATI MARESCOTTI: Tesla is now significant for our Mexican alloy calipers plant, and we are really doing well. No issue, I'm absolutely safe of Tesla's plans consistency versus ours...from what I understand, their limit today is not the limit of orders, it's just the ramp-up they want to make, which is consistent with our ramp-up.

LELLO DELLA RAGIONE: Okay. Thank you.

OPERATOR: The next question is a follow-up from Michele Baldelli with Exane BNP Paribas. Please go ahead.

MICHELE BALDELLI: Yes, thank you and sorry for the other question, but you stimulated my reasoning. So basically, you say that the aluminum calipers market is doubling. If you can provide some numbers about the total market from where to where you see the total value of the market, please?
And then the second reasoning that I was thinking is, you said that the aluminum calipers will have a lower price, €40 or €50 and same margins. But let me try to understand about the capital intensity of the business, and the let's say return on the capital invested. Is the number of calipers that can be produced with the same amount of investment in CAPEX the same,

as the one, the €100 or let's say there is also some sort of, let's say, higher volumes that can be produced with the same size of plant, just some thoughts about it. Thank you.

ANDREA ABBATI MARESCOTTI: You are ready to become CEO of Brembo; you are really going deeply with the details. Today, alloy calipers are equipping something more than 2 million vehicles. In 2025, we really see that they are going to equip something like 4 million vehicles. The adoption on the rear axle is some percentage, what we try to really target is the adoption of the front rate. We are today nearly the market, let's say, 85% to 90%, in the worst case it will be 2025 70% of the market. But in the moment, you move an alloy caliper from series 6 to series 1, it is absolutely a different product, it is by nature that it has to cost half the price, it is half of the size. But since we are absolutely able to maintain plus or minus the same marginality on all the segments, and since basically we size the foundry on the total number of tons, potentially you are casting the double number of calipers of half kilos, with the same CAPEX. So in the end, if I go back to the ROI of the calipers business unit, I really see it staying plus or minus like it is.

MICHELE BALDELLI: Clear, 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, two very quick. One on the steel cast iron discs, if there is some new clients, you can maybe not the name, but you can share with us how the trend is going in this area. And on Q4...in Q3, I remember there was a client delay impacting the top line and the performance. It was...was it still the case in Q4, you suffered such negative impact?

ANDREA ABBATI MARESCOTTI: Okay, I am not sure that you will be happy with this half-disclosing reply. Disc new customers: our awarding in 2017 has been good, it's been in excess of the closing business. You can understand that every year we target at least to renew the business that is closing in the future. Our renewals were absolutely higher than the business ending, naturally ending up, higher in North America, higher in Europe and higher in China. And as always, I cannot disclose the programs, sorry Martino. But certainly, our portfolio is increasing year-after-year. I don't see any kind of decline in our sales. I see a sustainable growth really for the next 5-8 years; you know that our contracts are long.

The specific seasonality of some models end of 2017 in North America lasted till the end of the year, even if you don't see it so much in the accounts, but the new models are potentially starting early now, which it should mean that we should have a positive push coming in North America from those vehicles from let me say March onwards.

MARTINO DE AMBROGGI: 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 from Niccolò Storer with Mediobanca. Please go ahead.

NICCOLÒ STORER: Yes, sorry for this follow-up on China. Before you said that the China alloy has ramped from 0 to 80, partially as they transfer from Czech Republic. This was 2017, it's correct?

ANDREA ABBATI MARESCOTTI: No, in 2018. Till yesterday...so let me say till 2017, we were making only final assembly in China, but in the casting, machining from Czech Republic. So in terms of sales, you were already seeing these few programs as China sales, but the major business contribution was coming from Europe. This programs are being verticalized in China, as

we will plan this year which means that for me total value-added will be in China. I was just warning you that in proportion a percentage was already somewhat current business.

NICCOLÒ STORER: Okay, perfect. Thank you for also this clarification.

ANDREA ABBATI MARESCOTTI: Of course, to this, we are adding very importantly, platforms which are the one already announced by our German customers which are starting in 2018 being verticalized by us in China.

NICCOLÒ STORER: Okay, great. Thank you, Andrea.

OPERATOR: The next question is a follow-up from Michele Baldelli. Please go ahead.

MICHELE BALDELLI: Thank you. Just a final point on the Chinese plant; is it this under the subsidiary where there are minorities or is it fully owned by Brembo?

ANDREA ABBATI MARESCOTTI: Which one?

MICHELE BALDELLI: Yes, in the sense that in China you have still in ASIMCO minorities inside. So I am just wondering if the investment was done through that subsidiary where you have minorities or it was...

ANDREA ABBATI MARESCOTTI: Are you talking about alloy caliper plant?

MICHELE BALDELLI: About the Chinese aluminum calipers.

MATTEO TIRABOSCHI: Yes, it's 100% Brembo...its 100% Brembo.

MICHELE BALDELLI: Helpful. Thank you very much.

OPERATOR: Ladies and gentlemen, there are no more questions registered at this time.

LAURA PANSERI: Thank you, good afternoon. Bye-bye.