

Brembo S.p.A.

"First Quarter 2019 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 presentation of Brembo's Q1 2019 financial results. 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, Brembo's Head of Investor Relations. Please go ahead, madam.

LAURA PANSERI: Yes, thank you. Good afternoon to everybody. Thank you for joining us today to discuss the Brembo Group first quarter 2019 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 though, let me remind you that any forward-looking statements that we may make during today's calls 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. Rebecca, we can start the Q&A session, please.

Q&A

OPERATOR: Thank you, Madam. Excuse me, this is a Chorus Call conference operator. We will now begin the question and answer session. The first question comes from Monica Bosio of Banca IMI. Please go ahead, madam.

MONICA BOSIO: Yes, good afternoon, everyone. And thanks for taking my questions, 3 from my side. The first one is on North America. The performance in the first quarter was certainly good, plus 8%. But the production rate of the car market is going down in North America. I was wondering if you can

give us some flavor on the expected trend in the second quarter and going forward. And more or less the same for China. China was deeply down, double-digit down in the first quarter in the market, and your performance was certainly good with plus 3.4%? What do you expect for the second quarter? And can we expect for the full-year at least a mid-single digit growth rate for China?

And the second part of my question is related to the numbers. I've seen that the CAPEX in the first quarter was €40 million, a little bit lower than the last year €45.6 million. Are you still confirming your CAPEX guidance in the range of €250 million or maybe it could be lower. And as for the working capital, you had the bright mix negative, slightly negative in the first quarter according to the slides, and when I see the bridge of the net debt, I noticed that the working capital expansion is quite higher, much higher than the first quarter of 2018, when you add the positive volumes impact. So I was wondering if you can give us...give me some indication about this, if you have some delay in order or whatever? Thank you very much.

ANDREA ABBATI MARESCOTTI: Welcome, Monica, Andrea speaking. North America, yes, you are right. We are doing very well. And it is of course, led by the combination of the performance of both discs and calipers. We are enjoying a very good level of orders on the calipers. We prefer not to mention the name of our customers, but you should know them very well. And we are going better than the market on the discs. By the way, Matteo and myself are there next week to review. What I expect from the second quarter is continuing to do better than the market. Plus or minus the market will stay at the rate as it is today, with Brembo outpacing the market.

So what you saw in the first quarter, net of course of eventual fluctuations, number of working days, and so on, is stable, and should be absolutely reconfirmed also in the second quarter.

China: the localization of the alloy caliper programs by our best customers in supporting us; in China with such a drop of the market, minus 13%, we are losing some volumes on the discs side, but it is impossible not to lose on the market which is losing 13%.

We - before the tweet of our best friend of 2 days ago, were seeing promising better orders in the second quarter; then we'll see what our customers do. So, I would have told you yes, you could expect a single digit growth this year by Brembo in China; yet, if someone doesn't go on getting crazy. In a normal environment, yes.

CAPEX: you saw very well that we have a very strong foot on the brake for new investments. We are just completing a couple of things, which are being completed, namely, the third module of the Dabrowa foundry and the carbon factory in Italy. For the rest, we are really cautious; should I throw a number where you can assume a value of 200 not 250 as full-year and if the market goes well.

MONICA BOSIO: Okay. So you are less aggressive than before, so this means that you are a little bit more cautious on the reference market. Is it correct?

MATTEO TIRABOSCHI: We are very, very I would say careful with the investment decisions. The market is not performing well. We are more resilient compared to the market and about CAPEX we want to maintain under control every euro that we are investing, so the tension is very, very high. The number is something around 200€ million.

ANDREA ABBATI MARESCOTTI: Your last question was working capital. If you get back to end of March 2018 - you know that we have a seasonality - the working capital was basically the same at end of March 2018 we are at 333 million,

and today we are 338 million, same number of days. If you compare with a year ago, we are better on stocks; we have improved on stocks; payables and receivables were basically the same; the difference versus beginning of the year you see, is in major portion due to IFRS16.

MONICA BOSIO: So no tension on the working capital despite...

ANDREA ABBATI MARESCOTTI: Absolutely not.

MONICA BOSIO: Okay.

ANDREA ABBATI MARESCOTTI: By the way, you need to consider that all these quarters which are ending on Sunday...31st of March Sunday, 30th of June will be Sunday can cause some difference versus the trend in terms of invoices, receipts....

MATTEO TIRABOSCHI: And also for the investment that we finalized last year and we paid during this year, so there is something that shifted from the end of the last year to the first quarter of this year.

MONICA BOSIO: Yes, reasonable, okay. Thank you very much. Thank you.

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

MARTINO DE AMBROGGI: Good afternoon everybody. The first question is on the guidance for the full year. I noticed you confirm volumes and profitability, but taking into the account the IFRS16, could you elaborate on what you consider as profitability in line with last year because EBITDA was higher due to the accountancy adjustment.

MATTEO TIRABOSCHI: The guidance is exactly in line with the guidance that we gave in March. On the revenue you can imagine something very similar to the last year. The first quarter is positive plus 1.4, but for the full year I think that will be very similar to the last year. For EBITDA, also the margin I imagine that will be very similar compared to last year. Obviously, IFRS can give us a push, something like 0.8 or 0.9 plus compared last year, but if we consider the same standard of last year, EBITDA would be very, very similar.

MARTINO DE AMBROGGI: Okay. Perfect. The second question is on the second quarter visibility. Andrea, talked about promising orders in China and so on, but looking at the split of your revenues and EBITDA bridge, should we expect a second quarter similar for the trend of the different variables to Q1 or something is changing the picture?

MATTEO TIRABOSCHI: We don't expect something very different compared to the first quarter. I think, of course, the second quarter will be very in line with the first quarter.

ANDREA ABBATI MARESCOTTI: Also because Q2 2018 was very similar to Q1 2018, so they are comparatively very similar quarters.

MARTINO DE AMBROGGI: Yes, but you are guiding for flattish revenues for the current year, which is what you already got in Q1, and a similar trend in Q2. Many of your clients competitors expect a significant improvement in the second half, mainly because of recovering some geographies. This doesn't seem to be your picture.

MATTEO TIRABOSCHI: We will be very happy if the second part of the year is something better; I know that our customers are talking about this improvement. For the moment, we don't have this visibility, so we prefer to maintain a cautious

approach and say that for the full year the results will be in line with last year. If they are better, of course we will be very happy. But for the moment, we can't say something different.

MARTINO DE AMBROGGI: Okay and maybe the last is a general question because in your last statements and also in the last press release for the change in CEO position, you are talking about quite openly about acquisitions not anymore in the aerospace, but larger and so on. So I know your answer, but do you feel? Yes, I know, if it's the right moment to ask this question. But, are you feeling to be a little bit under pressure for any reason to look at maybe big acquisitions in different direction?

MATTEO TIRABOSCHI: No, there isn't any pressure, the change of CEO is not because we want to do some acquisitions, it was Andrea's decision and, as a consequence, we had to approach another CEO. So they are two different topics. Obviously, if Brembo wants to continue to play as a leader in our sector, we need to grow also by acquisitions, not just organically, this is the point. But there is nothing concrete on the table for the moment.

MARTINO DE AMBROGGI: Okay. Thank you very much. And good luck Andrea, for the new life.

ANDREA ABBATI MARESCOTTI: Thank you, Martino.

OPERATOR: The next question is from Alexandre Raverdy of Kepler. Please go ahead, sir.

ALEXANDRE RAVERDY: Thank you very much. Good afternoon. I have two question, please. The first one, regards to the operations lines, I know you don't try to split in a bit, but could you give us some color between the raw materials impact and the operational headwinds that you had? And the

second question is on IFRS16 very modeling question, but is it fair to multiply the effects on EBITDA and D&A and interest expense by four to have a full year impact? Thank you.

ANDREA ABBATI MARESCOTTI: The first question, operations and raw materials. Raw material didn't change so much in this quarter versus the end of the year, this is why you see a positive price variation, which is good because basically we are re-gaining some increases of the past months. So I see raw materials not affecting our performance in the near future, if there are no specific changes, given that for us there is basically only the lag of adjustments of the prices, increase or decrease depending upon the change of raw materials.

Operations is good, because there is still some ramp-up, and not astonishing but there is still some ramp up for the Polish pant, which is more than covered by the operational efficiencies. In the item 'operations' we include also the increased portion of fixed cost vs the last year, because we have more plants and so more fixed costs.

For the impact of IFRS, I leave it to Matteo.

MATTEO TIRABOSCHI: Yes, for the first quarter for EBITDA it's plus 0.8%, and about the D&A it's about 0.7. I expect that this will be the number for the rest of the year more or less.

ALEXANDRE RAVERDY: Okay, thank you very much.

OPERATOR: The next question is a follow-up Monica Bosio of Banca IMI. Please go ahead, madam.

MONICA BOSIO: Yes, thank you. Can we make to the substantial acquisition, I know that maybe you will not answer to my question, but I will try anyway? What's

the financial leverage that you would see as sustainable in case of a big acquisition that might double your size? I told that they I have tried?

MATTEO TIRABOSCHI: Yes, I think that the maximum stress is something around 3X EBITDA of Brembo plus the target, but just for a short period of time. And then, you can do also an acquisition with a financial partner, there are many options that you can use for an acquisition, in this moment there is a lot of money on the market, so it is not a problem to find the money, the problem is to find the correct targets.

MONICA BOSIO: Okay, thank you. And another one, just very short, would you see as more likely or preferable transformational acquisition in the electronic with the expansion in the electronic segment or something that might strengthen your vertical integration just to give us a picture?

MATTEO TIRABOSCHI: It may be both, but probably more likely the first kind. Not foundry, not integration our activity, but something related to electronic, mechatronics and so on.

MONICA BOSIO: Okay. Thank you. Thank you very much for the flavor. And good luck to Andrea also from my side. Thank you.

OPERATOR: There are no further questions, so thank you for joining us today and good afternoon to everybody.