

Brembo S.p.A.

"First Quarter 2020 Financial Results Conference Call"

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MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE VICE CHAIRMAN
DANIELE SCHILLACI, 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 Quarter 2020 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Laura Panseri, Head of IR of Brembo. Please go ahead, madam.

LAURA PANSERI: Welcome. Good afternoon to everybody, and thank you for joining our conference today to discuss the Brembo Group's first quarter 2020 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Daniele Schillaci, CEO of Brembo. A slide presentation has being made available on our website in advance, therefore we suggest to go directly to the Q&A session.

Before we begin, let me remind you that any forward-looking statements we 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 operator, thank you.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions. Anyone who has a question may

press "*" and "1" at this time. The first question is from Renato Gargiulo with Fidentiis. Please go ahead.

RENATO GARGIULO: Yes, good afternoon. Well, my first question is on China. I know that visibility is still somewhat low, but based on your orders with your customers, what are your expectations, what are you seeing there in terms of recovery after lockdown? Then my second question is on...you were talking about cost savings. If you can give us any indication, any target about what kind of savings you expect to achieve over the next months, and then can we expect already a significant effect in the second quarter or they are more gradual over the last...the second part of the year? My final question on CAPEX. I assume that in this new market scenario, you are going to reduce CAPEX, if you can give any guidance about that? Thank you.

DANIELE SCHILLACI: Yes good afternoon, everybody. Regarding China, the situation is the following. After mid of March, all the operations started to be resumed. We have seen a very good start, at least for our operations, most of which were in line with our budget, even above. And what we are seeing in terms of production for May and June, is quite promising. So we assume that Q2 in China is clearly in a recovery mode. Now, if you ask me the forecast for the year, what we expect, based on information and forecast that we have, is that the market in China is forecasted to be somewhere between minus 10%, minus 12% versus last year. This is what we see today, but of course, the good news is clearly the kind of V-shape since the mid of March and we hope that this will last also on Q3 and Q4.

The second question was about cost savings: when the coronavirus issue started, at the beginning of March, we immediately set up a daily task force with all the key members of the top management of Brembo, focusing on three main areas: monitoring our operations and protecting the health of our people, while carrying out forecasts for the next months.

Second: deciding the investment strategy for this year and putting in place strong cost reduction measures, which actually had already started before the coronavirus. Clearly, we are seeing some positive impact in Q2, but I expect that, if the global market goes to go down around 20% (like all the market analyses seem to predict) the cost saving actions will take place of course all along the year and this should allow us to optimize as much as possible the results of the company for the rest of the year.

RENATO GARGIULO: Okay, thank you. My next question was on CAPEX?

MATTEO TIRABOSCHI: Yes, Matteo speaking. About the CAPEX, it is quite difficult to give you a number now, but if I consider the scenario that we see today, I think it could be something around €100 million to €120 million, but as usual, it will depend on how the market goes in the next months.

RENATO GARGIULO: Thank you. Thank you very much.

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

MONICA BOSIO: Yes, good afternoon. I hope you can hear me. The line is not very good, so I may be I missed part of the answer before. But just to have an idea, I understood that the market...the global market is still down by 20%, and I am just wondering if this is your...if roughly indication on the full year 2020 in term of your top line? And my second question is on the EBITDA margin, in the first quarter your EBITDA margin was at 17.7% in the...starting from the second quarter you will have the impact of the cost cutting measures, can we take this 17.7% as a rough indication for the full year 2020? And the last question is on the pace of recovery beyond the pandemic, it seems...if I have understood well, in China the recovery is still in place, do you expect similar trends also for the rest of the markets

in Europe and NAFTA just to figure out, what could be the top line increase in 2021? Thank you very much.

DANIELE SCHILLACI: Yes, regarding your question about China and the rest of the world, let me repeat what I said before. Yes, in China, we are seeing a recovery since mid of March, that was confirmed in April; and what we are seeing in May based on our orders seems to be encouraging. So it seems that Q2 in China should be in a recovery mode, but despite this recovery we expect for the full year a drop around 10% and 12%, meaning from 25 million vehicles in 2019 to something like 21.5 million in 2020. And for what we see, the outlook for 2021 will be a progression of 3%-4% vs 2020, which means we won't reach the 2019 levels, yet.

MONICA BOSIO: Yes, the second question if it's reasonable to assume for the full year a revenue decline for Brembo more or less in line with the global trend of the market, the global trend of the market has been indicated at minus 20% usually Brembo outperform the market. So just to give an idea what could be the total revenue decline for the full year?

DANIELE SCHILLACI: It's very difficult, as you can imagine, to give you an outlook of what will be our revenue decline in this market. For sure, the -20% of the automotive industry is something that almost everybody is talking about. In our case, it's really difficult to tell you if this will be the equivalent of our drop. As I said before, we are doing all our best to keep our actions of cost reduction, optimization, and efficiency on going, and this will hopefully allow us to optimize as much as possible our results. In terms of turnover, it's a bit too early to make some prediction, also because we don't have a very clear visibility on some segments, for example on the Motorbike industry. We are today in the fog, so we have to wait a few weeks to understand if this market will come back to a certain level. So there is too much uncertainty today to tell you what will be the outline of

our turnover. What we are doing is of course monitoring week-after-week with all the regions to understand the trend and to try, as we have always been doing in the last years, to outperform as much as possible the industry. But, to give a number is very complicate.

MATTEO TIRABOSCHI: The same is for the EBITDA, it is impossible to tell you now if we can maintain the same pace we've seen so far for the full-year. Obviously, we are working very hard and doing our best to keep all the costs under control. But to tell you today if we can maintain this 17.7% EBITDA margin for the full year, is quite impossible.

MONICA BOSIO: Okay. Thank you very much.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. The first question is on the CAPEX, that you indicated in 100-120. So just to check, if it's correct, because in your last call you mentioned the floor was 120, you gave a range between 120-150. So just to double-check if I understood correctly. And the second always asking you to repeat please for the cost cutting if you mention any quantitative indication of what could be the benefit for the current year, because it was impossible to hear you.

MATTEO TIRABOSCHI: About the CAPEX during last call we said something around €120-150 million for the full-year. Now, we are trying to reduce this amount, obviously it will depend on the market performance in the next months, but we think that the total amount of CAPEX for this year will be something around €100-€120 million.

DANIELE SCHILLACI: On the cost reduction, what I said before was that, we've started this activity well before the corona virus. We have reorganized the company, we have created a new function called 'Business Process Transformation', which is dedicated to finding efficiencies on costs, processes and so on, so this started before the coronavirus. Of course, with the impact of corona virus this function has now been accelerated, because we needed more impact in the short term. I have to say that we are going on track with our program, and we will probably see some benefit already in Q2. So probably end of Q2 will be the best period to give you some ideas of the impact.

MARTINO DE AMBROGGI: Okay. Skipping to another issue, regarding the Pirelli purchase, that you purchased during, I suppose during the quarter. So first when...and the total amount is €87 million as indicated in the net financial position bridge, and the most important why? And also could you buy more on the market?

DANIELE SCHILLACI: We started to buy Pirelli shares in February, so before the corona virus, because as we state in the press release, we have always been looking at Pirelli as a company with a very strong brand power and a very good international footprint. We think that it is a company with a long-term value and we strongly believe in that. We've think that Brembo and Pirelli have a lot of similarities on the premium brand positioning. Moreover, we have been working with them on some activities in the last years. But we think that we can do more and it's a fantastic opportunity and company to invest in, and step-by-step to see if there are other things that we can do together. This is our view, it's really a long-term investment strategy. No more than this.

MARTINO DE AMBROGGI: Got it. Would you buy more going forward?

MATTEO TIRABOSCHI: We prefer not to comment on this.

MARTINO DE AMBROGGI: Okay. And very last on this issue. I suppose it's impossible to answer, but the curiosity is here. So you mentioned there are many similarities, so in case one day someone propose you a merger, would it be considered or absolutely not?

MATTEO TIRABOSCHI: It's too early for any type of a discussion about this, it is too early.

DANIELE SCHILLACI: It's just an investment in a company that has a brand positioning very similar to us, with a lot of potential in the future. And today there is no more than this.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Andrea Balloni with Mediobanca. Please go ahead.

ANDREA BALLONI: Hi, good afternoon, everybody. Thanks for taking my question. Sorry I apologize, the line was pretty bad, so I'm probably going to ask some questions that are already answered. I will start from the second quarter. In Q1, we have seen, you have outperformed the reference market: global car production was down in the region of 23%, 24%, your sales were down only 14%, so pretty good set of results. What should we expect in the second quarter? Do you believe, you could outperform again the reference market or should we expect something more in line. And my second question, I just understood a part of the answer about the Chinese market, understood that starting from mid-March you have seen a kind of recovery, that has been confirmed in the April and probably also in May, but can you give us more detail about the speed of recovery

honestly, I will end at this point. My last question is about Pirelli again you have talked about the fact that this is a strategic investment.

Also if you could give us more detail about that, so are you commenting about potential synergies on production side, potential synergy of topline, so at commercial level, so if you can give us more detail about that, it would be very great.

MATTEO TIRABOSCHI: Regarding the last question about Pirelli, I don't want to spend too much time on it, because it is not our core business; this is an investment, an important investment, we hope to be able to do something more in the future, but it is not the core business of Brembo.

Regarding your first question, yes, Brembo is more resilient than the market: in the first quarter, our sales dropped 13.7% and the market was down 24% globally. Historically this company perform better than the market and we expect to continue to do so also in the future, not only in the second quarter, but also in the next years.

DANIELE SCHILLACI: Regarding China, just to give you some numbers, in the last quarter the passenger car market in China, lost 2.7 million units (from 6.2 to 3.5 million) which is really huge for a single quarter. As I said before, what we are seeing is that in April the recovery was excellent and we expect the same to be in May. The moment of truth in China will be Q4 because it is the highest seasonality period. So if you miss the Q4, you have a problem for all the year, especially November and December. So, we expect the Q2 in a recovery mode, the Q3 will be a moment of truth: if this Q2 recovery is confirmed in Q3 it means that there is a good chance for Q4 to be in a good shape. And if this happens, the market should end to a -10%, around 21.5 million units, which is the forecast that I said before. In the first quarter, sales were -44%.

ANDREA BALLONI: Thank you.

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

ALEXANDRE RAVERDY: Good afternoon everyone. I hope you can hear me well. I have several questions. So the first one to come back on the outperformance, out of this 10% outperformance, how much do you think is attributable to favorable geographic mix, i.e., less presence in China versus Europe and North America versus buildup of inventories from customers, we have heard some suppliers mentioning that. I just wanted to check with you. And so, when we think about Q2 in terms of outperformance, so as the epicenter of the pandemic will move to North America and Europe, I guess, we should assume a much lower outperformance probably a very low. Is it a fair assumption? So that was the first question on topline. Second one on CAPEX, so I heard the quantification about CAPEX. So could you please confirm it is only intangible CAPEX, because I remember you mentioned in previous call substantial increase in tangible CAPEX, so if you could also provide any quantification that will be useful? And final one, more general, could you please update us on the Tier 2 and Tier 3 supply chain regarding the suppliers? Thank you very much.

MATTEO TIRABOSCHI: Yes, we confirm that we are cutting the CAPEX for the rest of the year. Obviously, we decided it based on the market scenario going forward. We think to spend for the full year something around €100-€120 million, the major portion of it will be invested in intangible asset, so not in more capacity but more in R&D.

DANIELE SCHILLACI In Q1, until mid of March, the U.S. operations were full speed, Europe was full speed for the first 2 months, and China, as you all know, stopped somewhere in February. So our outperformance was driven, I would say by the U.S. and somehow Europe. In Q2, we expect the performance to be driven by China, and partially by Europe, because the U.S. would contribute from the end of May. Then we'll see what this mix will produce by end of Q2 but clearly the Q1 was mainly driven by U.S. and Europe.

Regarding the supply chain, first of all, for Brembo, the main portion of the supply chain is local-to-local, so in the end we are not really suffering and we haven't had any major issues with any Tier 1 or Tier 2 suppliers since the beginning of the coronavirus. Of course we are monitoring the supply chain very carefully, through very strong and close communication with all the suppliers; we are constantly supervising the business continuity, to make sure that the logistic teams are in contact on a daily basis with the suppliers to secure the pipeline; finally of course, the financial monitoring, if needed. So we haven't had any major issue in that respect.

ALEXANDRE RAVERDY: Thank you very much.

OPERATOR: The next question is from Gianluca Bertuzzo with Intermonte. Please go ahead.

GIANLUCA BERTUZZO: Good afternoon to everybody and thank you for taking my question. I just have a follow-up on the second quarter. I was interested in knowing what are your expectations for the quarter which is going to be the toughest one of the year if we are talking about a -30, -40. What kind of decline are you expecting right now? And the second one is on the breakeven point, during the full year conference call, you suggested a breakeven point at - 25% which is the number today. This number is still

valid or in light of the cost cutting action you are putting in place this number has come down or how it is changing? And the very last one on the revenue level associated with the CAPEX...the new CAPEX guidance. The guidance you provided assume more than 20% revenue decline or I was interested in if you can give us more detail on that. Thank you.

MATTEO TIRABOSCHI: The second quarter will be for sure the toughest one; in April we had the plants in Europe, in the U.S., in Brazil, and in India all closed, so it will be for sure the most challenging quarter in the history of Brembo. Regarding the breakeven point, in the last conference call we said that the threshold was -20%-25%, we changed our profit and loss and we are positive also if revenues decline something around 30% - 31%: With this important contraction of our revenues we can maintain EBITDA margin double-digit and we can maintain the net profit still "black".

GIANLUCA BERTUZZO: Thank you.

OPERATOR: As a reminder, if you wish to register for a question please press "*" and "1" on your telephone. For any further questions, please press "*" and "1." The next question is a follow-up from Martino De Ambroggi with Equita. Please go ahead.

MARTINO DE AMBROGGI: Hi, just a couple of more questions, the first is on net working capital. If you should expect some squeeze due to payment terms changes because of something imposed by client or something we want to provide additional flexibility to provider and so on. And the second is on racing business, is it small, typically profitable, knowing that a lot of races are cancelled or postponed, how should we model this, this impact going forward?

MATTEO TIRABOSCHI: About the networking capital, there was no major issue, just the normal seasonality of our business in aftermarket, motorbike and in racing; there is no issue for the moment with our customers, no delays of payments. I am not sure this is going to continue also in the next quarters, but for the moment everything is under control and there are not major issues on the net working capital.

DANIELE SCHILLACI: Regarding the racing business, as you know, everything has been frozen so far, we expect some new indications on the F1 to restart for summer times. There are already some comments about a possible start in July with totally different scheme, trying to minimize as much as possible the risk for all the people working in the F1. This is what that we heard from FIA and we should have some indication over the next couple of weeks. Same thing for Moto GP, we expect some resume of activities somewhere in summertime, hopefully, mid of July.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Gabriel Gambarova of Banca Akros. Please go ahead.

GABRIEL GAMBAROVA: Thank you for taking my questions. Good afternoon. The first one is, on the industry and on the level of inventory you see, I was wondering if you can give us your view, your understanding of the level of inventories because if they are high, then they represented problem or lengthen the time takes to recover. And the second question, a very quick one was on the tax rate, it was around 30% in Q1, if you an elaborate a little bit more in and tell me what you expect in 2020? Thanks.

DANIELE SCHILLACI: Regarding the inventory, in our case, at least in the premium and luxury segments of the market, we are not seeing any major deviation versus our standards, at least in the Q1 and also in April. We have of course something here and there, but the overall global picture seems today still under control.

MATTEO TIRABOSCHI: Regarding the tax rate, to estimate the tax rate is really a quite complicated exercise. I don't think that 30% will be the tax rate for the full year, more probably something around 25%-26%. So, something less compared with tax rate that we saw in the first quarter.

GABRIEL GAMBAROVA: Okay. Thank you very much.

LAURA PANSERI: Okay. Ladies and gentlemen, thank you for attending today's call. We would like to apologize for the very bad quality of the audio today; I am available for any follow-ups later on. Thank you and goodbye.

MATTEO TIRABOSCHI: Thank you very much. Have a great day. Bye.