

Brembo S.p.A.

"First Half 2020 Financial Results Conference Call"

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MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE DEPUTY 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 presentation of Brembo First Half 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: Yes, good afternoon, ladies and gentlemen. Thank you for joining us today to discuss Brembo Group's first half 2020 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Daniele Schillaci, CEO of Brembo. The slide presentation has been made available on our website in advance; therefore, we suggest we go directly to the Q&A session.

Before we begin, let me remind you that any forward-looking statements we will make during the 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. 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." We kindly ask to use handsets when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Martino De Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Yes and good morning, everybody. Good afternoon, everybody. I am sorry but the first question is not on the operating performance, it's on the Pirelli shares. A few questions about this issue. So first of all, what is the amount of shares brought by Brembo, and what is the stake owned by Fourb? Second, I suppose the total investment for Brembo is €177 million included in the financial investments in the cash flow statement, but just to double check. Third, if you are okay with this stake or you could eventually further increase it. And last but not the least, what's the final goal for this financial investment?

MATTEO TIRABOSCHI: Starting from Pirelli shares, Nuova FourB owns 0.21%, the rest is owned by Brembo, for a total stake of 4.99%. We decided to stop, we won't buy more shares. The total amount spent by Brembo is around €182 million. There is no strategic agreement with Pirelli on anything. It is just an investment that we want to do in a important Italian company, with a solid brand, active in our sector, with a similar positioning on the market, although with different products, and for the moment that's all.

MARTINO DE AMBROGGI: Okay, okay, skipping to the operating issues, you guided for CAPEX in the region of €100 million, €120 million for the full year, and in the first half, you already spent €73 million. So are you confirming the previous guidance and maybe can you provide just an idea where you see the CAPEX going forward depending on the cancelation or postponement of new models, new platforms and so on from your main customers?

MATTEO TIRABOSCHI: Of course the CAPEX will be decided based on the market scenario going forward, but for what we can see today, the number that

you said is something that makes sense; for the moment we expect €100-€120 million for the full year.

MARTINO DE AMBROGGI: Okay, and my last question is on the visibility for the second half of the year obviously and depending on what you are willing to share with us. And just one more question on the second quarter performance, if you stopped your foundries, is there any non-recurring cost because of the stop and go of the foundries or is it something that is not particularly meaningful?

MATTEO TIRABOSCHI: Obviously after you stopped all the activities, from foundries to machining shops and so on, when you restart the you have extraordinary costs that you won't have in the second part of the year. This is what happened in May and April: we stopped all the activities everywhere in the world, except China, and the cost of restart is quite important.

DANIELE SCHILLACI: Regarding the visibility for the second half, we see a pretty good Q3, a bit everywhere in U.S., in China, and hopefully also in Europe, due to some incentives in some country. So Q3 should be, I would say, the first sign of a recovery after the dramatic first part of the year. The Q4 has plenty of uncertainties and so we don't know what will happen, we have the election in U.S., the risk of a second wave of the COVID that of course nobody knows, but everybody is talking about. So Q4 is a kind of question mark, in this specific year you go really month-after-month, I mean it's really complicated to give a forecast 6 months ahead. So Q3 is quite okay, Q4, we will see, but a bit of a uncertainty and volatility.

MARTINO DE AMBROGGI: Okay, I'll return in the queue. Thank you.

OPERATOR: The next question is from Monica Bosio of Intesa San Paolo. Please go ahead.

MONICA BOSIO: Good afternoon, everyone. And thanks for taking my question. The first one is on the third quarter, according to IHS, the second quarter was down by 44% in terms of car production at a worldwide level. Your performance was little bit better, but can we say that you performed more or less in line with the market? Is it correct? And do you share the view of IHS that sees a minus 10% in the second part of the year, and if yes, do you expect to outperform the market for the second part of the year? Can you...just a follow-up on the Martino question, can you give us some indication on the order trend in July and the revenue trend for the month of June, if you can share with us? Thank you very much.

DANIELE SCHILLACI: Regarding the forecast on the second part of the year, you have to go region-by-region, because the trends are different of course. If you take for example, U.S., it seems that in terms of production the Q3 might be slightly above last year, but Q4 a bit below, so it means that the H2 in the U.S. market might be flat versus last year. This is what we see in terms of car production, based on IHS and other data providers.

So for the U.S., I would say the forecast for H2 is in line with last year. If you take China, China the Q3 is perceived to be somehow around -5% versus last year, and the Q4 -10%, so it means that the H2 might be something like - 7% -8% versus last year. Honestly speaking, if we look at how China is going, I wouldn't be surprised to see H2 closer to -5% than to -8%. In Europe H2 should be around -9%-10% below last year, but of course, it will depend a lot, as I said before, on what will happen in Q4.

June: June was a good month for China, the U.S. market was minus 26% as you know, and in Europe it was different maker-by-maker. So you had a French market that went very well, probably thanks to the incentives; in

Germany surprisingly the market was not like we would have thought, so the deep was a bit bigger, so we are very curious to see how the month of July will be in Germany. In Italy, you know the numbers, now in July we will see what the new incentives will produce. So Europe is really scattered, country-by-country, in relation to the incentive schemes; but so far, the only one that really proved to be efficient is France. So this is the forecast that we see for the H2 market by market and what happened in June. I don't know if there was another question?

MONICA BOSIO: Yes. Maybe in this big picture, do you expect to outperform...putting altogether, do you expect to outperform the market in the second part of the year or more or less the performing line because maybe of orders delay or something other?

DANIELE SCHILLACI: Usually, we always over-perform a bit more than the market. It's what happened also, I would say, you know, in the first part of this year probably this should also happen on the H2. So...yes, the answer is yes, we might over-perform.

MONICA BOSIO: Okay. Thank you.

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

RENATO GARGIULO: Yes, good afternoon. Well, my first question is on the production side, just an update, at the moment, what is your utilization rate? I know that it may be many...very different between countries but just to have an idea? The second question is on working capital trends. Looking to the second part of the year, can we expect some...what kind of trend can we expect? There should be some reversal in third quarter or not? And then just 2 quick ones, just a confirmation on price...on the pricing side, you are seeing any particular pressure apart from raw mats or not like you were

saying the last time? And on...and the last one on factories, what...did you increase the level of factory at the end of June? Thank you.

DANIELE SCHILLACI: The first question regarding the capacity utilization: at global level, we have 80% capacity utilization, as an average. Regarding the working capital, I leave it to Matteo.

MATTEO TIRABOSCHI: In this period of strong uncertainty, we prefer to build some inventory, higher than historical level, in order to face the next months without compromising in any way the service to our customers. So we need continue with this stock level in our plants.
About factoring, no we are not using factory, we haven't since many years.

DANIELE SCHILLACI: Regarding the price pressure, we don't see...honestly speaking, special trends on the price pressure for the time-being.

RENATO GARGIULO: Okay. Thank you.

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

ALEXANDRE RAVERDY: Thank you very much. Good afternoon, everyone. I have some more questions, please. So the first one is on the decremental margin, if I'm not wrong, you have an operating leverage of around 35% in H1. Is this the level that we should expect for H2 and going forward, because, I think it's, I mean, it was higher than in the previous years, so I was a bit surprised. And the second one, I mean, according to IHS and other surveys, global production might rebound to 2019 levels before 2023 at best: do you plan any structural cost measures or capacity realignment? That will be last question. Thanks.

LAURA PANSERI: Sorry, Alex, can you repeat the second question, please?

ALEXANDRE RAVERDY: The second one so, volumes are not expecting to come back to 2019 levels before 2023 at best. So in this new novel environment, do you plan to have the structural...that's your cost structurally or do you feel comfortable with your current cost base, and then, same question on capacity?

DANIELE SCHILLACI: Yes, indeed, 2023 is seen today as the year when we will see a sort of comeback versus the previous level. Of course, this is yet a forecast. We don't see today, any big need for major restructuring in our footprint. But what for sure we will continue for a long while, is all the good actions that we have taken during the crisis, and now we need to contain all the costs in our activities; we've always had a cost reduction trend and strategy, but now this cost reduction is becoming more a kind of mindset, rather than sporadic actions, and this mindset now will be lasting for the next years. And if we continue doing what we have been doing in the first part of this year also for 2021 and 2022, we will not need probably major restructuring in our footprint. Of course, if the market for whatever reason, in 2022 will go further down, then this is a different picture, but under the current market expectations, with what we are doing in terms of cost management should be enough to move for the mid-term. This is what we feel today.

ALEXANDRE RAVERDY: Okay. Thank you. And if I may just follow-up on, could you please quantify the...and if you use the temporary layoff schemes in some countries during Q2?

MATTEO TIRABOSCHI: We prefer not to disclose such detail, sorry.

ALEXANDRE RAVERDY: Okay. Thank you.

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

GIANLUCA BERTUZZO: Good afternoon to everybody, and thank you for taking my questions. I have a question really on Pirelli. Can you please be really more precise on what type of project you did in the past or you're doing right now? And also perhaps what are the areas in which you can potentially collaborate? Then again, another question still on M&A, if I look at the description of the target company for the transformational deal you said in the past, I don't think Pirelli match this description. I was wondering, if there is any change to your M&A strategy for the transformational deal. Thank you very much.

DANIELE SCHILLACI: Regarding Pirelli, as it has been said, this is a long-term investment in a company that has a great brand, great leadership, great footprint, an excellence in the industry. This is something that we respect a lot. And by the way we are playing in the same sector and what has been done makes sense in that direction. For the second part of your question, if we have some specific project on that, so far, the answer is, no.

MATTEO TIRABOSCHI: And Pirelli is not the deal we mentioned many times talking about our activity in M&A, just to be clear.

GIANLUCA BERTUZZO: Okay. 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" on your telephone. The next question is a follow-up from Monica Bosio of Intesa Sanpaolo. Please go ahead.

MONICA BOSIO: Yes, thank you. It's just on the margin. Maybe I lost the part of the previous answer. In the first half, the EBITDA margin was at 15.1%. And it was...it included some, let's say, startup costs, other costs according to the EBITDA Bridge. I was wondering, if you can give us a flavor on the second part of the year. Compared to the second part of 2019, do you expect to keep a similar profitability or maybe little bit less, just some color on this. Thank you.

MATTEO TIRABOSCHI: In this moment, we don't give any guidance as we said. The market is unpredictable, so in this moment, we prefer not to give numbers that will not make sense in 2 months. I hope to do better, of course, but everything depends on the market.

MONICA BOSIO: But the market is resuming at least in the third quarter. The last quarter is still low visibility, correct?

MATTEO TIRABOSCHI: Yes.

MONICA BOSIO: Okay. Thank you.

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

MARTINO DE AMBROGGI: Yes. Follow-up is on M&A because you spent €180 million roughly...€180 million for Pirelli, but you still have quite a good financial flexibility. So you did mention several times you were looking for some M&A deal. I know the priority right now is to manage the industrial footprint, but is there any target arising some opportunity you can eventually taking advantage of the current situation or the investment made in Pirelli substantially stops every kind of new initiative?

MATTEO TIRABOSCHI: Martino, in the past we talked too much about M&A, probably this was a mistake, to be honest. Now, the focus is on what we are doing in the current situation. To be honest, there is nothing concrete on the table at the moment. Obviously, we continue to look around, to see if there are some opportunities around the world, in our sector or in other brake-related sectors, but for the moment there is nothing concrete on the table, unfortunately.

MARTINO DE AMBROGGI: Okay. And the last question is on the EBIDA bridge. The operation block is positive by around €12 million in the second quarter, what it's referring to, if you could elaborate a bit more?

MATTEO TIRABOSCHI: please remember that in Q2 we benefitted from lay-off schemes and that helped quite a lot.

MARTINO DE AMBROGGI: So is it included in the "operations" block?

MATTEO TIRABOSCHI: Yes.

MARTINO DE AMBROGGI: Okay, okay. Thank you.

OPERATOR: The next question is from Alex Cornu of Candriam. Please go ahead.

ALEX CORNU: Hello, thank you for taking my question. Alex Cornu speaking from Candriam. First just housekeeping, as a reminder, can you please remind us what is the share of sales which get to us premium and luxury? Second, could you please comment on the order intake momentum which one, what you see heading into H2, and three, I am not sure you understood the previous question relating to which was 35% on the way down in H1, and what you foresee on the way up, that would remain...?

LAURA PANSERI: Sorry, we can't hear you. May I ask you to repeat all the questions, please.

ALEX CORNU: Okay. I am very sorry. I am doing it again. First one is just a reminder, if you could remind us what is the share of sales which is geared towards premium and luxury brands. Second question on order intake. How was the order intake momentum in H1 and what you foresee for H2 and the third one is on operating leverage. I am not sure you haven't answered to a previous question which was relating to the 35% operating leverage on the way down and what you foresee on the way up for H2, well as it should be on the same bracket, roughly around 30%.

DANIELE SCHILLACI: We don't give this year particularly any indication for the second half, given the very tough situation where we are in our industry. So regarding this ratio I wouldn't really comment.

COMPANY REPRESENTATIVE: In terms of market share you know, on the premium market. This of course we have to see product-by-product. For example, if you take the aluminium calliper, we have practically the monopoly, you know, I would say we are around 75%-80% of market share.

ANALYST: Sorry I was not clear. My question was more related to the share of total sales, which is exposed to premium and luxury brand, out of total sales is that 40%, 30%, 60% which is directly for equipments towards premium and luxury brands?

DANIELE SCHILLACI: Okay. Sorry, I understood your question, but we don't disclose such information.

ANALYST: Okay. And level of further intake or some indicative comment on order intake in H1 and what you foresee for H2?

DANIELE SCHILLACI: We have every month some new activity, some new orders, some renewal of platforms, so this is something that is ongoing despite the tough momentum. But, again, this is, I would say business as usual. But, we can't give you some numbers about it.

ANALYST: Okay. Thank you.

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

LAURA PANSERI: So, thank you for joining our call today and have a pleasant rest of the day. Thank you.

COMPANY REPRESENTATIVE: Thank you.

COMPANY REPRESENTATIVE: Bye-bye.

COMPANY REPRESENTATIVE: Bye-bye.