

**Brembo S.p.A.**

**"Nine Months 2020 Results Conference Call"**

**Monday, November 09, 2020, 14:00 CET**

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 presentation of Brembo Nine Months 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: Thank you. Good afternoon to everybody, and thank you for joining us today to discuss Brembo Group's 9 months 2020 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Chief 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 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. 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 that you use handsets while asking questions. Anyone who has a question may press "\*" and "1" at this time.

The first question is from Monica Bosio of Intesa SanPaolo. Please go ahead.

MONICA BOSIO: Good afternoon, everyone, and thanks for taking my questions. I have 2, the first one is, could you please give us some flavor on the order intake by year end, and if you have some visibility or if the visibility has improved? And the second question is on the cost savings. If I compare the slides of the first half with the slides of the 9 months, I can see that you should have a benefit of roughly €10 million in the third quarter from the operations. Are these €10 million cost savings? And if yes, do you expect to retain a part of this cost savings? I am asking this because I am just wondering if you feel confident to keep a stable or even improving EBITDA margin in the last quarter of the year, in comparison with the last quarter of 2019. Thank you very much.

DANIELE SCHILLACI: Thank you for your question, Monica, and good afternoon, everybody. In terms of order taking, I would say this last quarter, and even after until October, has been particularly rich. We got some awards from our traditional customers, some are just a reconfirmation, some are new platforms, but more importantly we got 2 very important new orders that we didn't have in our portfolio. And this is extremely encouraging for us. So I would say in terms of order taking, the situation is going pretty in line with our aspiration. Regarding cost savings, I leave the answer to Matteo.

MATTEO TIRABOSCHI: Yes, during the third quarter we had very strong cost saving activities and we certainly can maintain the same austerity also for the last quarter of this year, but I think it's quite impossible to increase the EBITDA margin compared to what we had in the third quarter. If we are really good to manage the fourth quarter, we can maintain more or less the same quality of earnings, difficult to do better, honestly.

MONICA BOSIO: Okay, you obviously...the third quarter was a very robust in terms of EBITDA margin, but do you feel confident to keep at least flat year-on-year the EBITDA margin in the last quarter, so in the fourth quarter of '19, the EBITDA margin was 19.5%, if I remember well. Can we expect a similar level for the last quarter of 2020, even the cost cutting?

MATTEO TIRABOSCHI: It's very difficult to give you a number in this moment, because the Q4 is quite unpredictable every year, this year in particular, so whatever number I give you now, most likely it will be wrong, so I prefer not to give you any number. Obviously, we will do our best as usual, but giving you a number for the full year is very difficult.

MONICA BOSIO: Okay, thank you very much.

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

RENATO GARGIULO: Yes, good afternoon. Well, my first question is still on the outlook for the last part of the year. Clearly, I know its visibility is quite low but related to the lockdown, so already announced in some European countries, do you have visibility about any potential impact for you in terms of operations, etc.?

Then the second question is still on cost savings, so as you were saying around €10 million from operation in the third quarter. All in all, can you give us an indication about how much of this cost savings may be considered as a structural going forward so looking also at next year? And that's all for now. Thank you.

DANIELE SCHILLACI: Regarding the outlook of the last quarter, we have to go by region, because the situation is very different region by region. As you know, in Asia, it seems that the COVID situation is now under control and indeed

this is reflected in our numbers; we saw a pretty solid Q4 in operations in China.

In the U.S., since Saturday hopefully the uncertainty now is almost removed; this should help the consumer confidence, so we expect the Q4 to be very close to what was last year.

The big issue, as you correctly mentioned, is the lockdown that happened a few weeks ago in Europe starting from France, followed by Germany and now Italy, and so on. If before the lockdown we were forecasting Q4 in line with last year, now the situation is becoming extremely volatile, and we have already seen some numbers in French and German markets which is 2 digits down versus last year. And of course in Europe, the Q4 is extremely uncertain.

Having said that, probably the impact will be more in December than in November, as November production levels are already set. So, I would say, overall China and U.S. should be more or less in line with our forecast, in Europe, very difficult to say.

**MATTEO TIRABOSCHI:** Regarding the savings for next year, yes, we can certainly maintain the same kind of austerity also for 2021. But obviously, we hope that next year will be different than the current one, we hope that the market will go back to the new “normal” levels, so, we don't need to have such a strong pressure on costs. But obviously we can maintain the same pressure we have today if and when needed.

**RENATO GARGIULO:** Okay, if I may, just a very quick follow-up. In terms of...some players have been talking about some restocking in the third quarter, do you have any visibility about the level of stocks in the channel at your customers? Thank you.

**DANIELE SCHILLACI:** We don't see any particular situation in terms of stock of our customers. As far as Brembo stock is concerned, we are keeping it a bit

higher than standards for the simple reasons that in this uncertain environment, if some other actions or lockdown are extended beyond what we are hearing, at least we'll secure our supply chain to our OEMs.

RENATO GARGIULO: Perfect. Thank you.

DANIELE SCHILLACI: Thank you.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. The first question is on CAPEX, because we already spent in 9 months what you guided for the full year. So just to have an update on what is the expectation for the current year and what has changed? And I know it's too early to talk about next year, but based on the order intake that you commented before, what could be a reasonable level for CAPEX next year? And the second is a more general question, because you presented just to the press a new strategy that was actually mentioned in the press release. But exactly...could you explain exactly what is going to change in your strategy because it seems to be the normal continuation of what you already do currently?

MATTEO TIRABOSCHI: Regarding the CAPEX, yes, during the last conference call we said €100 - €120 million for the full year, but we are going to spend something more, something around €130 - €140 million for this year. For the next year, it is too early, we haven't finalized the budget, yet. For the second part of your question, which is more interesting, I leave it to Daniele.

DANIELE SCHILLACI: The new vision-mission that we have presented last September is the fruit of Brembo's DNA on the one hand - because we never stop, we are never

satisfied - and on the other hand the fact that the automotive world is changing, with all the megatrends, electrification, autonomous drive, connectivity, digital, and so on, implies that all of the OEMs are facing a huge amount of investments for the future like never before, and this requires a higher R&D budget spending, but also a more stringent resource management.

In this context, what we ask ourselves is: how can we go further, how can we do more to better support our customers? And hence, after a couple of offsite meetings with the top management, we came out with this new vision, “Turning energy into Inspiration” and our mission to become a solution provider. That is the big change: to be a solution provider is really to be part of a hand-to-hand process and not only filling a gap in the production process of our OEMs, to be trusted partners for our OEMs customers. And this has been very clearly perceived by the OEMs, because after the press conference that we held on the 16<sup>th</sup> of September, for the following 2 weeks, we had roadshows with our top customers. And one of the very important messages was this: if we can remove the duplication of activities that we both do, and if we are better involved in the process since the beginning, for sure, we can increase by far the proficiency of both of us. This has been very well welcomed, and we are now working more and more in detail on this aspect.

This mission lies on 3 pillars, one being the digital pillar. We are already investing on digital, but as we announced, our intention is to open what we call “R&D Center of Excellence” in our main regions, to grasp the innovation on field, wherever the innovation is. We will become also more global, we are already a global company, of course, but global doesn't mean only to open new factories, it's also a matter of feeding the diversity of our people, our mentality, and through the opening R&D Center of Excellence in some regions, this will clearly accelerate the diversity in our company.

And finally, the third pillar is a cool brand. And the meaning of this pillar is based on the fact that Brembo has already a very high level of awareness on the brand and a very good perception, but we want to be a timeless brand for everybody. The new generations are watching us in a totally different manner than the previous ones. And it is very important for us to connect also with this new generations, doing some specific marketing and product activities to connect with them. So this is in a few words the summary of our new vision, mission and strategy. It is clear that the world is changing; Brembo was already a solid company, based on this solid basement, we are now just moving one step forward, that's the logic of this strategy.

MARTINO DE AMBROGGI: Yes. If I may, this strategy was already applied with some customers; I remember some products co-developed with Daimler and others. So you are trying to widespread it to more clients, but this is something that you already had inside your strategy, am I right?

DANIELE SCHILLACI: This is, of course, a strategy meant for all the customers. Probably some pieces of this strategy were already in place, but now we are going much more in a deep dive with them. What is important for us is to be involved since the beginning of the process, it is a big opportunity to share our point of view before the product development phase starts. And this is an activity that it's crucial to eliminate the duplication in our partnership. And this is something we are really focusing a lot with our OEMs. So the answer is, yes, our intention is to do this with all our customers, but even with the customers where we are doing a part of that, we will go much more in depth with the process.

MARTINO DE AMBROGGI: Okay. And just 2 more questions on these, does it change your P&L in the sense probably you need to invest much more in R&D. And

this will be more evident in your P&L. And what is the timeframe that you expect to have the exploitation of this strategy?

DANIELE SCHILLACI: This strategy is not something that will turn totally upside-down our R&D strategy because your company traditionally has always invested a quite significant amount of capex on R&D every year, around 5%-6% of sales. Of course, some investments will be a bit more focused, for example, we are investing a bit more on the digitalization, we have hired in the Q3 more data engineers and data scientists, and more in general our R&D investment will be a bit more adjusted on the 3 pillars that I mentioned before, but overall the ratio of investment should remain stable around, 5% - 6% of sales, which is already a very significant amount. This means that some activities that we used to do in the past, will be gradually reduced, and some competencies will step-by-step disappear, while some new competencies will appear, especially the ones related to the artificial intelligence; so it's a kind of phase-in/phase-out, and it's a matter of finding the right balance, to optimize our investment, but I wouldn't say that this strategy will spark the investment to the roof, that's not the case.

MARTINO DE AMBROGGI: And the timeframe to see the results?

DANIELE SCHILLACI: This new vision-mission is meant for the long-term. We had, as I said, the roadshows with our customers and we are already talking with them on that regard, so probably 2021 would be the first full-year when we'll go more and more in detail. But I would say that it's a strategy where the results, should be seen after around 2, 3-4 years.

MARTINO DE AMBROGGI: Okay. Thank you.

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

ALEXANDRE RAVERDY: Yes, good afternoon. Thanks for taking my questions. I have 2 questions for you. The first one is on outperformance. So we have seen quite limited outperformance in Q3. So I was just wondering how we should think about outperformance in Q4, and if possible 2021 by region? And the second one is on the Greentive® disc that I appreciate we've had good particulate emissions. So I understand that this will be a niche market in the short-term, but I was just wondering whether you could share with us, I don't know some detail about the revenue potential that you see in the midterm, if any, and if it's relevant and the competitive environment as well related to that kind of products? Thank you.

DANIELE SCHILLACI: Regarding the Greentive® the green braking strategy is a very key focus for our Company. Greentive® has been presented as our iconic product, and we are working with some OEMs on its application. Today, to be honest with you, it's really too early to give you some numbers. As soon as we have more visibility, we will share something more with you, but so far I can tell you that there is clearly a lot of interest on this application. Regarding the Q4 forecast, what I can tell you is that when I look at our order book, except for the big volatility that we are having in Europe, we see that in the U.S. now - after the elections - the situation seems more under control, so we should keep to over-perform the market also on the Q4. Regarding 2021, if you looked at the forecast report only one month ago, the picture was quite different; now with this new lockdown measures and the fear they can be extended also for next year, what we see is H2 2021 pretty in line with the recovery phase of 2020; a, complex, very complex Q1, due to the current lockdown measures, and a Q2 a bit volatile, depending on the situation of the pandemic in February/March. So: second part of 2021, more or less okay; the first quarter, complex; the Q2 will depend on where we will be with the COVID situation during the Q1.

Overall, what does it mean in terms of numbers? Probably, it means a market that will be around 10% above 2020. If you look at the closing forecast for 2020, - global production forecast - we are talking about 73 million unit, so this means that next year, according to this forecast, we are estimating a global market from 73 million to 80 million units.

ALEXANDRE RAVERDY: Okay. Thank you very much. If I may just on the Greentive® disk, so do you feel that you have a competitive edge on this or are your competitors also quite impressive on that kind of products?

DANIELE SCHILLACI: Honestly speaking, in terms of performance of the disc, we strongly believe that we have a competitive advantage. Yes, absolutely.

ALEXANDRE RAVERDY: Okay. Thank you very much.

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. The first one is, on the new contract you have been awarded. Can you elaborate a little bit more on this topic, perhaps on type of cars, type of customer, geographical exposure, and if you can also product? Still in relation to this question, do you need to increase capacity in order to satisfy this new contract or you are fine with what you had at the end of 2019?

Second type of question is, on cost...cost flexibility. Back in March, you guided for a breakeven point of around 25% volume decline, but the result you offer this quarter and also last quarter indicates that you have a higher level of resiliency. Can you maybe talk about this cost savings the area in which you find this opportunity to cut cost in so quick manner?

And last one is on strategy, does this new strategy envisage Brembo going into the market place with new products or, I mean, new products outside your core business, so the breaking domain. Thank you.

DANIELE SCHILLACI: Let me answer to your first point, first. As you know, by policy and by respect of our customers, we never name our customers and their projects. I repeat what I said before, the third quarter has been particularly good in terms of order taking, with a very good mix of customers; this is what I can confirm.

Regarding the needed additional capacity, we think that with the current capacity and with the one already planned for the next 3-4 years, there is not particular need for huge investment in additional capacity, to satisfy the current demand and the demand for the newly acquired business.

Regarding the new product, we have introduced the Enesys and the Greentive® that has been highly appreciated; on the other hand, regarding the Brake-by-Wire which is one of the very important products for the present and for the future, we are working hard to make it as an application relatively soon.

MATTEO TIRABOSCHI: Regarding the cost flexibility, yes, the resiliency of Brembo is good, to be honest. We said that we could maintain black P&L with volumes down 20%, today, we can see that also with a 30%-33% downturn, we can maintain the company profitable. Obviously, this is can be only for a short period, just in situation like the current one, it is not something that we can maintain for a long period.

OPERATOR: The next question is from Mark Power of Holland Advisors. Please go ahead.

MARK POWER: Good afternoon. I guess, firstly, could you discuss your progress in penetrating electric vehicles today, please? And then secondly, I guess,

looking to the long-term, is it probable that the penetration of Brembo brakes will migrate down to cheaper electric cars, and I guess really one getting...could Brembo product then move from niche to more mainstream because of EV shifts? Thank you very much.

DANIELE SCHILLACI: In our strategy, we deal platform by platform, and this is our peculiarity. In terms of penetration on the EV market, I cannot really give you a number, what I can tell you is that, with all the current traditional and new players on the EV market, we are clearly dealing with. As relates to cheaper EV vehicles, we are carefully watching the motorbike segment; we have some brands that are growing especially in Asia, and we have some good contacts with some of them, to start a potential partnership.

MARK POWER: But, is it fair to say that for now, the EV penetration is limited to performance cars, not what you might call mainstream cars. Is that fair to say?

DANIELE SCHILLACI: Today indeed if you look at the EV market itself, except for few mass market brands, the EV is on the premium side only. Probably in a couple of years, it will be much more on the core of the segment of many brands.

MARK POWER: Okay. Thank you very much.

MATTEO TIRABOSCHI: You're welcome.

OPERATOR: The next question is a follow-up from Monica Bosio of Intesa SanPaolo. Please go ahead.

MONICA BOSIO: Yes. Good afternoon, just a follow-up on your role of solution provider. Given your commitment in being a solution provider, do you expect the

R&D cost ratio will remain at 5% per year or should we expect something more? Thank you very much.

DANIELE SCHILLACI: Actually, being a solution provider, first of all, is a mindset. And it is a matter of optimizing the processes, on one hand, but also to “surprise” our customers with new solutions, that we, as specialist of the braking system, can bring to them in this very particular moment, where they are facing huge investments to cope with the new mega trends. This is really the heart of the solution provider. If I translate this in terms of investment, as I said before, we don't think that this will have a big impact on the R&D ratio to sales in the coming years; probably there might be some increase, but within a limited range. The solution provider will be also focused on optimizing all the processes between us and our customers, and this is where we think we can bring a lot of added value to the customers. So on one hand we will keep innovating in new areas, but at the same time we will keep working very hard on processes that we have already today in our partnership, but where, if we are involved in the early stage of the product development, we can be much more efficient in terms of non-duplication of activity. So, we have to eliminate as much as possible the duplication, but also to bring new solutions to their product, on time. So you have to think this not only in terms of pure R&D investment.

MONICA BOSIO: Okay. Got it. Thank you very much very clear.

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

LAURA PANSERI: Okay. So, we'd like to thank you for attending our call today. And we wish you a pleasant rest of the day. Goodbye.

MATTEO TIRABOSCHI: Thank you very much. Bye-bye.

DANIELE SCHILLACI: Thank you. Bye-bye.