

Brembo S.p.A

"Full Year 2020 Financial Results Conference Call"

Thursday, March 04, 2021, 14:00 CET

**MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN
DANIELE SCHILLACI, CHIEF EXECUTIVE OFFICER LAURA
PANSERI, INVESTOR RELATIONS**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the presentation of Brembo Full Year 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, thank you. Good afternoon to everybody, and thank you for joining us today to discuss Brembo Group's full year 2020 financial results. The call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Daniele Schillaci, CEO of Brembo. A slide presentation has been 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 may make during this 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.

Having said 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 Renato Gargiulo of Bestinver Securities. Please go ahead.

RENATO GARGIULO: Yes, good afternoon. Well, my first question is on your outlook. I was wondering, could you give us any update about your order intake and your current visibility on the full year, and on your current saturation production capacity? You are talking about full utilization [ph] or production capacity. So if you can give us an update also in terms of regions?

My second question is on raw material and transportation cost. Clearly, you can pass through cost increases to final customers, but I was wondering, if you can assume any impact at least in the shorter term on this side?

And my third and last question is on...if you can give more color about the proposed change in the company name, if might be also in preparation of any M&A activity? Thank you.

DANIELE SCHILLACI: Okay. Thank you, Mr. Gargiulo for your question. I am Daniele Schillaci. I will try to give you a general outlook, what we see, where we are ..., trying to answer all the questions that you mentioned.

Let me start with the 2020 market outlook; as you know, due to the pandemic, the automotive market in 2020 ended at -16%/ versus 2019 (in 2019 the global market was 89 million vehicles and ended at around 74.5/75 million units). The forecast that we see today, based on our marketing intelligence and some research companies, projects a market in '21 at around 84 million units, it means an increase of 11%-12% versus 2020. This is what we are seeing today. Of course, this forecast is based on the assumption that we will not have general lockdowns like it happened exactly one year ago.

So we suppose that U.S. will keep going like today, that China will keep staying out of the crisis, - as you know in China now the situation is almost back to the normal - and that Europe, specifically Italy, France, Germany and the UK, that are our main markets we will continue operating like today.

In terms of order intake, I have to say that we have seen a solid order-back since the beginning of the year. As I said before, if there is no major developments on COVID, and some drop of the market, we think that this good order intake that we have seen in the second half of '20 and the first quarter of '21 will stay also across the year. So we don't see any specific problem about that. Of course, we are seeing some OEMs in the U.S. postponing some production volumes due to the chip shortage; we cannot say if it's cancellation or just postponement of orders, but some of them are rescheduling their production plan due to this problem.

But overall, we don't see any disruptions in Europe or in China, so order intake is still good.

In terms of capacity production ratio, we keep staying relatively stable, around 80% across our manufacturing footprint.

Regarding the last question, the raw material, you all know what's happening in the raw material world. Hopefully, this is going to stabilize over the next months. The majority of our business is indexed, but anyway, as you correctly said, this is a price increase also for our OEMs. Our assumption is that this will not stay with the same intensity as we have seen in January/beginning of February, we should see a slowdown probably at end of the first half.

Last question, change in the company name: you know... the world is changing! If you look at all the mega trends in the automotive industry, but not only, like electrification, connectivity, autonomous driving, Artificial Intelligent, we told that you know, there is also from our side the need for an update; so we have decided to take Brembo as Company

name; one word, very simple, we like simplicity. So there is nothing more than that.

MATTEO TIRABOSCHI: It's not related to some M&A, just to clarify. We want to be called just Brembo, that is really a well-known brand and "Freni Brembo" in this moment doesn't make any sense anymore.

RENATO GARGIULO: Okay, perfect. Thank you. Thank you very much.

DANIELE SCHILLACI: You're welcome.

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

MONICA BOSIO: Thank you and good afternoon, everyone. My first question is on the EBITDA margin for 2021, and going forward. Within that scenario with volumes, as you told up by 11%, 12% or maybe a little bit more if I have understood well. Your volume should perform at least in line with the market, but usually even better. Within this context and with the 80% saturation of the plant, is it...do you view as feasible and improvement in the EBITDA margin of at least 100 basis points, even if you have to increase the costs for better...on the back of better volumes, and even if transportation costs are rising? And the second question is on the CAPEX expected, can you give us just an indication of what are you budgeting for your 2021 CAPEX?

MATTEO TIRABOSCHI: I think it's more realistic to think something between 2019 1nd 2020, percentage-wise, also due to the raw materials; one point I think it's very challenging.

CAPEX: I think that we will invest also this year for additional capacity, for the new contracts that we have achieved, and I think that for the full year probably we will invest something around €200-220 million.

MONICA BOSIO: Okay. Thank you very much. Just a follow-up, do you have an idea of your penetration in electric vehicles? I know, that it's not...it's a little bit difficult to define it, but if you can give us just a rough idea?

MATTEO TIRABOSCHI: It is very difficult to give you a percentage. What we can say is that we are working very, very hard with all the players on the market, both the traditional ones and the new comers, in the U.S. as well as in China. But to give you a number in this moment is something that is very difficult, and that probably doesn't make sense.

MONICA BOSIO: Okay. I understand. Thank you.

DANIELE SCHILLACI: Thank you.

MATTEO TIRABOSCHI: You're welcome.

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

ANDREA BALLONI: Yes, thank you and good afternoon, everybody. A couple of question on my side. The first one is about your outlook for 2021. I was wondering if you can provide some color about the main geographical markets trend and if this assumption is already factoring, the issue related to the semiconductor shortage?

My second question is a follow-up of the question of Monica about EBITDA. I didn't get your answer, honestly. I've understood 100-basis

points increase, something challenging, but doable or not doable? So just to understand we have to check our forecast in 2021?

And the very last question is about the tax rate. If I'm not wrong it was a positive impact in Q4, much better than last year. Just to understand, what should we model in 2021? Thank you.

DANIELE SCHILLACI: In terms of geography splits of our outlook, as I told before in 2021, we see the global markets around 11% up; of course, China will grow a bit less than last year because it was the one that outperformed in 2020, in the automotive industry. So we see China keep increasing, at around 25 million unit market, so it's a +5%- 6% versus '20; we see U.S. at around +20-22% versus last year and Europe around 13%-14% up, in terms of automotive markets outlook. So these are the growth that we see in terms of geography split.

Regarding the chip shortage, of course we don't know how long this will last, honestly speaking,...we are hearing a lot of contradictory rumors about that, some people are saying that it is a matter of a few months, some are saying that this might last a bit longer, across 2021. But in our market assumptions those numbers are foreseen to be achieved in a regular landscape. Now, if the chip shortage will last all the year, for sure, especially in some regions - probably in the U.S - we might see the second half re-forecasted volume from the OEMs. But this honestly speaking, I cannot say, because I don't know how long this will last.

ANDREA BALLONI: Basically, sorry, basically you are assuming the shortage of chip to impact in the first part of the year and then a recovery of the second part of the year, isn't it?

DANIELE SCHILLACI: This is a solid assumption, yes; we have to wait until at least Q2 to understand where we are. If in June, we hear that this might be extended for the rest of the year, of course, we need to make a re-forecast like

everybody. Today, I cannot say, but you are correct, we assume there might be a recovery on that.

MATTEO TIRABOSCHI: The last question was about tax rates in Q4. Yes, we had a positive benefit related to the Italian Patent Box, whose net amount - around €20 million - was recorded in Q4.

ANDREA BALLONI: And is that expected to continue also in 2021? Now, what should we assume?

MATTEO TIRABOSCHI: No, probably we had something, but for few million...nothing compared with the € 20 million that we had last year.

ANDREA BALLONI: Okay. And my third question was about the EBITDA increase in 2021, the follow-up on the Monica question.

MATTEO TIRABOSCHI: 1 point is very, very challenging, in this season.

ANDREA BALLONI: Okay. Thank you.

DANIELE SCHILLACI: You're welcome.

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

MARTINO DE AMBROGGI: Yes. Good afternoon, everybody. The first question is on the operating leverage in Q4, because I would have expected a higher EBITDA margin considering the top line was much stronger than in Q3. Okay Q3, there are holidays, summer holidays, but let's say you achieved let's say almost 1.5, 1.6 percentage point lower profitability in Q4. So if you could elaborate on this? I saw operation costs quite high. This is the

first one. The second is on the CAPEX, not for 2021, but for 2020, because in November, you guided for 130, 140. At the end, we are closer to 190. So it's just a matter of anticipation because of demand or what else?

MATTEO TIRABOSCHI: Regarding the CAPEX, there was some anticipation for some new business that we got, so we need to start earlier with this investment. About the margin, yes, in last quarter, we had to register a one-off accrual for a potential for the warranty, so we preferred to be cautious and we registered an amount in the last quarter for this potential problem with a customer.

MARTINO DE AMBROGGI: Is it the same that we already discussed many months ago or is it new?

MATTEO TIRABOSCHI: No, it's something new.

MARTINO DE AMBROGGI: Okay. So it's a one-off just for one client?

DANIELE SCHILLACI: Yes.

MARTINO DE AMBROGGI: Okay. And the last question is on the change in the purpose of your bylaws. Just to clarify, do you need to change it, because of a big acquisition in electronics or not?

MATTEO TIRABOSCHI: No, no. I don't want to create some misunderstanding. The change in the company purpose and in the company name it's just because we needed to update them to what we are currently doing.

MARTINO DE AMBROGGI: Okay. And I asked you the update on the M&A, so nothing on the table?

MATTEO TIRABOSCHI: Not now. Unfortunately, nothing.

MARTINO DE AMBROGGI: Okay. Thank you.

DANIELE SCHILLACI: Thank you.

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

ALEXANDRE RAVERDY: Yes, good afternoon. Thank you for taking my question. I have 2 questions, please. The first one is on the top line. So you mentioned the strong order book at the start of the year. I just wanted to understand whether we should expect the same degree of outperformance, as in 2019-2020, which is around 3 points, and which region should mostly drive this outperformance, if any. And the second question is a bit more general, can you please give us an update on Brake-by-Wire, i.e. the current penetration of the technology, competitive environment and the impact on your average content per vehicle? Thank you.

DANIELE SCHILLACI: Regarding your first question, yes, indeed, our order book is solid, it's good, and we are very active also on the electric vehicles. Brembo usually delivers an over-performance compared to the market, so also in '21, if there is not any big disruption, as I said at the beginning, you should expect this to occur again.

The second question: Brake-by-Wire is of course, more and more a strategic product for us, we are keeping moving ahead with one highly respected OEM on that project, and not only one, we have a set of OEMs that we are talking in depth with us, but with one we are moving relatively fast, and we can expect indeed, the application of Brake-by-Wire with one OEM within '21. This is what I can say.

ALEXANDRE RAVERDY: Thank you very much.

DANIELE SCHILLACI: You're welcome.

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

MARK POWER: Thank you and good afternoon. I would like to discuss Brembo's return on capital, please. It looks before 2020 you had accelerated your capital investment for several years, and by my estimate, the value of property and plants let's say that was, maybe one-third higher than it was in 2016 or so, which is when ROI and return on investment peaks. So my question is looking beyond Covid does management think we can expect the ROI profile of the business to reverse to those historic levels, especially on the higher asset base? Thanks.

MATTEO TIRABOSCHI: We would be very happy go back to the past levels of course, obviously; in the past ROI was very important, today is less. Of course revenues declined in 2020 and so did EBITDA, we'll have to work very hard to get new business with a good margin to get back to the old ROI. We are working on that, sure, but it is not easy.

MARK POWER: Just to be clear, the old ROI levels are reachable going forward. Is that correct?

MATTEO TIRABOSCHI: Yes, it is.

MARK POWER: Okay, good. Kind of follow-up on the guidance of CAPEX for this year. How much of the 200 to 220 is for new capacity versus what you might call maintenance CAPEX? Please.

MATTEO TIRABOSCHI: Should I say a number, I'd say that €60 million are for maintenance and the rest is for new capacity more or less.

MARK POWER: Okay. And just one quick follow-up, please. The CAPEX sales levels, can we assume that might go back now kind of to below trend after the investment period. So we might come back to maybe 8% of sales or is that too low now for the future?

MATTEO TIRABOSCHI: Probably looking forward, we'll invest €1 euro and we will have €1 in revenues, 1 to 1 I'd say, in the past it was less.

MARK POWER: Okay. So it's improving?

MATTEO TIRABOSCHI: Yes.

MARK POWER: Okay. Thank you very much. It's helpful.

DANIELE SCHILLACI: Thank you.

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

GIANLUCA BERTUZZO: Hi everybody, and thank you for taking my question. First question is on the one off you had in last quarter of last year. If you can maybe quantify this one off, this will be helpful.

Second one is on M&A, I am not going to ask you about big plans or Pirelli or whatever. But since we spoke last time, you announced the acquisition of SBS. Can you maybe talk about the rationale of the acquisition, if you can provide us maybe some synergy target where do you see synergies, maybe in the cross selling of products. I don't know...any comment will be appreciated. Thank you.

MATTEO TIRABOSCHI: starting from the one-off accrual, we can't say more. We can't say the amount nor the customer, you know very well that this may be an issue for us, we have to maintain confidentiality.

DANIELE SCHILLACI: Regarding SBS, it is a jewel Danish company, maybe small, but a jewel company. The purpose of integrating SBS into Brembo is mainly to extend our "solution provider" concept in the motorbike division, that is growing quite well; you know, we often talk about the electrification in the automotive industry, but I can tell you that a lot of very interesting trends are happening on the electrification of motorbike as well. As, you know, SBS produce eco-friendly pads for motorbikes and this is totally in line with the vision/mission of the company. On top of that, the company is extremely well placed on the aftermarket B-to-C, so, in a few words, this acquisition is totally in line with the new vision/mission of the company, and it will reinforce our presence in the motorbike business. Since January the company is fully integrated with Brembo; we had a management meeting with them last week, the atmosphere and the relation are excellent, so in the end, it's a very nice story.

OPERATOR: For any further questions, please press "*" and "1" on your telephone. The next question is a follow-up from Martino De Ambroggi of Equita. Please go ahead.

MARTINO DE AMBROGGI: Thank you. Sorry to bother you on the top line. Just a follow-up. You mentioned to be able to outperform the plus 11, plus 12 in absence of disruption. But I was just trying to figure out China will grow less, and it represents 15% of sales. The dollar or I would say overall FOREX probably are a bit negative this year. Stop me, if I am wrong obviously. But just to have an idea of 11, 12 it is the volume projection you have in mind or the value in terms of millions sales?

DANIELE SCHILLACI: So, the 11%-12% is the volume increase of the market; it would move from 75 million to around 84 million units. And let me be very careful on China because in percentage the forecast might seem lower than other regions, but, in absolute volume, it would be relatively the same because as you know, today China is the biggest market in the world, and the growth in absolute term is a couple of million, which is what we are seeing also in Europe and in U.S., 2.5-3 million units more. In volume, they are almost all equivalent, but in percentage China is lower.

MARTINO DE AMBROGGI: Yes. But, I was trying to summarize all the segments in which you operates, taking into account the external factors like FOREX and so on. So, let's say something more of 11%-12% is a reasonable top line growth including all the items or probably more?

DANIELE SCHILLACI: I would say 11-12% is a good base, yes.

MARTINO DE AMBROGGI: Okay. Thank you. And very last on net working capital due to raw material increase and so on, is there anything worth of being mentioned?

DANIELE SCHILLACI: No, as I said, most of our business is indexed to the raw material, what we cannot predict is the chip shortage, and how long this price increase will last. There was a huge increase as already in December, January until the beginning of February; it seems that the last 2 weeks things are getting a bit better in terms of stability, and we foresee that at the end of the first half the situation should stabilize.

MARTINO DE AMBROGGI: Okay. And very last on the price adjustments due to the raw material price hikes, you mentioned that you expect this will return to normality or

maybe being less evident and what it was so far. But, could you remind us what is the time lag in adjustment of prices for your existing contracts?

MATTEO TIRABOSCHI: It's not the same period for all the customers; for someone it's 3 months, some others is 4 months, it depends.

MARTINO DE AMBROGGI: So, let's say in case the raw material prices do not decline in the second half of the year, you are able to offset during the 12 months period the impact or probably you have something to suffer?

MATTEO TIRABOSCHI: If the raw materials cost increases for all the year?

MARTINO DE AMBROGGI: No, remaining at the same level where we are probably today.

MATTEO TIRABOSCHI: Yes.

MARTINO DE AMBROGGI: So, you are able to offset. Okay, thank you.

LAURA PANSERI: Okay. So, ladies and gentlemen thank you for your attention; we wish you a pleasant afternoon. Thank you.

DANIELE SCHILLACI: Thank you very much.

MATTEO TIRABOSCHI: Thank you.