

Brembo S.p.A.

"Nine Months 2021 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 Brembo Nine Months 2021 Financial Results Conference Call. 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, Head of IR. Please go ahead, madam.

LAURA PANSERI: Yes, thank you. Good afternoon ladies and gentlemen. Thank you for join us today to discuss Brembo Group's 9 months 2021 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 to go directly to the Q&A session.

During this call, we will discuss our business outlook, and make forward-looking statements which are based on our tradition and expectations as of today. These comments 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 with 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. The first question is from Monica Bosio with Intesa SanPaolo. Please go ahead, madam.

MONICA BOSIO: Good afternoon, everyone, and thanks for taking my questions. I have 3 questions. The first is, on the cost inflation, both at the raw material and

the logistics cost side. Can you please quantify the impact of raw material and the impact of logistics cost, because if I compare the presentation with the first half presentation, it would seem that the raw material cost increase in the third quarter should have set in the range of €12 million, and then we have also difference in operations of roughly €20 million. I was wondering if these are the real impact of the raw materials and of logistics. And I was wondering how many of these costs are you going to recover in the next quarter?

The second question is on the net debt, just for housekeeping, if you can give us an indication...rough indication of the full year, and expected net debt?

And the third, is looking beyond this year, and maybe beyond 2022, you have just announced unveiled the SENSIFY? Can you give us some indication on the revenues contribution expected from this new product in the next 3 years' time? Thank you very much.

MATTEO TIRABOSCHI: A lot of questions, I will try to give you some answer about numbers, and then about SENSIFY, Daniele will be very happy to give you some more flavour. About raw material, I can tell you that we received from our customers something around €36 million as price increase, and logistic cost was approx. €15 million for the 9M period. Regarding the debt, for the full year, it will be something around €450 million, on top of which we'll have the acquisition of J.Juan -something around €73 million- so overall it will be €520 million more or less for the full year.

MONICA BOSIO: Okay, and coming back to the raw material and logistic costs, do you have an idea of how many of these costs can you recover in the...?

MATTEO TIRABOSCHI: Sorry, I need to give you some more detail. The total raw material impact for the 9M is something around €65-66 million, of which we have recovered nearly €35 million. And €15 million was logistic cost.

MONICA BOSIO: Okay.

DANIELE SCHILLACI: Regarding SENSIFY, as you probably have heard, we held an event 2 weeks ago with the international press. The feedback was extremely encouraging and good. We have announced that in early '24, Sensify will be on the market with a highly respected customer, and given the feedback that we have received, and also the contacts that we are having with many OEMs, we think that the potential revenues of SENSIFY from '24 onwards, will be indeed quite significant. I cannot give you any numbers for obvious reasons, but SENSIFY is definitely a game changer in the automotive industry, I would say, it is comparable with the breakthrough that ABS did in the '90s on the braking system, SENSIFY is really the breakthroughs of 2020s. So we are very happy about the press coverage and the feedback that we got. We were already confident about our product, but this give us even more confidence, and we expect it to be an important new product line to leverage on in the second part of the decade. Together with the foundation braking system - meaning the disc and the caliper - with SENSIFY, we will complete the ecosystem of Brembo in the braking system.

MONICA BOSIO: Okay. Thank you very much.

DANIELE SCHILLACI: You're welcome.

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

ANDREA BALLONI: Yes, good afternoon. Thanks for taking my question. My first question is about the global car production. What do you expect for the last quarter of the year, and if you have any comment about the beginning of 2022, it would be fully appreciated?

My second question is about your full-year guidance. I understand visibility is very limited so far, but your guided range on sales is pretty wide implying Q4 trend between 9.6% and plus 11%. If you could give us any more precise indication, would you consider to be closer to the bottom or to the top range of guidance?

And my last question is about EBITDA margin target, also in this case, the implied EBITDA margin range in Q4 is pretty wide, ranging from 15.7% to almost 20%. If you can give us more color that would be very helpful.

Thank you.

DANIELE SCHILLACI: Regarding the global car production, last July - just to give you a kind of background of the Q3 - in July, the forecast of the year was around 83 million units in terms of production, and now the trend is around 75 million, which is exactly the level achieved in 2020. So in '21, due to the chip shortage and all the other headwinds, the market will not recover versus 2020. This means that Q3 was minus 20% versus 2020 and the Q4, in terms of production, is expected in a range of -15% -20% versus 2020 as a global market.

Regarding next year, there are 2 factors that might reverse the trend. The first one is that the chip shortage seems to be something that remains also in first part of 2022, but should recover in the second half of '22, according to what some of the OEMs and some specialists are saying. This would be one of the encouraging signs. The second one is that some OEMs have defined new lineup where the consumption of chips is lower than the previous one. So there will be some special series, from what we understand, where the chip presence is less than before, and also this should have an impact, probably from the end of H1. And if all of this

happens, we see a very sharp increase in the car production sector from September onward, also because today the stock level anywhere in the world is the lowest since many decades. So the OEMs has to reconcile their stock and to shorten their delivery time to the customers, this means that you will have probably 15-18 months of high-level production during probably '23 and part of '24. So to summarize: first half '22 no major change, second half of '22, we might see some increase trend that will last also probably for the whole '23 and probably also in '24.

ANDREA BALLONI: Sorry, Daniele, a follow-up question about that before changing my question. H1 with no major changes, you mean that H1 2022 compared to H1 2021 could be stable or below?

DANIELE SCHILLACI: No, H1 2022, we think it will follow the trend of H2 '21.

ANDREA BALLONI: Okay. So below compared to H1 '21?

DANIELE SCHILLACI: Yes.

ANDREA BALLONI: Okay, clear

MATTEO TIRABOSCHI: About the guidance, I would say it's quite difficult to be more precise. We are living in a period where uncertainty is very, very high. About the revenues, we said +20%+25% for the FY, maybe we can do something better, but the situation for the moment is very liquid, so it's difficult to give you some more detail. About the margin for the FY, we said between 18% and 19%, obviously it will depends on the raw material inflation and the shortage for semiconductors, so there are so many variables in this moment that that is very difficult to be more precise.

DANIELE SCHILLACI: I think there's something that is worth to underline, here: the reconciliation of the stock level in all the regions, and the need to shorten the delivery time to the customers, this, when the chips will be available, this will have an impact that will last several months, so we are optimistic on the mid-term production forecast, this is something that I feel quite confident to say.

ANDREA BALLONI: Thank you.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. The first question is on SENSIFY. I understand you do not provide any guidance. Anyway, the first sales will be in 2024. But I tried to look at it from a different perspective. So if we take a client today at which you provide both caliper and disc, getting a revenue of 100, just very rough idea, what is the revenue you can generate for the same product, for the same client, for the same car with the full equipment of SENSIFY very, very roughly.

DANIELE SCHILLACI: Roughly..... it will be more. Sorry, we cannot provide these numbers, but part of the answer is included in the definition of "ecosystem"; in Brembo, you will have the foundation brake, plus SENSIFY on top, SENSIFY de facto will be the new third big product of Brembo, so you have the disc, the caliper, some pads for very peculiar applications, and then SENSIFY on top. SENSIFY is not at all a substitution, it will further boost the ecosystem of Brembo on top of the traditional products. So the 1+1 will not be 2, but probably 2.5-3. That's why we think it will be a huge opportunity from '24 onwards in terms of revenue and profitability. This means also it will require some investment, but of course, we are happy to

make these investments because we clearly see the promising return in the next years.

MARTINO DE AMBROGGI: And how much is the CAPEX plan for this specific investment?

DANIELE SCHILLACI: Also sorry, but we don't give you this information.

MARTINO DE AMBROGGI: Okay. And very last question on this issue probably without an answer, but should we assume potentially lower margin compared to your current margin because you are providing a lot of pieces which are provided by third parties or because of the software because of the assembly activities you are able since the beginning to provide higher margins?

DANIELE SCHILLACI: No, absolutely not, our target is to be in line with our current margin, and I would say, given the very high intangible value of the intelligent software that we inject in the product, of course our target is to do better and better.

MARTINO DE AMBROGGI: Okay, and just to have a rough idea, I understand if you don't want to answer. But if I take a 100 that I supposed before, we are talking about more than 150 or probably I am totally wrong in making this assumption. So just assuming back to the first question, if I assume that you generate a €100 for 1 piece for your client in terms of caliper and disc, the magnitude of SENSIFY is 150-200 or maybe I am totally wrong.

DANIELE SCHILLACI: Sorry, we cannot tell you. In due time, we will have probably a dedicated session on that. We would be more than happy to do it, but for the time being, we cannot provide this information

MARTINO DE AMBROGGI: Okay. Yes. I understand. The last question is on the Pirelli shares, because you have a nice capital gain there. So should we maybe

think about that sooner or later Brembo could take a little bit of profit on these shares or are they considered core asset going forward?

MATTEO TIRABOSCHI: For the moment, it is not a decision on the table. We are not discussing about selling those shares, we maintain our position for the mid-long term.

MARTINO DE AMBROGGI: Okay. And very last, just to double check what you answered before on raw mat. You mentioned €65 million is the additional cost year-to-date?

MATTEO TIRABOSCHI: Yes.

MARTINO DE AMBROGGI: 35, was already recovered year-to-date, but what is the impact for the full year and what do you expect so in essence, are you thinking to be able to recover 100% of this 60 or probably more than them?

MATTEO TIRABOSCHI: No, not this year, we can close the gap next year, hopefully if the price of raw material does not increase anymore.

MARTINO DE AMBROGGI: Okay. But the rule is that you are able to recover a 100% in 3-6 months or has something changed?

MATTEO TIRABOSCHI: Yes. It's correct.

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

GIANLUCA BERTUZZO: Hi everybody. Thank you for taking my question. First one on 3Q results, besides raw materials and logistic cost inflation, there are any other one off impact in these results.

Second question is on 2022, I know it is maybe too early to comment, but can you share with us some...you expectations in term of at least growth. Last question is on M&A, I wanted to come back a little bit on SENSIFY, and given the specific characteristic of the product which is equipped with software capabilities, AI and so on, how does it change your attitude toward large M&A deals since you targeted such deals to acquire these specific competencies. The launch of SENSIFY demonstrate you can develop on an organic way these technologies or you're still planning for big acquisitions in this field. Thank you.

MATTEO TIRABOSCHI: Yes, there were some other one-off in the period, particularly in the third quarter. In China, there was a period of lockdown for COVID in the area where we are plants are, in the Nanjing area. So we had to close for about 3 weeks, during the month of August, and obviously, we had to face all the costs of the plant, the people, etc. but with zero revenues.

GIANLUCA BERTUZZO: Can you maybe quantify the impact?

MATTEO TIRABOSCHI: No, because it is part of the life of the company. And I think that this kind of shutdowns might happen also in the future, either for Covid or for the shortfall of energy in China or for other problem in other countries, so it's part of the company life, unfortunately.

DANIELE SCHILLACI: Regarding the growth for 2022, it's very difficult to give you a guidance, for the simple reason that, if we look at the orders that we have now with OEMs, we are in a good shape. But given that every month, due to the chip shortage and to some other topics like availability of materials, and

also the difficulty of logistics, we see our OEMs adapting the production planning on a weekly basis, it's very difficult to tell you what will be the situation next year. So I can just repeat that the first half of '22 will see more or less the same trend as the H2 '21. We really hope that there will be a turning point after the Summer and if this happens, of course, the future might change. But today to give you a very precise numbers, it's very complicated.

Regarding the M&A of SENSIFY. Of course, we have been working on SENSIFY since many years now, and we are also working on completing our supply chain, to have all the strategic components under control either 100% internally or with some strategic partnership with our key suppliers. So if there are some M&A opportunities that will complete part of the SENSIFY supply chain, of course we will chase them. It's exactly the same situation that happened in the motorbike with the acquisition of J.JUAN and SBS. The strategy was to verticalize the motorbike business, because we believe that the 2-wheels potential is growing over the mid-long term. You should see the same logic for the SENSIFY.

GIANLUCA BERTUZZO: Okay, thank you very much. And very last question, if I may. If I'm not wrong, in the third quarter of this year, sales of Plug-in Hybrid and battery electric vehicle was 16% of total car registration in Europe. Can you share with us your penetration for electric vehicles?

DANIELE SCHILLACI: Of course it's increasing, because many platforms that we got are electrified. Some brands are pushing more on electrification, others that are fully electrified and others that are in between. So we are following all these trends, and I can't give you really a precise number, but our penetration on electrification is sharply increasing since a couple of years already.

GIANLUCA BERTUZZO: Thank you.

DANIELE SCHILLACI: You're welcome.

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

ALEXANDRE RAVERDY: Good afternoon. Thank you for taking my questions. I have 2 quick questions, please. The first one is regarding...let's say the different supply chain issues. So in this long list of issues, we have heard that magnesium could be at some state of an issue. Could it be a concern for your business either directly or indirectly or not? And the second question is on working capital, I noticed it remained dry during the quarter, I remember during H1 you mentioned that, you expected a reversal in H2. So first, could you please provide some color on working cap for Q3, and then should we expect a reversal in Q4, what's your assumption on that? Thank you.

MATTEO TIRABOSCHI: Magnesium is a material that we normally use in our process, and it was challenging to find it on the market, but we decided some months ago to increase our stock of magnesium and not only of magnesium. So, in this moment our working capital is higher than historically because of the stock, and we prefer to maintain higher stock of those raw materials that are more difficult to be found on the market. So maybe we are not very efficient in this moment in terms of working capital, but we prefer to maintain a buffer to ensure the production and to deliver the proper level of service to our customers.

DANIELE SCHILLACI: And also a piece of good news is that since 4-5 days the price of magnesium, manganese also the silicium, is dropping, you know better than me the volatility on the price of these raw materials. But, it seems that 3, 4 major raw materials that are important to us are showing a downturn trend since 4-5 days. So let's see how this will evolve, but since

a couple of months this is maybe the first time that we see a significant downtrend.

ALEXANDRE RAVERDY: Alright. That's clear. Thank you very much.

DANIELE SCHILLACI: You're welcome.

OPERATOR: The next question is from Anthony Dick with ODDO. Please go ahead.

ANTHONY DICK: Yes, hi, and thanks for taking my question. Just a follow up on the SENSIFY. Yes, I was just wondering if on SENSIFY you would announce further contract wins, in the future maybe provide a backlog for this type of products. And because you mentioned that you expected significant revenue opportunities starting 2024, or I was just wondering considering the product cycle, when could we expect some further updates on commercial development of this products? Thank you.

DANIELE SCHILLACI: Yes, as I say, in 2024 we have a very important customer with whom we will start our adventure. We are having many contacts on this product, when we judge that time is matured to give you some update on the new contracts, of course, it will be our pleasure to do it. But please, also bear in mind that our OEMs sometimes require us confidentiality and, of course, we always respect our customer's wish. But, as soon as we have the opportunity to give you some news on the evolution of SENSIFY within the customer base we will not hesitate to let you know, absolutely.

ANTHONY DICK: Okay. Thank you. And one last follow up that the customer...a significant customer that's been one so far, is it a premium customer or luxury customer? Thank you.

DANIELE SCHILLACI: It's a very good customer.

ANTHONY DICK: Okay. But I mean, is it a premium car manufacturer or luxury car manufacturer? Is it what I meant for.

DANIELE SCHILLACI: I mean, you know, the better field where we are playing, I will let you guess.

ANTHONY DICK: Okay. Thank you.

DANIELE SCHILLACI: You're welcome.

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

LAURA PANSERI: Okay. Ladies and gentlemen, thank you very much for attending our call today. We wish you a pleasant rest of the day. Bye-bye.