

Brembo S.p.A.

"First Quarter 2022 Financial Results Conference Call"

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MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE 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 2022 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. Please go ahead, madam.

LAURA PANSERI: Thank you, and good afternoon ladies and gentlemen. Apologies for the short delay. Thank you for joining us today to discuss Brembo Group's first quarter 2022 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Chairman, and by Daniele Schillaci, CEO of Brembo. The slide presentation has been made available on our website, therefore we suggest to go directly to the Q&A session.

During this call, we will discuss our business outlook, and will make forward-looking statements which are based on our predictions and expectations as of today. These comments are subject to risks and uncertainties that can cause the 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: Thank you. 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 Monica Bosio with IntesaSanPaolo. Please go ahead, madam.

MONICA BOSIO: Good afternoon, Matteo and Daniele, I hope you can hear me. The first question is...okay, I am going straight to the point. I haven't seen any guidance for the full year in term of EBITDA margin, in occasion of full year '21 [ph] results, visibility was really low...still low, but I was wondering if we can take the 17 6% as a proxy for the full year, or if there is room for doing something better or worse, I don't know?

And the second question is on volumes. In the first quarter, volumes impact was positive for plus 12%. This is a strong over performance rest of the market. How do you...what do you expect in term of market outlook for the remaining quarters, and can you give us any colors on your order intake, on the back also of the Chinese market situation? Thank you very much.

MATTEO TIRABOSCHI: Hi Monica, Matteo speaking. Your question is very clear and I know that in this moment you are not very happy that we don't give any kind of guidance. As you said, during the last conference call we said that with the First Quarter release we would give some indications for the full year. To be honest, though, we are facing an unprecedented volatility of the market, due to the geopolitical situation, to the supply chain constraints - with the shortage of microchips that continues to be a problem for our customers -, and to the COVID pandemic that remains an issue especially in some areas of the world. Given all that, we prefer not to give quantitative indications that risks to become inaccurate very soon; what I can say is that we will continue to outperform our reference market.

Our plants are working at full capacity, the first quarter was strong in terms of revenues and margins, especially considering the cost of raw materials and energy, but having said that, we prefer not to give figures for the full-year, not because we are not happy with these results, but because the uncertainty is so high, and we have so many market variables, which are hardly manageable.

MONICA BOSIO: Okay, I clearly understand your point. I don't want to insist, but during the last conference call you said that for 2022 the company was expecting something higher than the second part of 2021. In 2021, it was roughly 16.4%...16.5% margin. Can we take this level as a floor number for the year, or the volatility is so high that even the 16.5% is not a benchmark?

And the second question is on the foundries in Poland, are you experiencing some disruption after the blocks of energy supplies from Russia?

MATTEO TIRABOSCHI: Starting from your second point, the answer is absolutely not: there isn't any issue in Poland for the gas interruption from Russia. About the margins, please bear in mind that in the second quarter 2022, in particular in April and May, the business in China has stopped, everything in China has stopped, and this is an important issue. So to tell you if we can do the same EBITDA of last year or slightly better it's very hard to say today, because of the situation in China and because of the cost of raw materials and energy, whose levels for the second quarters we don't fully know yet. So to tell you something at this point it's very difficult.

MONICA BOSIO: Okay. I understand. I come back to the queue. Thank you.

OPERATOR: The next question is from Renato Gargiulo with Stifel. Please go ahead sir.

RENATO GARGIULO: Yes. Good afternoon. Sorry...still on profitability. The message you gave some time ago, was that you were expecting a sequential improvement, at least in the second half of the year. In the first quarter, you still had net €20 million negative effect from prices raw materials. So if you assume that raw materials will somehow stabilize going forward. Can we expect, given the price effect on raw materials and higher volumes, a potential sequential improvement going forward from a qualitative standpoint?

Secondly, on energy and logistic cost, I was wondering, are you currently being able to transfer them to clients through pricing or it's not easy. Then on volumes...still on volumes, I was wondering on China if you have...if you can give us any kind of indication about potential cancellation of orders or something like this? Thank you.

DANIELE SCHILLACI: Yes. Thank you for your question, Daniele speaking, good afternoon. Regarding the pricing impact, we have the goal to recover 80% of the non-indexed price increases with our customers during the year and we are in line on this direction.

Regarding the volume in China. In China, as you saw, we had an excellent Q1, the order bank in China remains solid. Unfortunately, with the new lockdowns in April and May, we lost 40% of our volumes in April, but since May all operations are back on track and running, and of course it will take time to go back to the normal level. Nonetheless, I would say that the order bank in China for Q2, Q3 and also the rest of the year remains at good levels.

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

MARTINO DE AMBROGGI: Thank you. Good morning, good afternoon, everybody. Follow up on the ability to recover the costs. I remember in the previous call you mentioned we already recovered 70%, and we are confident to recover this year, the remaining 30%. When we talk about 80% today, it means that the remaining 20% is just postponed or lost?

DANIELE SCHILLACI: No, let me try to clarify: in Q1 2022 we have already recovered slightly more than 2/3rd of the cost (66%). Our intention is to recover up to 80%, which is already closed, dealing customer by customer, contract by contract, and of course we will keep negotiating to recover the remaining 20%.

MARTINO DE AMBROGGI: Okay. But, let's say, the negotiation is becoming harder and harder...

DANIELE SCHILLACI: Yes.

MARTINO DE AMBROGGI: ...so...because you usually hadn't any problem in recovering the inflation costs. But now, it's probably becoming a hard work also for you.

DANIELE SCHILLACI: Yes, it's like everything: when you have the 80% done, the remaining 20% will be tougher, of course. But we are dealing with them, customer by customer; they understand, of course, the situation, and we have our commercial people talking with them almost on daily basis. Our intention is to try to recover the remaining 20% by end of the year.

MARTINO DE AMBROGGI: Okay. And you worked at full capacity in Q1. I remember, you mentioned 90% at the beginning of the year as an expectation. I clearly

understand, it's impossible to provide a guidance for the full-year, but just visibility on the second quarter is still in the region of 90% or is probably lower?

DANIELE SCHILLACI: Of course, as I said, with the exception of China in April, due to the lockdown, our production capacity is now at full speed.

MARTINO DE AMBROGGI: Okay. And...okay. I understand that the uncertainty, but you indicated €200 million, €250 million CAPEX guidance for the current year probably due to the uncertainty this level will be cut?

MATTEO TIRABOSCHI: No, we confirm the CAPEX at €250 million. The uncertainty on the market is short-term, but as you know we invest on a long-term perspective, so, we are going ahead with our programs.

MARTINO DE AMBROGGI: Okay. And which portion of CAPEX is dedicated to SENSIFY?

DANIELE SCHILLACI: As you know, we can't provide this break down, but of course, as you can imagine, we are increasingly investing on Sensify.
We are receiving a lot of interest from our OEM customers on Sensify, this is a highly innovative product for us on the mid and long-term, and clearly it will absorb more and more investment from now on.

MARTINO DE AMBROGGI: Okay. And very last on quarter 1, 25% EBITDA in Q1. Is there any seasonality effect that in a normal wordwe should take into account or it's absolutely repeatable?

MATTEO TIRABOSCHI: Yes, as you know the motorbike is a seasonal business, particularly strong in Q1 and Q2, so I would say you can't maintain the same EBITDA for the full year.

MARTINO DE AMBROGGI: Okay. Thank you.

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

ALEXANDRE RAVERDY: Good afternoon. Thank you for taking the questions. I have 3, please. The first one is on the guidance, in the lack of guidance. So, I totally understand the lack of visibility and given the strong pricing I understand that talking in relative terms makes limited sense. But I mean, your EBITDA increased by 11% in Q1. And I see that consensus is currently expecting something between 5% to 10% EBITDA growth compared to 2021. So does it sound good to you? In other words, I mean, do you expect despite the lack of visibility to grow your EBITDA compared to last year? That's the first question.

The second question is on outperformance. I mean, you grew your volumes by 12% in Q1, which was quite impressive, especially in China and NAFTA. Could you please come back to the underlying drivers of such a strong performance, please?

And the last one, could you please elaborate a bit more on the working capital outflows. And I haven't seen the details. So what's driving such a strong outflow, please? Thank you.

DANIELE SCHILLACI: Regarding your first question on EBITDA, you're right, I think that the Q1 was excellent. Of course, as Matteo said before, to give you a projection of the EBITDA trend for the rest of the year is a very, very difficult, but what I can say is that we are keeping a very tight cost control in all our operations. This is something that in such a volatile market is extremely crucial, and will clearly help us to optimize our result for the rest of the year.

Regarding your second question, about volume up 12%, the increase was due to several factors; one is that we have a mix of customer in the premium segment that increased their production and sales in Q1, and this has a positive impact on our business. Also, in Q1 we had the SOP of the new business which was signed 18 months-2 years ago. Moreover, we are having a good momentum in the aftermarket and motorbike business. So the sum of these factors explains the overperformance delivered in Q1.

The last question, on the working capital: what I can say is that our stance, since the COVID period, due to the uncertainty and volatility, is to maintain the stock at a slightly higher level than usual, in order to serve our customers in the best possible manner. This regards also the stock of raw materials, given the current situation. So this is what drove the NWC in this period, which we think it is the right thing to do in this market conditions.

ALEXANDRE RAVERDY: Thank you.

DANIELE SCHILLACI: Thank you.

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

GIANLUCA BERTUZZO: Hi everybody and thank you for taking my question. First one, I know you do not provide adjusted figures but just for the sake of completeness, there any one off in these results or its primary elements?

Second question is, if you can provide an update on M&A? And last question is on SENSIFY, can you update us on the number of programs customers if there are any change to the market timing for this product. Thank you.

MATTEO TIRABOSCHI: No, there wasn't any extraordinary effects or one-off in the first quarter.

Regarding M&A, there is nothing concrete on the table, at the moment. Of course we are still looking for potential targets that could have sense to acquire or with which we could do something together, but for the moment there is nothing concrete. About SENSIFY, I leave it to Daniele.

DANIELE SCHILLACI: Yes, about SENSIFY, we are totally in line with our plan to be on the market in 2024, as we said, so this we are totally on track. We are having indeed more and more customers really interested in testing SENSIFY and we organized in January, February, and March some tests with some of our customers, which are very pleased with this technology. So we are on track with what we announced few months ago on SENSIFY. We think that after 2024, after the launch with our first customer, things will go in our view quite fast, with SENSIFY present on different platforms and OEMs, and not only in the automotive market, but presumably also on the motorbike segment, where we are receiving a lot of interest for SENSIFY. So we are really pleased about the feedback that we are receiving on this technology from our customers, both 4-wheels and 2-wheels.

GIANLUCA BERTUZZO: Okay. Thank you. And last question if I may. Can you split how much was volume and how much was mix in the revenue bridge?

MATTEO TIRABOSCHI: No, to be honest we don't have the split.

GIANLUCA BERTUZZO: Okay. Thank you.

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

ANTHONY DICK: Yes, hi. Thanks for taking my question. I had a question on price and the bridge indicates a contribution at €44 million. I was just wondering if you could break that down between the raw material price, inflation impact and the normal price increases and where that stems from. And then a second question on China. So you said that your production was understandably impacted in April but you reached out to the operations in May. Could you maybe give us an indication what your current plant utilization rate is in China, maybe remind us a little bit of your foot print in the country and if you are facing any significant logistical issues there? Thank you.

DANIELE SCHILLACI: Regarding your first question, the “price” effect we indicated is all raw material. The second question regarding China, as I said, in April, we had a drop of 40% in volumes; in May, all the plants have restarted, I expect to go back to full capacity probably by the end of the current month. Of course, if nothing happens by then, because as you see the situation can change very last minute, but today, our visibility is the one that I have just said.

ANTHONY DICK: Okay. Thank you.

OPERATOR: The next question is from Gabriele Gambarova with Banca Akros. Please go ahead.

GABRIELE GAMBAROVA: Yes, thank you for taking my questions. Good afternoon. The first one is on your I mean, your reference market. I mean, I know that in Q1 the global automotive production went down by some 4%, but I was wondering if you have in mind...if you have an idea of what was the performance...specific performance with reference to your clients?

And the second question is on restocking. I was wondering if it's possible to let's say quantify the restocking effect, and if you see your clients still short of stocks. I mean, is something that will go on this restocking supporting your revenues. This is the second question. Thank you.

DANIELE SCHILLACI: The global market in terms of production in Q1 worldwide was down around 4%; remember that the beginning of 2021 was quite strong, because the chip shortage started to have an impact around the summertime, so Q1 '21 was pretty high.

Regarding the second question, if we look region-by-region, the stock level in the US is still slightly below the usual stock standards, so there is probably some room for improvement to reconcile the stock, there. In Europe, with the war and the geopolitical situation now, I think the stock level is more or less in line with the stock standard, but what we are trying to understand is the quality of the demand, in other terms if the order book has a real organic demand behind.

In Asia, at end of March the stock level at dealership was in line with the stock standards; clearly with the lockdown of April, I expect that the level of stock will probably be lower in this quarter.

GABRIELE GAMBAROVA: Okay. Thank you very much.

MATTEO TIRABOSCHI: Okay. Thank you.

OPERATOR: The next question is from Michele Baldelli with BNP Paribas. Please go ahead.

MICHELE BALDELLI: Hi, good afternoon to everybody. I had just another question that my colleagues didn't follow, and I'm curious to know, the good thing the North American market, which is pretty significant. Can you describe a little bit how did you get to the [indiscernible] so basically the market

share increase in discs or more of the penetration of aluminum calipers, if you can elaborate a little bit? Thank you.

DANIELE SCHILLACI: In North America, US and Mexico in Q1, we had the full ramp up of a new platform that we got a couple of years ago, which gave a big support to our growth in the US. We had also another OEM that has increased by 2 digit their sales in the Q1. On top of this, we have all our traditional customers that keep on selling at normal levels, and the US market in Q1 was pretty solid. So these are the 3 factors that drove our growth in North America in Q1.

MICHELE BALDELLI: Okay. Thank you very much.

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

ANDREA BALLONI: Yes, good afternoon, everybody. Thanks for taking my question. Just one for myself, and it's a follow up on the raw material and energy cost inflation. I'm try to do my math. And I would like to know, the absolute impact you would expect for the full year, I understood that 80% of the cost inflation impact has been already covered. And then you will deal about the remaining 20%. But if you...I look at your company presentation, I see the positive pricing of a top line being €44 million and then have a negative impact in terms of net pricing of €20 million on EBITDA. So if my math is correct, given or taken via gross impact of cost inflation should be in the region €64 million on the margin in the quarter, if you can give us an idea about the amount for the full year it would be great? Thank you.

DANIELE SCHILLACI: On Q1 you are right, as I stated in my previous answers, the impact was €66 million on the Q1, of which we recovered 2/3.

Now, to give you an estimate of the raw material impact for the full year, again, it's extremely complicated because comparing the situation at the end of March, so only 5 weeks ago, with the situation of today, some raw materials have really changed pace. Let me take an example: the aluminum only few weeks ago was at \$3,500, yesterday it was a \$2,750, and probably tomorrow it might be back to \$3,000. So it's very very complicated to give you an insight of what will be the impact through the full year. As I said before, we started already almost one year ago the one-by-one negotiations with our customers, to recover the great majority of the increased costs, in order to minimize the impact in our P&L and to mitigate the risks. To tell you the absolute value, honestly speaking, it's really impossible.

ANDREA BALLONI: Okay. Thank you.

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

ANTHONY DICK: Yes, thank you for allowing me back in. I had 2 quick follow-ups. The first on the cost line. And so, looking at your out performance was particularly strong in North America, in China, I am just wondering to what extent did the new pure play EV start up contribute to that out performance. Could you maybe tell us how much they weigh today in your sales and in your growth? And then, I had a quick follow-up on the price questions, in the €66 million gross price impact. Could you break that down between raw materials, energy, and I don't know if you can't labor and logistics in that also? Thank you.

DANIELE SCHILLACI: Hello, regarding EVs, we are indeed taking since a couple of years quite a significant number of fully EV platforms, both with the local players, and with the international ones, and this portion of sales will of

course increase more and more over the next years. This is the clear direction that the market is undertaking, especially in Europe and China; in the US electrification will probably lag slightly behind Europe and China, and will happen a little bit later.

So as a Company we can say that we are in line with the overall market trends.

Regarding the second question, I am sorry but we don't provide the split between raw materials, energy, etc. .

ANTHONY DICK: Okay. Thank you.

OPERATOR: The next question is a follow up from Renato Gargiulo with Stifel. Please go ahead.

RENATO GARGIULO: Yes, thank you a quick one. Still on China, I was wondering if we want to be optimistic about also an easing of the pandemic over the next month. Would it be...would you have the possibility to recover part of the lost volumes in April, May, or given the stronger order backlog or you will be already at full capacity? Thank you.

DANIELE SCHILLACI: Yes, I think we can recover the volumes that we lost during April-May over the next months. It's something that we saw during the lockdown in 2020 in China.

RENATO GARGIULO: Alright. Thank you. A very quick one on cost of labor. Are you experiencing any issue, an increase in any of your reference markets? Thank you.

DANIELE SCHILLACI: Yes, there is, the inflation is an issue everywhere, not just in Italy. Everywhere and of course, there is increase of the cost of labor, yes.

RENATO GARGIULO: Okay. Thank you.

DANIELE SCHILLACI: Thank you.

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

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

DANIELE SCHILLACI: Bye-bye.

MATTEO TIRABOSCHI: Bye-bye.