

Brembo S.p.A.

"First Half 2022 Financial Results Conference Call"

Thursday, July 28, 2022, 14:00 ITA

MODERATORS: MATTEO TIRABOSCHI, 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 Half 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 Investor Relations. Please go ahead, madam.

LAURA PANSERI: Thank you and good afternoon ladies and gentlemen. Thank you for joining us today to discuss Brembo Group's first half 2022 financial results. Today's call will be hosted by Matteo Tiraboschi, 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 will make forward-looking statements which are based on 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. Ladies and gentlemen, 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 Renato Gargiulo with Stifel. Please go ahead sir.

RENATO GARGIULO: Yes, good afternoon. Well, my first question is on your full year outlook. Let's say that there should be some factors which should be improving in the second half compared to the first part. Some of your clients are talking about a possible acceleration in shares in the second half versus the first one, with the chip shortage issue also gradually improving. You should have a better situation in China, especially versus the second quarter with the lockdowns? And then at margin level, clearly you've given your delay of 3-6 months on price adjustment mechanism. Maybe we should see an improving impact in the second half. So just wondering if your guidance is, let's say somewhat prudent, conservative or there are any specific factors, risks, going forward over the next months?

Then the second question is on energy and logistic costs. Last time you were pointing out that you were expecting to recover around 80% of this during the year, given the negotiations with clients. I was just wondering if you can give us an update, if you are being, let's say successful with clients in your negotiation, and if you are achieving this target? Thank you.

MATTEO TIRABOSCHI: Yes, hi, Matteo speaking. Good afternoon and good morning to everybody. To be honest, I don't think we are too conservative in the forecast for this year. We are trying to replicate in H2 what we did in H1, this means something like €3.5 bn revenues for the full year, which is quite not bad; the same for margins... So from our point of view, it is quite challenging to achieve this result. Of course this forecast is based on the current conditions in terms of geopolitical situation, currency and raw material prices. For the logistic cost, I leave it to Daniele.

DANIELE SCHILLACI: Yes, Matteo, thank you. Hi, Renato. Regarding the energy, fuel costs and costs in general, you're right, indeed: the last time we said that in Q1 we had recovered roughly 66%, and now year-to-date the first half we've recovered already 81%, so this is exactly in line with the target we gave you. But more importantly, I want to point out that since the crisis has started, we've structured a very efficient process with all our customers to manage the current difficult situation in terms of raw material, energy and logistic costs. So now, it's no longer a matter of spot conversations or negotiations with customers when we see price increases, it is a very well structured method, which is proving to work very well, thanks to which we have already achieved more than 80% of price recovery.

RENATO GARGIULO: If I may, a very last question on CAPEX. You...it was 121 in the first half. If you can give us any kind of guidance for the full year? Thank you.

DANIELE SCHILLACI: We confirm €250 million for the FY.

RENATO GARGIULO: Perfect, thank you. Thank you very much.

DANIELE SCHILLACI: You're welcome.

OPERATOR: The next question is from Monica Bosio with Intesa Sanpaolo. Please go ahead, madam.

MONICA BOSIO: Good afternoon. I hope you can hear me. The first question is on the top line guidance which seems very robust in the first half the FOREX impact was in the region of 5%. So I believe that in the second half the FOREX impact will be weaker. So I was just wondering if the second half year would be in the region of plus 20, it seems so, but just a check from you.

And the second question is on Sensify. Have you any news flow on this...from this side?

Finally, the third one is on the net debt, if you can give us some more flavor on the net debt, which was quite high, I can imagine that it was due to the extra stocks you want to keep to face customers requirements. Thank you very much.

MATTEO TIRABOSCHI: The indication we gave includes everything, price, forex, etc. So I don't know exactly what will be the forex contribution for the next 6 months, but what we said includes everything.

DANIELE SCHILLACI: Regarding Sensify, no, I don't think we're going to have some specific announcement by the end of the year. What I can tell you is that we confirm the timeline to be on the market on 2024. We are working with many customers in different regions, they are, of course, asking a lot of information and details about Sensify, which is excellent. But in terms of new announcement, as soon as we can, of course, we'll let you know.

MONICA BOSIO: Okay. If I may ask, just a follow up, can you give us just a rough indication of the weight of sales coming from EVs? Is it meaningful, is it rising?

MATTEO TIRABOSCHI: To be honest, we don't have a specific breakdown for revenues by applications.

MONICA BOSIO: Okay. My last question was on the net debt, which was a bit higher than my expectation. I can imagine that it's due to the extra stocks, if you can comment a little bit.

MATTEO TIRABOSCHI: Yes, It's correct, it was higher especially due to the stock. We have increased the buffer to maintain the maximum level of service to our customers. Now we have something like € 150 million higher than normal, but we want to maintain this level to secure the supply chain for the production in the next months. Also, please bear in mind that in the second quarter, we paid the LTIP, the Long Term Incentive Plan that covers 3 years, for roughly €23 million, plus €6 million for the Una Tantum paid to all Italian employees. So we had some extraordinary effect this quarter.

MONICA BOSIO: Okay, so for year end, we have to keep €150, but we do not account any longer the LTIP and the Una Tantum.

MATTEO TIRABOSCHI: Yes, exactly.

MONICA BOSIO: Okay, thank you very much.

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

MARTINO DE AMBROGGI: Good afternoon everybody. The first is a general question on debated issue. So what's your direct and indirect exposure to eventual, I don't know if it materializes, hopefully not gas shortage risk and what are the possible solutions for you?

The second is on the costs, the ability to cover cost inflations that you mentioned. So you achieved 81%. So we should take this as, let's say, roof or you can achieve the remaining 19% going forward? And maybe I have the answer, but just double check, the last announcement on your joint venture for pads in China. Should we take it into consideration as a new business line or it's a minor step just in the aftermarket, and just to have an

idea, what is the way today of the pads on your aftermarket business very roughly?

DANIELE SCHILLACI: Hi Martino, Daniele. Regarding the raw material and utilities price increase, as I said, now we have we put in place a very efficient method with our customers. Our target remains 80% as a threshold, which we think is an important result, but of course we keep on working to achieve 100%. Regarding the gas, we are monitoring the evolution. very closely; the best way for us is to proceed quarter-by-quarter, for example, for the rest of the year we are covered in terms of gas supply, and we are already filling the pipeline, securing agreements for the Q1 and the Q2 of next year, in all the major countries where we have factories.

Of course the uncertainty on this topic remains, as you can imagine, but I would say 2022 is okay, and we are already building the pipeline for the first half of 2023, while keeping on monitoring the situation day-after-day. Regarding our partnership with Shandong Gold Phoenix, it is not a minor issue honestly speaking. We know the company very well, we have being working with them since 10 years, we have excellent relations with them since long. We have decided to do a business together for the aftermarket pads in China, but also outside China. The potential for the aftermarket business in China is quite huge, and with this operation we want to be positioned even more as aftermarket leaders in the automotive industry regarding the pads and the braking system. Gold Phoenix is a very credible player and the right partner to do this. Of course China will be a base for the export, so we will export the pads that we make together outside China. I think this will give a big contribution to the Aftermarket Business Unit, where the weight of the pads is quite significant. At the same time, it's also important for us to get to know more and more know-how in the pads, because we think this technology is extremely interesting also in the light of you positioning ourselves greener and greener in this industry.

MARTINO DE AMBROGGI: Yes, my question is also is it possible to think about pads as original equipment in the future or is just a step in aftermarket and full stop?

DANIELE SCHILLACI: Today is an additional step in the aftermarket, but honestly speaking it is a good opportunity for us to grow in this business and one day, we could become a player for the OE also, why not.

MARTINO DE AMBROGGI: Okay and very last Matteo, it is a question for you, but I presume what...I don't say anything, but recently, the parent company bought additional Pirelli shares. Should we expect, I don't know, Brembo following or full stop also for this?

MATTEO TIRABOSCHI: It was a move by the holding Nuova Fourb, but nothing more from Brembo, absolutely.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Andrew Hollingworth with Holland Advisors. Please go ahead.

ANDREW HOLLINGWORTH: Hello, good afternoon. Thank you for taking the questions. First, I congratulate on your sales uplift. I don't spend my time on conference calls congratulating management teams, but I think you should be congratulated them on the striking [ph] sales that you have seen. I have a number of questions, maybe help me understand better. On previous calls in the last few years, you talked sometimes about capacity utilization and talked about it being 80% or 90% in terms of your factories and foundries. How we think that a strong rise in sales, if we were at such a high utilization before or what utilization just to have sort of part. the factories and part the foundries, that

you are then able to expand when demand comes in, because I know you have invested a lot in recent years to create more capacities, and maybe you answer that point to start with?

MATTEO TIRABOSCHI: First of all, thank you Andrew for congratulations, thanks a lot. I will pass it to Daniele.

DANIELE SCHILLACI: Yes. Thank you also from my side for the congratulation, Andrew. Regarding the capacity utilization, the way in which Brembo operates is local for local, meaning that in all the 3 the main regions - China, US and Europe – the pipeline and the capacity utilization is mainly for the regional business. Hence, in planning our capacity for the 5-year Business Plan, we plan our investments in order to make sure that we have always above 80% of capacity utilization. For example today, despite the current geopolitical environment, our capacity utilization is around 90%, which is quite good for us. This means that our forecast in the 5-year plan was quite accurate, and we've managed to remain above 80% of capacity utilization in all the regions, to make sure that we optimize as much as possible our investments and that we have, by consequence, also good margins.

ANDREW HOLLINGWORTH: Okay, but just to understand that [indiscernible] the last few years the business has been investing very significantly. And during some of those periods of time, obviously sales contracted. So, if I was just looking at money spent versus sales, obviously there is time and you've spent a lot of money and sales have gone down. So, I'm assuming that that capacity utilization is sort of able to be flexed if you like it. It isn't always a€100 spent for €100 of sales. It might be over a period of time, but at certain points, you've got more groundwork done and permissions done for future expansion. So, you are able now...I'm guessing from what you said about capital expenditure, that maybe you are now through the heaviest phase of

your capital expenditure. And now, at a point where you can upscale your capacity if you choose to do so in different regions. Is that fair?

DANIELE SCHILLACI: You know, we don't always have a golden rule where if you spend €100 will get X, it is more complicated than that, honestly speaking. But for sure we have a sustainable growth level in our business plan, and year-by-year we can predict with a good level of accuracy what is the capacity expansion investment that we need in order to have in each factory 80% or more of capacity utilization. This is the way that we at Brembo size our investments and the way we take the decisions for the capacity expansions, rather than sticking with a golden rule where there is a ratio to be fulfilled...

ANDREW HOLLINGWORTH: Okay. Thank you. I mean...so just a couple of other questions. I mean, in terms of things like spending capital for future sales, I mean, obviously, you've been leading our industry for a long time now. I appreciate that capital is spent this year for growth next year or capital is spent 5 years ago for growth this year. So I appreciate the capital is spent over long periods of time with much consideration. But overall, do you think that today, you need to spend about the same amount of capital to get a future amount of sales or do you think you have to spend more to get the same amount of sales than maybe you had to spend 5 or 10 years ago? So, is it more capital intensive than it used to be or is it the same?

DANIELE SCHILLACI: Well, if you see how raw materials are moving today, it's clear that the level of investment required in a factory and foundry today and for the next years is much higher than it was a couple of years ago. Unfortunately there is nothing we can do on that respect. That's why we are happy to see that some raw materials are reversed their trend, because this is a good news not only for the short-term business, but also for the investments we are

planning. But today, if you ask if the level of investment required for the same capacity is higher than the last 2 years, the answer is yes.

ANDREW HOLLINGWORTH: Okay. I mean I have 2 more short questions, I can do right now or I can go back in the queue as you prefer.

DANIELE SCHILLACI: Yes, sure, please go ahead.

ANDREW HOLLINGWORTH: Okay. Thank you. That's very kind. And so just on the...I appreciate the guidance you have given for the year and your comments on margin and that's all very clear. Obviously, in the first half, much of the sales have grown very strongly. We have seen the EBITDA margin contracted few 100 basis points. I know what you've said for the full year. But is there any reason why in time that higher level of sales wouldn't one day achieve, say a 19.9% EBITDA margin or is the new sales structurally lower margin than the previous year's sale?

DANIELE SCHILLACI: Yes, for sure in our long-term business plan, we plan to achieve one day the margins we had before the crisis. We are not that far, in the end, from 19.9 to 18, you are not so far, we are talking about 1.5 points of EBITDA despite all the headwinds we have in our business, but clearly our goal is to come back to the level of profitability we had before the crisis.

ANDREW HOLLINGWORTH: Okay, that's very clear. Thank you. And then the last point is just...I think someone made a...had a question earlier on about the growth that you've made in sales. And I think it's notable the growth that you've had in regions like North America and China, not just in the last half year, but if I look back, China is up 70% since before COVID and I think in US or North America it's up sort of 45% or so. It seems highly likely to me that the bulk

of that growth is in the EV sector, because that is the part of the car market that's growing. So, one is that what is the conclusion to draw and then lastly, you know, I don't quite understand why you don't want to talk about what percentage of sales is EV. I understand why you don't want to talk about individual brands of customers, but I don't quite understand why you wouldn't say X percent of our sales is EV today and it was half X five years ago.

DANIELE SCHILLACI: Regarding our growth, in our global strategy we have the goal to grow homogeneously in all the regions. We like to have a well-balanced business in terms of geography, in order to mitigate for example, the geopolitical risk, etc...

This year, we have grown quite significantly in all the regions, but surely North America grew more than others versus H1 last year, because if you remember North America in the first half of last year had already started to have chip shortage issues. This is not the only reason, of course, the growth was driven by several factors. The first is a very sound customer mix; second, we are growing also in the motorbike and aftermarket business, in all the regions where we operate.

Regarding EVs, what I can tell you is that the large majority of our future platforms will be electrified. Hence, it's clear that the future growth of our business in the coming years will be driven mainly by the growth of EVs and electrified platforms.

ANDREW HOLLINGWORTH: Okay. Thank you for now.

DANIELE SCHILLACI: Okay.

ANDREW HOLLINGWORTH: Thank you for taking my questions.

DANIELE SCHILLACI: Okay, thank you.

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

MICHELE BALDELLI: Hi, good afternoon, everybody. I have 3 questions. The first one is to understand the...what was the impact of the Chinese lockdown on your sales. I was estimating like €20 million. If you can give me a little bit of a flavor around the...this figure, if I may. On the net debt on the guidance, can we spend a little bit of a qualitative color or better even quantitative to see the net debt at the end of the year, it would be like seeing that last year or very different? And then lastly, and I saw from the cash flow statements a reversal of provisions of €21.3 million, so I was wondering what it is about?

DANIELE SCHILLACI: Regarding China, due to the lockdown in the Shanghai area, in April we had -40% of sales vs April 2021. Thanks to the recovery in May and June, as you saw, we were able to deliver a good quarter in China, despite the lockdown. And we see also a good Q3 and Q4 in China, looking ahead.

LAURA PANSERI: Regarding the last question, can I come back to you later?

MICHELE BALDELLI: Sure, absolutely.

MATTEO TIRABOSCHI: Regarding the debt, it would be something around €500 million,

MICHELE BALDELLI: Okay. So, it will be higher than the last year. Okay, perfect.

MATTEO TIRABOSCHI: Yes, obviously we are growing and the net working capital need to support the growth.

DANIELE SCHILLACI: As we said at the beginning, our priority is the business continuity and to provide the best service to our customers, of course this will have an impact on the net working capital; € 0.5 billion is our target.

MICHELE BALDELLI: Thank you very much.

MATTEO TIRABOSCHI: You're welcome.

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

LAURA PANSERI: Okay. So, thank you for attending our call today. We wish you a good rest of the day and a pleasant summer. Goodbye, thank you.

MATTEO TIRABOSCHI: Thank you. Bye-bye.

DANIELE SCHILLACI: Bye-bye. Thank you.