

# **Brembo S.p.A**

**"Nine Months, 2023 Financial Results Conference Call"**

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**MODERATORS:**      **MATTEO TIRABOSCHI, EXECUTIVE CHAIRMAN**  
**DANIELE SCHILLACI, CHIEF EXECUTIVE OFFICER**  
**ANDREA PAZZI, CHIEF FINANCIAL 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 2023 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: Good afternoon everybody. Welcome to Brembo Group's 9 months 2023 earnings call. Today, Brembo's Executive Chairman, Matteo Tiraboschi will open the call with his introductory remarks. After that, he will be available together with Brembo's CEO, Daniele Schillaci, and the CFO, Andrea Pazzi to answer questions from analysts.

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.

I like now to turn the call to Matteo Tiraboschi, please.

MATTEO TIRABOSCHI: Thank you. Thank you, Laura. Good afternoon and thank you for being here with us today for the presentation of Brembo's results for the first 9 months of this year.

Let's dive right into the numbers. Brembo's revenue has increased by 7% compared to the same period last year, reaching almost €3 billion. This was despite currency fluctuation that negatively impacted the top-line by €49.4 million. On a like-for-like exchange rate basis, the growth was 8.8%. Our EBITDA exceeded €500 million representing 17.1% of revenues. Net profit stood at €231.1 million, showing a

slight decrease of 1.6% also due the foreign exchange losses. It's worth noting that these results are compared to the first 9 months 2022, which showed an extraordinary growth, especially during the first quarter.

From a geographical perspective, Brembo has been growing in nearly every market we operate except China. The country has shown a 5.3% drop in revenues, but if we exclude the exchange rate effect, the country grew by 1.9%. The Chinese economy is going through a slowdown phase, resulting in reduced consumer spending which is also affecting the demand for vehicles including motorcycles. For Brembo, China remains a key market where we continue to invest and enhance our innovation and production capabilities to best serve our customers. As always, Brembo's well-balanced global presence allows us to offset any potential local challenges ensuring continued growth.

On top of that, I would like to highlight some significant data that demonstrate the resilience of the company. We have financed over €250 million in investment in this month thanks to Brembo's ability to generate cash. Additionally, Brembo's net financial debt, which we always manage carefully, has significantly decreased by €176.6 million compared to the same period last year. All this fits within the context of our ambitions plan to strengthen our global industrial presence. We are continuing the investments announced in the first quarter of this year to expand production capacity in Mexico, China and Poland, with our ultimate goal of supporting Brembo's long-term growth.

The innovation of our solutions remains at the forefront of Brembo's and our customer's agenda, who continue to show clear appreciation for our products. At the end of July, we successfully concluded the global roadshow of Sensify, our new pioneering intelligent braking system. After its presentation in Europe, the United States and China, it was also tested by customers and media representatives in Japan. The feedback on Sensify has been incredibly positive. We are on track to add Sensify into production by 2025.

In conclusion, as we approach the end of the year, I would like to add a consideration. We have all witnessed how the global geopolitical and macroeconomic scenario has significantly deteriorated in a short time. A new war has erupted at the borders of Europe, the automotive sector in the United States experienced the United Auto Workers strike, and the Chinese economy continues to show signs of slowing down, as I mentioned earlier. Since the macroeconomic and geopolitical context has a rapidly changed, we are now back to the initial forecast we gave at the beginning of March, even if in a more optimistic way, with revenues up in the mid-high single digit range versus last year. At the same time, we confirm the profitability to remain at the same level of last year, percentagewise.

We remain laser focused on the execution of our strategy, on our commitment to innovation and on delivering value to all our stakeholders.

Thank you all. I'll now hand it back to Laura.

LAURA PANSERI: Okay. Thank you. I ask the operator to open the Q&A session. Thank you.

Q&A

OPERATOR: 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 touchdown 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 Monica Bosio of Intesa Sanpaolo. Please go ahead.

MONICA BOSIO: Good afternoon, and thanks for taking my questions. I have 3. The first one is, on your high mid-single-digit growth revenue target. This means that in the fourth quarter the group should deliver roughly 5% growth, if my math is correct. I was wondering if you can elaborate on the different moving parts behind the growth in the fourth quarter. I can imagine that NAFTA will be negative. But what will be your growth in China? And what could be the overall impact from FOREX?

My second question is on order book. Can you please elaborate on your order book ahead? And how many months is your order book covering now?

And the very last is on the CAPEX plan. If I understood well, you keep going in investing. So are you confirming your €350 million CAPEX for the year end? The final follow-up on the EBITDA margin that you are confirming in line with the previous year. In the third quarter, the operations cost hit a lot on the results, roughly €30 million...a little bit less than €30 million. Can we say that most of the ramp-up cost for the year have been digested, or should we expect further cost in the coming months? Thank you very much. Hello?

DANIELE SCHILLACI: Hi, Monica. I'm Daniele. We will try to answer to your questions. As Matteo explained a few minutes ago, we are back to the initial forecast of revenues up mid-high single-digit, due to the macroeconomic and geopolitical situation. The Q4 this year should be growing versus last year, because if you remember, last year there were already beginning of December, some lockdowns in China. So the forecast for this Q4 should be definitely better versus last year.

In terms of FOREX, you should count for the full year an impact at around €65 million.

In terms of order book, it remains really good across all the regions. It's clear that if we look at the macro-economic scenario, we expect in the coming quarters maybe some point of attention in the European region in terms of growth of the automotive sectors. But if we look at the total order book we have in our portfolio, we don't have any change compared to what we told you last time in July, so it remains quite strong; the visibility, I remind, is 3-4 months: 3 accurate months and the fourth month with a kind of rough visibility.

In terms of CAPEX, we will be in a range between €350 million and €400 million, to support our growth and our strategic projects.

In terms of operation cost - you were mentioning the €26.2 million in the quarter - I think we shouldn't expect a major impact in the coming quarter, and the number you mentioned should cover also large part of our cost in the Q4.

MONICA BOSIO: Okay. Thank you very much. Thank you.

DANIELE SCHILLACI: You're welcome.

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 the EBITDA margin, because you are lowering by some percentage point your full year sales, but you are confirming the EBITDA margin for the full year, so just to understand what is able to offset the lower operating leverage or the lower top line growth?

The second is specifically on China could you split what is the exposure of local versus non-local players in China, just to have an idea what is your exposure to Chinese names instead of non-Chinese names in China? And maybe I missed it, but you didn't quantify the

impact of the strike that you have embedded in the full year guidance?  
Thank you.

ANDREA PAZZI: Thank you, Martino, Andrea speaking. Regarding the EBITDA in Q3, of course, it was impacted by FX; consider that the 16.1% like-for-like would be 17.4%. So of course we expect some exchange fluctuations also to in the fourth quarter, but not as relevant as in the 3<sup>rd</sup> quarter. Moreover, as Daniele said before, most of the ramp-up costs are in Q3, so we expect the EBITDA margin on sales to grow in the last quarter.

DANIELE SCHILLACI: Regarding your question about China, as I said also during the last call, sorry, but we never provide the split of our customers. What I can say is that we are very strong in terms of market presence in China, and we are taking orders both from local and foreign brands.  
In terms of the strike, we don't really see today a significant impact on our business, it is marginal for us.

MARTINO DE AMBROGGI: Okay. Thank you, Daniele. I understand you do not provide it, but am I right in assuming that the majority of the business in China is still made by non-Chinese players? Do they vary very roughly?

DANIELE SCHILLACI: What I can say is that the share of the local brands is sharply increasing.

MARTINO DE AMBROGGI: Okay. Indirectly. Okay. And my last question is on the Sensify, because in your last call you mentioned that someone is testing some prototypes. So I'm just wondering if you have any update on it. And when you...in your initial remarks, Matteo, you mentioned Sensify production will start in '25. Is it right to assume first half? And is it just with one client and you do not expect to add anybody else by '25? As a start up of business, not in terms of order intake?

DANIELE SCHILLACI: So regarding our prototypes, you're right, we are even increasing the number of what we call demo cars with our prototype to

have our customers testing Sensify. So this activity is really on-going under strict monitoring of the Sensify team, and it is moving according to the plan. So, sorry to repeat the same thing every quarter, but we are very satisfied with the way the Sensify task force is moving in the right direction. And the beauty of that is that all this prototype and testing is ongoing across the regions, so it is not focused on one specific region. Regarding the production, it will be in the first half of 2025.

OPERATOR: The next question is from Anthony Dick of Oddo BHF. Please go ahead.

ANTHONY DICK: Yes, hi thanks for taking the question. The first question was on the Q3 margin, and could you help us understand a bit better on, sort of, the FX, what led to the sequential margin and year-on-year margin decline and Q3.

Second question I had was on Q4. I think your guidance implies some year-on-year growth but basically flattish quarter-on-quarter and during the previous call, it seems you are more optimistic about an acceleration towards the year end. So I am just wondering if anything changed compared to your view back then. Is it your macro or are they also some clients which are performing a different detailed expectation.

And then a small technical questions on the D&A. The D&A has been running quite significantly below CAPEX for some time. So I was just wondering how you expect D&A to evolve into Q4, but especially into 2024 and going forward?

And then just a last one on Sensify. So the project starts off at H1 2025. Has there been some delay with the start-up of that client? Am I right to assume that or not at all? Thank you.

DANIELE SCHILLACI: Regarding the Q4 year-on-year, of course, we confirm that it will be positive. Yes probably at the end of July we were a little bit more optimistic, we are still optimistic of course, but we couldn't expect what happened few weeks ago, especially considering the geopolitical situation in Israel and Palestine, but also the UAW strike in the US; although we are not very heavily hit, but it is something that was not expected in H1. But I confirm that Q4 year-on-year will be growing.

ANTHONY DICK: Yes, I was just wondering on the quarter-on-quarter, evolution Q4 versus Q3.

DANIELE SCHILLACI: Our quarter-by-quarter evolution follows not only the market but also the new car launch, the SOP of our customers, so it is difficult for us to make apple-to-apple comparison. Regarding Sensify, as I said, it will be launched in H1 2025. It was foreseen probably few months earlier, but this is a technical step on the launch of the product. So it's absolutely not an issue. It just happen very often that the SOP are delayed for some weeks or very few months. That's it, no major issue.

ANDREA PAZZI: Regarding D&A, it's quite a normal level for us. The depreciation start in the moment when the CAPEX become operative. The incidence on sales is now slightly lower than of last year, (6.4% compared to 6.6%). It will increase as soon as the new CAPEX becomes operative in the next quarters.

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

ALEXANDRE RAVERDY: Yes, good afternoon. I would like to come back to the revenue guidance card, please. So you mentioned the worsening macro

environment, but I think so far we have seen quite positive evidence on volumes, at least in the start of the year. So I understand that more adverse FOREX is part of the explanation. You mentioned that there is no major impact from the UAW. So I guess there must be something else to explain the revenue growth shortfall versus your initial expectations. I know that some European or US suppliers have mentioned some delays in EV related products. Also could it be part of the explanation for you as well or not?

DANIELE SCHILLACI: No, in terms of revenue guidance, I would say no. First of all, in the last 2 years, we have been growing more than 40%, and that in our industry, honestly speaking it is not very common.

As we mentioned, the impact of FOREX this year should be around €65 million, net of which we would be very close to the double-digit growth we discussed at the end of July. We had also the impact of negative price, due to the raw material price decrease. And also some external factors. So it's nothing operational or business related; in the end this year we will grow versus last year, after one year in which we grew more than 30%. And now we are approaching, step-by-step the bar of €4 billion, in a context that is not at all easy. What is important for us, as Matteo Tiraboschi said at the beginning of the meeting, is to keep the same level of margins that we achieved last year, so we think it is a very good result.

ALEXANDRE RAVERDY: Thank you, Daniele.

DANIELE SCHILLACI: You're welcome.

ALEXANDRE RAVERDY: A quick question on 2024, I know, it's very early, but any other indication of in terms of growth and profitability, taking into account the flattening volume environment, maybe better raw-mats and probably higher labor costs? So net-net, do you expect to grow I don't know mid-single-digit as consensus is expecting and improve margins?

DANIELE SCHILLACI: It's too early to tell you now. We are in the budget process now, so I will be happy to give you more information at due time.

ALEXANDRE RAVERDY: Understood. Thank you very much.

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

GIANLUCA BERTUZZO: Hi, everybody, and thank you for taking my question. I would like to come back on the operational cost line, maybe I missed that, but which were the drivers of this item in the quarter, what was the inflation for raw material if annual or it was positive actually, the inflation from other elements and there is something else in this item? And yes, this is my question. Thank you.

DANIELE SCHILLACI: Yes, thank you for your question. In this item, you have also the costs regarding or new IT projects that we started a few years ago, to move on in the digitalization of our Company. So, you have the costs relating to the IT, to the R&D to support all the new projects like the Sensify and the Greentive strategy. We have also some marketing costs, as we are increasing our presence in events like exhibitions and fairs.

GIANLUCA BERTUZZO: Okay. Thank you.

OPERATOR: The next question is a follow-up from Anthony Dick of Oddo BHF. Please go ahead.

ANTHONY DICK: Yes, thank you. I found my question again. It was regarding Sensify. So start the project H1 2025? But could you give us a sense of how significant Sensify revenues can be in 2025, and you know, is it such a large project that it can represent a material size of your revenues? Or will that only come when several customers have already ramped up? Thank you.

DANIELE SCHILLACI: Thank you for your question. I can't give you more detail on Sensify; the only thing I can confirm to you is that, the application from 2025 onward will not be for niche volume, it will be in for an important platform, with high volume.

ANTHONY DICK: Okay. Thank you.

DANIELE SCHILLACI: You're welcome.

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

GABRIELE GAMBAROVA: Yes, thank you for taking my question. Just on the price item of this €42 million of increase. I saw that, I mean, could you detail a little bit more, what's...what is in this item specifically? And what is the trend you see in the coming quarters, maybe even only the fourth? Thank you.

DANIELE SCHILLACI: Regarding the price evolution over the next quarters, you should expect the pricing to go down step-by-step, because as you know, we made a structured process with our OEMs. So, if nothing exceptional happens, of course, the pricing amount should decline over the next quarters and become close to zero. I repeat: in normal conditions.

GABRIELE GAMBAROVA: Okay, thank you very much. And again on...battery electric vehicles. I understood that there was no impact from, let's say, on the top-line side. I was wondering if you saw any slowdown or any delay when it comes to research and development you do together with your clients if any, not the margin?

DANIELE SCHILLACI: I can't really tell you that there is a correlation on the top-line with the trends of the EV sales. As I said, we have a large palette of customers

across the globe; most of them have both types, ICE and EV platforms, but no, we don't see today any slowdown in EV sales.

GABRIELE GAMBAROVA: Okay, thank you very much.

DANIELE SCHILLACI: You're welcome.

OPERATOR: The next question is a follow-up from Gianluca Bertuzzo of Intermonte SIM. Please go ahead.

GIANLUCA BERTUZZO: I am sorry, but can you repeat the comments you made about Sensify to Anthony's question? Thank you.

DANIELE SCHILLACI: As I said before to Anthony's; we don't release the impact of Sensify sales in 2025. The only thing I can say is that the application of Sensify that will start in '25 will not be on the niche segment, it will be a high-volume platform.

GIANLUCA BERTUZZO: Thank you. Thanks very much. Very clear.

DANIELE SCHILLACI: Okay.

GIANLUCA BERTUZZO: Yes, thank you.

DANIELE SCHILLACI: Yes.

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

MARTINO DE AMBROGGI: Sorry, again on the last question on Sensify, when you refer to high-volume platform, this is the first one. So, you immediately start in '25 with high volumes and when you talk about volumes, you refer to volumes in a strict sense or sales, just to have an idea?

DANIELE SCHILLACI: I said too much on Sensify... Volume means number of unit sales...

MARTINO DE AMBROGGI: Okay, yes, because you never disclosed the price, but the price is significantly...potentially significant, so in terms of sales. And still on this, in '25, do you believe to be able to be immediately margin accretive in terms of EBITDA margin. We have Sensify or probably at the beginning you need ramp up and maybe to get some additional volumes before becoming seriously accretive.

MATTEO TIRABOSCHI: We will have a ramp up of course, but it's profitable since time zero.

MARTINO DE AMBROGGI: Okay. So, immediately. And the second follow-up is on CAPEX because you are guiding for €350 million-€400 million. So, what is the...what are the projects you are accelerating?

MATTEO TIRABOSCHI: As we announced, we are making important investments in Poland, Mexico and China. So, it's the CAPEX for our plant expansion.

MARTINO DE AMBROGGI: If I remember correctly the previous one, but I hope not to be wrong was a 350 the previous guidance.

DANIELE SCHILLACI: Yes, it's roughly same. It will be between 350 and 400 in this range, 350 plus let's say.

MARTINO DE AMBROGGI: Okay. And the very last is on motorbikes down double-digit in Q3 and commercial vehicles down 4% in Q3. Just to understand what are the underlying trends justifying such a performance?

DANIELE SCHILLACI: The market of the motorbike, especially from May onwards, in some regions, it's really suffering. So it's really a market-driven topic, I would say.

MARTINO DE AMBROGGI: And commercial vehicles?

DANIELE SCHILLACI: For commercial vehicle, there is a combination of factors. The market is pretty stable, but there is a combination of SOP timing.

MARTINO DE AMBROGGI: Okay. So, it should recover already in Q4.

DANIELE SCHILLACI: It should, yes we'll see.

MARTINO DE AMBROGGI: Okay, thank you.

DANIELE SCHILLACI: You're welcome.

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

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

MATTEO TIRABOSCHI: Thank you. Bye-bye.

DANIELE SCHILLACI: Bye-bye. Thank you.