

Brembo S.p.A.

"First Quarter, 2023 Financial Results Conference Call"

Tuesday, May 09, 2023, 14:30 ITA

MODERATORS: **MATTEO TIRABOSCHI, 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 First Quarter 2023 Financial Results. 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 everybody. Welcome to Brembo Group's first quarter 2023 earnings call. Today Brembo's Executive Chairman, Matteo Tiraboschi, will introduce the call with his opening 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'd like now to turn the call to Matteo Tiraboschi, please.

MATTEO TIRABOSCHI: Thank you, Laura, and good afternoon everyone. It's a pleasure to have you with us today. This year has started very well for Brembo. Revenues in the first 3 months of 2023 grow in double-digit to €961.9 million, up 12.2% compared to the first quarter of last year. Our margins also remain solid, which for us is a guarantee of our sustainability and future. In fact one of the topics I want to highlight today is our investment and how Brembo is reinforcing its industrial footprint across the world.

Staying with the numbers for a moment, I want to underscore the even contribution all our business segment are making to these results. Almost all of them are growing in double-digits, in particular, the racing segment grew by 23.4% - a source of pride for us and proof of the enormous trust placed in Brembo by those who compete on the track every weekend.

We further strengthened our brand recognition in motor sports by becoming at the end of March the Braking Inspiration Partner of the MotoGP, a championship in which we supply all the competing teams with our braking systems.

The geographical distribution of our revenues is also very well-balanced. Germany, a strategic market for us – as you know –, delivered particularly strong growth of close to +27%. The excellent performance of North America is also significant, with an increase in revenues of +14.1%.

In the first months of the year, however, China struggled. The country's "zero Covid" strategy in the early part of the quarter had an inevitable impact on market dynamics. Nevertheless, the fact that Brembo, despite negative growth, outperformed the market is reassuring. Furthermore, the loss is further reduced if expressed in constant exchange rates. China remains our third-largest market and we continue to invest in our production capacity, which I will come back to shortly.

I also want to highlight how net financial debt, which typically rises in the first quarter, has remained in line with the end of 2022 this year. This is yet another positive sign of effective management.

So, to reiterate, these are very important results. What we have achieved gives us further motivation to continue on the path we have charted for the coming months, focused as always on responding to the needs of a sector undergoing major transformation.

The beginning of 2023 saw the start, on schedule, of operations at our first facility in China exclusively dedicated to the large-scale

production of innovative brake pads for the aftermarket. This is a joint venture with Gold Phoenix.

In our last call, I also indicated that we would continue to invest in 2023 to underpin Brembo's growth. These investments are going towards expanding our operations in Mexico and China, two strategic markets for us, and also an important new project in Poland.

In a few days' time we will be inaugurating doubling the capacity at our Escobedo factory in Mexico, which manufactures brake calipers. This expansion represents a major upgrade that will allow us to continue serving our customers in North America.

As I mentioned, we continue to invest in China. We intend to expand our Nanjing brake caliper plant to strengthen production capacity there, as well as renovate our R&D centre.

In Poland, we have recently been awarded an assignment of land in Dabrowa, where we intend to build a new cast-iron foundry. This will be the most technologically advanced foundry we have ever built and allow us to increase the production capacity of our brake discs for the European market.

These projects, funded by strategic investments, will continue in the coming years and demonstrate Brembo's willingness and ability to grow and continue to serve customers in the best possible way.

Finally, looking forward to the rest of 2023 and given the positive start of the first quarter in terms of volumes and production capacity, we can expect to close this year with revenues up around 10% versus last year. In terms of profitability we expect to maintain the same level of last year, percentage-wise. This is, of course, in the absence of significant changes to the macroeconomic or geopolitical context, which cannot be ruled out given the surprises of recent years.

Thank you all. I hand the floor to Laura.

LAURA PANSERI:

Okay. Perfect. We can now start 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 touchstone 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 Intesa SanPaolo. Please go ahead.

MONICA BOSIO: Hi, good afternoon, everyone, and thank you for taking my questions. I have a few questions. The first one is on the EBITDA margin guidance, which is seen flat year-on-year. Can you please elaborate a bit more on the ramp-up cost? My question is, is the first quarter the toughest one, in term of ramp-up cost and are they expected to decrease, if this is the case, don't you think that a flat EBITDA margin might be a bit conservative? Maybe I'm wrong...maybe there are further ramp-up costs coming across the next quarters. Just to check on this.

The second question is on China. It's not a surprise, the decline in China. I remember that the last statement during the last call. Can you please give us some flavor on the expected growth rate in China by year end?

And third question is on the 10% top line guidance growth. Can you decline the guidance by division? I mean, maybe the car division is expected to grow above 10%, with the motors bikes below, and the commercial vehicles in the range of 10% and 9%, just a check from you?

And the very last is on the CAPEX. Do you still confirm the €300 million euro CAPEX expected for this year? And can you please quantify the CAPEX spending for the new foundry in Poland? Thank you very much?

MATTEO TIRABOSCHI: Starting from the last question about the CAPEX, we expect for the full year something around €350.

Regarding the split by division, as you know, we don't provide it. The 10% indication we gave is an average; of course, there are some divisions that can grow more, some others that can grow a little less.

About China, I leave the floor to Daniele.

Regarding EBITDA, we don't think it is too conservative; it's very challenging to maintain the same percentage of last year, especially given there are some start-up costs this year. Normally we don't disclose the amount of extraordinary costs, you know, but maintaining the same margins of last year in such a complex year like 2023, with all the capex we announced, is not easy at all.

DANIELE SCHILLACI Regarding China, the decline there was due to the post lockdown that happened during the Christmas period; January was a very tough month for everybody in the automotive industry in China, both for the post-COVID, but also you know, for the New Years' holidays and so on. So the Q1 was a bit "special" for China. We can see now a very good recovery trend in China, already since the second half of March and April.

MONICA BOSIO: Okay. Thank you very much. Just a final check on the foundry in Poland. When should we expect the CAPEX for the foundry in Poland?

DANIELE SCHILLACI: In Poland, the CAPEX is spread over the next 3 years.

MONICA BOSIO: Okay. Thank you very much.

DANIELE SCHILLACI: Thank you.

MONICA BOSIO: Thank you, Daniele.

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

ANDREA BALLONI: Yes, good afternoon, everybody and thanks for taking my question. This first one is on your guidance revision. If you can give us some color on that, and if you can explain if this is mainly driven by a by company-specific performance or this is also an update in the main assumption for [indiscernible] market trend. And in this case, if you can give us an update about the main different region in terms of car production over the rest of the year?

And my second question is on the €500 million expansion CAPEX that you have mentioned in your press release. How should we split this amount over the next 3 years?

And my very last question is on pricing. If you can comment on the trend that you are assuming on both selling prices and production cost over the rest of 2023? Thank you.

DANIELE SCHILLACI: Regarding the guidance review, the market, especially the premier market started the year in a quite a good trend, and we followed indeed the growth of the market. Also, we had some additional volumes from some of our customers, compared to what we were expecting. So, everything put together, we reviewed our guidance to a 10% versus last year.

ANDREA PAZZI: Regarding your second question on CAPEX, the €500 million CAPEX we declared for the next years can be split very similarly among the 3 regions, so Mexico, Poland and China. No big differences on the investment in the regions.

ANDREA BALLONI: The last question was on pricing, what you are assuming on both selling prices and cost inflation over the rest of 2023.

DANIELE SCHILLACI: On the pricing point of view, we don't see any surprise for the rest of the year. We are really on track with what we put in place last year, so we should see no major impact or no impact at all over the next months. The situation is totally under control, also because the large majority of the energy cost has been fixed with our customers.

ANDREA BALLONI: Thank you.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon everybody. I have a couple of questions on the Polish announcement that you made today. So, first of all, the new foundry is because you are substituting external providers, so insourcing some activity or it's because you have additional business?

DANIELE SCHILLACI: It's additional business. Purely additional business.

MARTINO DE AMBROGGI: Okay. And is it always valid the rule of thumb that you at least cover 80% of the additional capacity, before starting a big investment?

DANIELE SCHILLACI: Yes, that's correct.

MARTINO DE AMBROGGI: Okay. And am I right in assuming that one more foundry means roughly 15% increase in the outlook capacity for your foundries in cast iron?

DANIELE SCHILLACI: It's not exactly like that.

MARTINO DE AMBROGGI: Probably, is a little bit lower I suppose.

DANIELE SCHILLACI: Exactly

MARTINO DE AMBROGGI: Okay. And is it because some big client is outsourcing, it's capacity for discs or its penetration in different clients?

DANIELE SCHILLACI: It's penetration in different clients, yes.

MARTINO DE AMBROGGI: Okay. Thank you, and I changed the subject, just 2 more. One is on the price that you commented before, but just to have an idea on your 10% sales increase for the full year, what should we assume as contribution from prices very, very roughly?

ANDREA PAZZI: In the first quarter, we had a 2.6% of price increase at revenue level; this includes also some normal discounts we agree with our customers along the life of the project. For the rest of the year, we expect a similar value.

MARTINO DE AMBROGGI: Okay. Thank you. And very last on Sensify, I know you didn't announce anything. So there is nothing to be declared, but any news on how the testing activity of your new clients is progressing?

DANIELE SCHILLACI: It's proceeding totally in line with our planning, Martino, so I would say we are moving forward at a very nice pace. So no issue on it.

MARTINO DE AMBROGGI: Okay. And no issue even on the start-up of the first client which homologated the product?

DANIELE SCHILLACI: No. And moreover I would say we have even more and more concrete interest also from other customers. So things are moving into the right direction.

MARTINO DE AMBROGGI: Thank you. Thank you very much.

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

RENATO GARGIULO: Yes, good afternoon. The first question is a follow-up on the previous questions on start-up cost. On the first quarter out of the around €50 million negative operations I think we see. Is it possible to more or less to quantify much as related to start-up costs and related to new investment?

And then on the timing on the new investments, so both the Chinese and Polish investments are expected to be completed in...if I understood in the first part of 2025? What about Mexico when the investment could be at operating at full speed?

Then a second question, a clarification, so you said that your joint venture with Gold Phoenix in China has started operations. If you can give an indication or expectation for this year?

Last question on the cost of labor. If you can give us an update about the potential average increase in your main markets? Thank you.

ANDREA PAZZI: Regarding the first question, ramp up cost are included in the €15 million stated in the EBITDA bridge. Some ramp up costs will follow in the rest of the year and the following one, of course, but we don't quantify them.

For the rest of the question, I leave the stage to Daniele.

DANIELE SCHILLACI: Regarding the Mexican operations, they are foreseen to be fully operating in 2025, second half of 2025.

Regarding the joint venture in China with Gold Phoenix, we started very well. The potential for the Chinese aftermarket for brake pads is huge, the cooperation with our partner is excellent. I would be more than happy to give you further update over the next calls.

And the last question was about labor cost. We follow of course region-by-region the level of inflation and the cost situation. And should I give you a rough indication, now at global level we are talking about something around 5% of labour cost increase.

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

GIANLUCA BERTUZZO: Hi, good afternoon to everybody and thank you for taking my question. My first question is on the level of utilization of factories in the first quarter. What was the level?

Second one is on Sensify, maybe I didn't get the update that you provided but has something changed from a couple of months ago?

And the last one is on net working capital. Do you expect the inventory build-up that we have been witnessed since the COVID to carryover to next years? Thank you.

DANIELE SCHILLACI: Regarding the capacity utilization in Q1 we were at around 81%, which is a bit below our standard due to the situation in China, as I explained before.

Regarding Sensify, there is no particular update. As I explained before, I confirmed that one prestigious customer is on-board, and the project is going on without any problems. Many other OEs are very excited about Sensify and we are having more and more concrete talks with some of them. So overall, Sensify is going in the right direction.

ANDREA PAZZI: Regarding the NWC, the current level reflects exactly the growth of the business during the quarter and the seasonality of Q1. For the next part of the year, we expect a growth of NWC, in line with growth of the business. We do not expect any exceptional impact on NWC as we had last year, in particular in the second and third quarter of 2022, when we aimed at preserving the business continuity and the quality of service to our customers.

GIANLUCA BERTUZZO: Thank you.

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

MICHELE BALDELLI: Hi. Good afternoon to everybody. I hope that you can hear me well. I've got a couple of questions. The first one is on the Mexican plant, but just to give us a little bit of maths around the IFRS 16, and how much did you pay to buyout the plant, if you can give us, let's say, how much the net debt IFRS 16 was reduced by, and how much you paid for that plant?

Second question relates to the ramp up of the sales for the expansion of the capacity in the various countries that you mentioned. Is it fair to assume that they will go in line with the timing that you gave for the CAPEX or shall we assume that the sales will just come after the end of the expansion at the end of the CAPEX plan. And for example,

China shall we see some results before 2025 or just after the end of the works? Thanks.

ANDREA PAZZI: Regarding IFRS 16, the value is roughly €65 million, converted in euro from U.S. dollars.

Regarding the ramp up costs, it will not be split in the same period as the CAPEX.

MICHELE BALDELLI: My question was more on the revenues side rather than the start-up cost.

MATTEO TIRABOSCHI: Yes. We don't release this information, sorry.

MICHELE BALDELLI: Okay. Thank you.

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

GABRIELE GAMBAROVA: Yes. Good afternoon and thanks for taking my questions a few ones. The first is again on the guidance for 2023, I was wondering if you could provide me breakdown of this +10% between pricing mix and volumes, if it's possible?

And then, regarding the margin, I was wondering if you could tell me, what is your assumption in terms of cost inflation if you see and assume any?

And then, finally, you know, on the tax rate the 26.6, I saw the relevant slide, but I was wondering what could we assume for 2023 as a whole? Thank you.

ANDREA PAZZI: I will start from the last one: 26.6% tax rate is a bit higher than our standard and it was due to an exceptional aspect in Mexico, related to the conversion of the Mexican Pesos into U.S. dollar, which is the

functional currency, because the conversion difference is not deductible from a tax perspective.

Regarding the 10% increase guidance for 2023, we did not provide details among volume/mix and price at the moment.

GABRIELE GAMBAROVA: Excuse me, but I missed the tax rate for 2023...?

ANDREA PAZZI: Okay. The first quarter is a bit exceptional, the standard and the expected tax rate is between 24% and 25%; of course we could have some more non-deductible exchange rate differences in Mexico also in the second part of the year, but net of this impact, the tax rate should be around 24.5%.

GABRIELE GAMBAROVA: Okay. Thank you very much. And just a follow on, on Mexico this could be the plant, when is it expected to start operations precisely because maybe I missed it probably?

DANIELE SCHILLACI: The Mexican plant will start already at the end of this year with a progression in 2024, and we should expect the full ramp up in '25.

GABRIELE GAMBAROVA: Okay. Thank you very much.

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

ALEXANDRE RAVERDY: Good afternoon. Thank you I have a very quick question on your Chinese business, please? We see the price ranging in the electric car markets in the country, and we see that Tesla and BYD are by far the clear leaders? So, could you please give us an idea of your exposure specifically to those 2 customers, please. Just an order of magnitude as I know you would don't split, I mean, I don't give that kind of information? Thank you.

DANIELE SCHILLACI: Yes, I can confirm that we are working with both of them, but we can't disclose further details.

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

ANTHONY DICK: Yes, hi. Thanks for taking my questions. Just a quick one on the CAPEX guidance, and did I hear correctly that it should be around €350 million this year, because if so they would represent about €50 million increase from the guidance during the full year 2022 results. So, I was just wondering what is driving that increase whether with the new investments in Poland or also something else? Thank you.

MATTEO TIRABOSCHI: Yes, it is correct. We increased the guidance by about €50 million compared to the last conference call we held in March, driven by the new CAPEX announced and by the new capacity we are installing.

DANIELE SCHILLACI: The business is growing, and the capex plan follows the business growth.

ANTHONY DICK: Okay. Thank you.

OPERATOR: The next question is a follow-up from Michele Baldelli from BNP Paribas Exane. Please go ahead.

MICHELE BALDELLI: Yes, hi, thank you. Just a follow up quickly. On the €350 million of CAPEX, is it fair to say that, these number doesn't include the let's say capital spent for the buyout of the Mexican plant?

ANDREA PAZZI: Yes, it is correct; it was already included in 2022 as IFRS 16, so this is just a shift from IFRS 16 to "normal" CAPEX, but no impact on the increase.

MICHELE BALDELLI: Okay, perfect. Thank you very much.

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

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

MATTEO TIRABOSCHI: Bye-bye. Thank you.

DANIELE SCHILLACI: Bye.

ANDREA PAZZI: Bye.