

Brembo S.p.A.

"First Quarter 2024 Financial Results"

Thursday, May 09, 2024, 14:30 CET

MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE CHAIRMAN
DANIELE SCHILLACI, CHIEF EXECUTIVE OFFICER
ANDREA PAZZI, CHIEF FINANCIAL OFFICER
LAURA PANSERI, HEAD, INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the presentation of Brembo First Quarter 2024 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. Good afternoon, everybody, and welcome also on my behalf to Brembo Group's first quarter 2024 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 would like now to turn the call over to Matteo Tiraboschi, please.

MATTEO TIRABOSCHI: Good afternoon everyone, and thank you for joining us on the call today to review what has been a positive start to the year for Brembo. Our first quarter results for 2024 reflect good growth and continued resilience despite the ongoing challenges facing the global automotive sector.

I'm pleased to highlight that this is the first single quarter in the company's history to exceed the threshold of 1 billion euros in revenues.

This marks an increase of 4.4 percent compared to the same quarter last year, and it has been supported by a growth in volumes. This is noteworthy considering that the overall automotive market has been slightly negative, meaning that we continue to overperform.

It is a result that underscores the effectiveness of our strategies in capturing market opportunities.

Furthermore, our margins have remained solid, reaffirming our commitment to sustainability and long-term success for the Group. Our net profit experienced a slight dip, but this is due to the effect of the exchange rate differences, and it does not overshadow the overall positive trajectory of our performance.

I'd like to take a moment to highlight the contributions of our business segments to these results. Across the board, we've seen positive growth.

In particular, the motorcycle segment has returned to positive territory after two challenging quarters last year, showing a growth of 2 percent.

The racing segment continues to bring us great satisfaction: we grew 6.3 percent. We are present in all the major global motor racing competitions, starting with Formula 1 and MotoGP, where once again this season we supply all the teams with our products.

As always, these achievements reflect the trust and confidence that our clients continue to place in Brembo, both on and off the track.

Speaking of positive performance, if we look at our geographies, I'm pleased to point out that China began these first three months of the year with a growth of 6.5 percent, an encouraging sign when compared to the 2023 figures which saw a slight decline.

This adds to our good performance in other key markets, like Germany and North America, growing by 5.4 percent and 1.3 percent respectively.

We remain very much focused on strategic investments to support our growth initiatives. In February, we entered Thailand with our first

production site. For this project, we have announced a 40 million euros investment with the aim of seizing new growth opportunities in the Southeast Asian region.

The new site, which is expected to be operational in the first quarter of 2025, will manufacture braking systems for motorcycle producers.

As we continue our journey of innovation, we are forging ahead with our strategy to develop greener solutions. With products already in the pipeline and more on the horizon, we are committed to contributing to a more sustainable future, by anticipating industry trends.

To conclude, looking ahead to the coming months of 2024, despite the particularly challenging automotive market context, we anticipate closing the year with a moderate revenue growth, maintaining margins in percentage terms in line with those of 2023.

I want to express my gratitude to our dedicated team and valued stakeholders for their consistent support. Our commitment is to continue to drive Brembo forward, delivering innovative solutions to our clients around the world.

Thank you, and I'll now pass the floor to Laura.

LAURA PANSERI: Yes. Thank you. We can start with the Q&A session, please.

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 touchtone telephone, to remove your question, 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 of Intesa SanPaolo. Please go ahead.

MONICA BOSIO: Hey, good afternoon, everyone, and thanks for taking my questions. I have a few. The first one is on the wording on the indication for the top line for the full year. In your previous statements, the company was expecting a mid-single-digit growth in revenues. Now, you are expecting a moderate growth in revenues. It seems a little bit softer versus the previous one. Is it because you are changing your outlook on the final market, or are you still confident that you deliver a mid-single-digit growth revenues, as indicated in the previous statements? I'm sorry, I have to ask it.

My second question is on the CAPEX side, I'm just wondering if you are still confirming your CAPEX guidance in the range of €350 million for the full year?

The third question is on the operations. In the first quarter, operations impacted for roughly €25 million, which is higher than the first quarter of 2023. I'm just wondering if you can elaborate a little bit on this. And why should we expect for the coming quarters a lower margin versus the first quarter?

The very last is on the tax rate. I was expecting a lower tax rate. Should we take into account for the full-year the tax rate that you reported in the first quarter? Thank you very much.

DANIELE SCHILLACI: Thank you, Monica. Regarding the top line, today we are seeing a very highly challenging automotive market context, as you can see from the Q1 releases from all the key players in the automotive industry. The trend is pretty clear, especially in Europe. And despite this very highly challenging context, Brembo expects to close the year with a moderate increase of revenues versus last year and to maintain the same margins in percentage

terms. At least, we will do our best to keep margins similar to what we achieved in 2023. If we manage to do this, it clearly means an over-performance, in a market that in the last 2-3 months is significantly changing. There are now much more headwinds than tailwinds; probably one of the main reasons is the higher interest rate, since the large majority of the cars also in our segment are bought through a leasing or a financial package, it's clear that this has had an impact the purchasing approach. One thing is very clear, it's that conversely we can see a quite interesting aftermarket increase; this is quite usual when the car production market is flat. This is what I can tell you regarding the top line.

In terms of CAPEX, I confirm €350 million for the full year, as we said in the last conference call.

Regarding the €25 million in the item "operations", here we have a couple of main drivers: one is obviously the ramp-up of our plant in Mexico, the other one is related to our IT projects for the digital transformation at Group level, which is running at very high speed. Also, we had some higher sales & marketing expense, to sustain our brand in some key activities.

ANDREA PAZZI: Regarding the tax rate, you are right, Monica, 28% is a bit high compared to our usual tax rate. We are at the beginning of the year, we expect to land at the end of the year between 25% and 26%, close to our normal tax rate.

MONICA BOSIO: Okay. Got it. Thank you very much. Just a follow-up, should we expect the operation, level of operation below in the next quarters, just as a flavor? Sorry.

DANIELE SCHILLACI: Wel, as I said, we have 2 key strategic projects that are running at full speed, so we might have some costs a bit higher, although not too much higher.

MONICA BOSIO: Okay. Okay. Thank you.

OPERATOR: The next question is from Andrea Belloni of Mediobanca. Please go ahead.

ANDREA BELLONI: Hi, good afternoon and thanks for taking my question. I have a few. The first one is a follow-up on your 2024 outlook. If you can give us some color on the different geographies in terms of trend over the next quarter? And my second question is a follow-up on the margin. I understand you are still starting up some new plants, and you prefer to remain cautious on the ramp-up cost. But on the other hand, you should also have an easy comparison base compared to last year, as startup costs were impacting already 2023. And on top of that in 2024, you should have some even minor increase in term of volume. So, what's the reason for guiding margin unchanged compared to 2023? And my very last question is on Sensify. If you can give us an update about the introduction of this product that is expected in 2025, if we should expect an impact already in first half or only starting from second half of the year. And if you see any chance to increase the number of contracts already this year on top of a contract that you have already announced? Thank you.

DANIELE SCHILLACI: Thank you, Andrea. Regarding 2024 in terms of geography, in North America the market is expected to be slightly higher vs last year. If you remember, last year already from September and until mid of November, there was the negotiations with the unions in the US, and the production

was in a bit of turmoil in that period, so the production in H2 in North America is expected to be positive.

In Europe, it's a bit different. In Europe, as I said before, the point is that the large majority of cars are sold through leasing, private lease or similar, so unless we see some actions on the interest rate reduction, clearly the European market in H2 might have a contraction versus last year.

Regarding China, last year the H1 in China was relatively weak and the H2 was better. This year, I would say that H1 has started quite well and H2 is seen relatively flat.

Hence, to summarize: US is seen with a plus, China with a moderate plus, and Europe with a moderate minus.

In terms of margin, of course we will do our best to keep the margins at the same level of 2023. In our case, we are seeing a very interesting trend in the aftermarket, and as Matteo said before, also in the motorcycle business, that last year was a bit below our expectations, and should be better this year.

So, we have two main drivers that can help us, to somehow offset some possible contraction in the passenger car business.

Regarding Sensify, we don't have any major update compared to the last time we spoke. What I can tell you is that myself and the team are having closer and closer conversations with our customer base, across the globe, and we feel very confident; as I said last time, when we have information that can be disclosed on the second contract, of course, we will inform you.

ANDREA BELLONI: Okay. Thank you. Sorry, a couple of follow-ups. The first one is on the labor cost. I've noted that in Q1, the weight of labor cost of sales was quite higher compared to Q1 last year, and I was wondering if we should be modeling a similar percentage over the rest of the year.

And my second follow-up question is again on China. I was wondering if in a market scenario that is moderately higher compared to last year, if you are gaining market share, I mean, if you are outperforming the reference market trend? Thank you.

ANDREA PAZZI: Regarding the labor cost, of course, we are comparing two quarters that are quite far one from the other, so we need to consider the inflation of labor cost, which impacted for 5%-6% approximately; the rest is linked to the increase of full-time equivalent, which is due to the increase of our industrial footprint, but much more to the increase of R&D people in Italy and in the US. So, the comparison would have much more sense with the last quarter of 2023 rather than with the first quarter of 2023.

DANIELE SCHILLACI: And regarding China, Andrea, yes, I can confirm that we are over-performing in the market in China in Q1.

ANDREA BELLONI: Thanks a lot.

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 new plants because the Mexican one started at the end of last year, so I was wondering what was the contribution in Q1 and what is the expected contribution in terms of sales for the full year, and maybe an update on the Chinese expansionary plan timetable, just to understand when it will start the contribution, and obviously, it's included in your guidance.

The second one is on the price pressure. I remember, in the previous call you mentioned it is not an issue. So, in your current guidance, probably

you are maintaining the same assumption, but could you quantify very roughly what is your assumption in terms of prices, and if you can elaborate on splitting between the automatic pass-through because of raw materials, and the additional request of discounts from carmakers? Thank you.

DANIELE SCHILLACI: Okay, Martino, ciao. Regarding Mexico, we are in a ramp-up phase, so today we see more cost than revenue in that plant. The revenue will come around the end of this year.

Regarding China, the ramp-up started last September and you will see the revenue around mid-2025.

Regarding the pricing, we don't provide information about the split that you have requested, sorry. What I can tell you is that in terms of raw materials, the situation is now totally under control, the one offset the others, and this has no longer a major impact in our operations.

MARTINO DE AMBROGGI: And very last, M&A, I suppose absolutely no news and no clue.

DANIELE SCHILLACI: No, we don't have major news to announce.

MARTINO DE AMBROGGI: Okay. Thank you.

DANIELE SCHILLACI: You are welcome.

OPERATOR: The next question is from Giovanni Selvetti of Berenberg. Please go ahead.

GIOVANNI SELVETTI: Hello, everyone. Two follow-ups from previous question mainly. I was looking that most of the increase between the gross margin absorbed by a higher cost of personnel. So I can see number of employees up 3% with

the cost of personnel up 12%. So I was wondering if the delta is mainly general wage inflation or is the change also in the mix of the kind of employee. So I am not sure if I got that right before but Andrea was mentioning roughly 5% due to wage inflation before, is it possible?

The second question is what you were mentioning before about aftermarket. Is it fair to assume that not only aftermarket but also motorcycle runs at a higher profitability and if you can roughly give an indication of how much was aftermarket on total sales in Q1?

And the last is more of a general question. I was seeing that US has recently passed and approved of new rules requiring automatic emergency braking by 2029. I was wondering how this is going to impact the business and how this could slip into Sensify? Thank you.

DANIELE SCHILLACI: Okay. Regarding the cost of personnel as we said also last time, we had a 5%-6% wage inflation, but also an increase of 6%-7% in the number of people compared to Q1, because we are hiring; the company is growing and of course we have more people, especially in some areas, like software and artificial intelligence, where we are investing a lot.

Regarding the margins of aftermarket and motorcycle, I would say it is very similar across all our key business unit and divisions, but we don't provide any specific split on that.

Regarding your last question, no, we don't see any impact on Sensify, I would say the opposite is true. Sensify will further increase the safety of the drivers, so this doesn't have any impact regarding the implementation of Sensify.

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

GABRIELE GAMBAROVA: Yes, good afternoon to everybody. Thanks for taking my questions, just a couple of them. I was wondering, if you could, let's say, give more details on the, let's say, volume and mix contribution in the first quarter. If it was more volume or more mix, and then just a quick question on net working capital, again in the first quarter to end up by roughly €150 million, well above, let's say, last year, it was €72 million, so I was wondering if there is any particular aspect that could be, let's say, detailed even on this front? Thank you.

DANIELE SCHILLACI: On your first question, I would say it is more volume. On the NWC, I leave it to Andrea.

ANDREA PAZZI: In the first quarter we had the usual seasonality, nothing particular, except for the not favorable calendar for March, when we had the last two days of Easter holiday. Also, as already explained during the last call, in Q4 2023 we had a strong CAPEX, with the relative payable amount at year end, which was paid in the first quarter of this year; this of course impacted the net working capital.

Also, as usual, in the first quarter we pay all the deferred yearly bonus to customers, in particular for the aftermarket sector, and this decrease the net financial position in the quarter, but this is only a seasonal peculiarity of the first quarter.

GABRIELE GAMBAROVA: Okay. Thank you, very much, very clear.

OPERATOR: The next question is a follow-up from Monica Bosio of Intesa Sanpaolo. Please go ahead.

MONICA BOSIO: Yes, thank you. Coming back to Sensify, I remember that the last time we had a call, you were quite confident to announce some contracts by the end of the year, if I'm not wrong. I'm just wondering if you can confirm this, and with reference to the customers you are discussing Sensify with, what is the weight of the Chinese car makers? Are there more Chinese carmakers than European or Western European carmakers? It's just a curiosity.

And the second, in comparison with the first contract you got on the Sensify, are you adjusting the final price for the, hopefully, next contract? Thank you, very much.

DANIELE SCHILLACI: Regarding Sensify, as we said, we are talking with all our key customers across the entire globe. We know that all the car makers are step by step moving to the "By-Wire" technology (steer-by-wire, brake by wire and so on...)

We believe that our Sensify is at a superior level compared to the brake-By-Wire technology itself, and we are talking with all our key customers across the world. You are right, we said that by the end of the year we could announce a second contract, we would be more than happy to do it, and this is something that we are working hard on, so no change also on that topic. And regarding your last point, in terms of pricing, we don't have any major change on what we are doing today in that topic.

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

DANIELE SCHILLACI: You are welcome.

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. Some of your peers noted a deterioration in the car production mix, meaning that car O&Ms are giving more priority to less premium models. Do you see the same trend or not?

Second question is again on mix. We are seeing a deceleration of electric vehicles growth, this is a neutral trend for you, or your exposure to EVs is higher compared to non-EV models?

DANIELE SCHILLACI: Regarding the global automotive performance, we are of course fully focused on the premium market and sports cars. In general terms, we don't see any major deterioration in our mix. I would say that it is really different market by market; you have some markets where some premium brands are suffering, and some mass brands that are going okay, and exactly the opposite in other markets. So, of course, if you take the global number, you might have some mass brands that are growing better than the premium market, but don't underestimate that in this mass market, you have a lot of new players, like the Chinese ones, that are selling new cars in that area. But in our case, our premium market proved to be more resilient than the mass market.

Regarding our exposure to the EVs, in our portfolio we have an increasing mix of EV business, although today the vast majority of it is still on the ICE engine. Let me clarify that when we talk about ICE, we include also some electrified engines, like mild-hybrid, hybrid and plug in hybrid: this is the large majority of our business today; if we talk about zero emission, or BEV, this has been significantly increasing over the last two years.

GIANLUCA BERTUZZO: Okay. Thank you.

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

ANTHONY DICK: Yes, hi, and thank you for taking my question. And the first is just a follow up-on the Mexican plant. I was just wondering if the decision by Tesla to push back its plans for a Mexican plant could have an impact on your capacity utilization, but if not or it's just one small customer among others?

And the second follow-up is on Sensify, sorry if I mixed it, but are you still planning to start generating revenue on Sensify in H1'25 also considering that we've seen quite a few platforms and projects being delayed in the sector? Thank you.

DANIELE SCHILLACI: Regarding Mexico our customer base is pretty diversified in Mexico. It means that even if Tesla reduces the output or postpone some operations, there will be no major impact for our Mexican plant.

Regarding Sensify, as I said also last time, assuming that Sensify will be launched in 2025, the revenue of Sensify will be generated in a significant manner from '26 onwards.

ANTHONY DICK: Okay, thank you.

OPERATOR: For any further questions, please press "*" and "1" on your telephone. The next question is a follow-up from Martino di Ambroggi of Equita. Please go ahead.

MARTINO DI AMBROGGI: Thank you. Changing the subject, thinking about *coated discs* compliant with the Euro 7 regulation, could you obviously not the name, but could you tell us how many clients already homologated your products and if, as you have commented in the previous call, the first one will start

in '25, not waiting for '27, are they on high-volume platforms or just niche platforms at the beginning?

DANIELE SCHILLACI: Okay, Martino, on the coated discs, I can tell you that we have now 4 customers for that product; it's not a niche platforms and the SOP is expected in the second half of 2025.

MARTINO DI AMBROGGI: Okay thank you.

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

GIANLUCA BERTUZZO: Okay, thank you. Maybe I missed that, but do you have a guidance for CAPEX and net debt for the year?

ANDREA PAZZI: Yes. For CAPEX, I said before, €350 million, and for net debt at the moment we expect €500 million.

GIANLUCA BERTUZZO: Thank you very much.

OPERATOR: For any further questions, please press "*" and "1" on your telephone. Ms. Panseri, gentlemen, there are no more questions registered at this time.

LAURA PANSERI: Okay. Thank you for attending our call today. Bye-bye.

DANIELE SCHILLACI: Thank you. Bye-bye.

MATTEO TIRABOSCHI: Thank you, bye.