

**Brembo S.p.A.**

**"First Half 2024 Conference Call"**

**Tuesday, July 30, 2024, 14:30 CET**

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

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo First Half 2024 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 of Brembo. Please go ahead, madam.

LAURA PANSERI: Yes. Good afternoon. Welcome to Brembo Group's first half 2023 earnings call. Today Brembo's Executive Chairman, Matteo Tiraboschi, will open the call with some introductory remarks. After that, he will be available together with Brembo CEO, Daniele Schillaci, and 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 over to Matteo Tiraboschi, please.

MATTEO TIRABOSCHI: Good afternoon everyone, and thank you for joining us today to review our performance for the first half of 2024.

Brembo has surpassed the threshold of 2 billion euros in revenues in a single semester for the first time in our company's history. This achievement underscores our ability to sustain growth and resilience in a very challenging global automotive sector. We grew by 2.8 percent, which

is a positive result also considering the tough comparison to the previous semester's already significant performance.

Our EBITDA has also shown positive growth in the first half of the year, demonstrating the Group's ability to maintain its profitability despite the pressures of a heavy geopolitical and market situation. This result reflects the effectiveness of our strategies and our commitment to long-term success.

Our net profit experienced a decline compared to the same period last year, and I want to point out that this is due to the ongoing impact of exchange rate differences and the increase of interest rates. Nonetheless, this should not detract from the solid overall performance we have maintained throughout the semester.

Our various business segments have contributed positively to these results, with a notable exception. The commercial vehicle segment showed a negative performance in Europe, affected by the overall economic situation.

On the positive side, the aftermarket segment is giving us great satisfaction, as it is growing and reinforcing our position in this area.

Geographically, we faced challenges in Europe due to the weak automotive market, but Germany, which is our second largest market globally, stayed positive. In the US, our performance has been stable, demonstrating resilience and consistency in our main market. China, which had a good start this year, continues to grow, providing a positive outlook for our operations there.

Despite the ongoing challenges in the automotive market, we continue to advance our ambitious investment plan with confidence, supporting the expansion of our global production capacity and innovation capabilities.

It is important to note that the investments accelerated during the second quarter of this year and this of course has an effect on the debt, which we are as always managing carefully.

Our new production site in Thailand announced earlier this year is progressing as planned. This site will manufacture braking systems for motorcycle producers and represents a significant investment aimed at capturing new growth opportunities in the Southeast Asian region.

On top of that, Brembo's digital evolution journey continues as evidenced by the recent investment in the US startup Spoke Safety, which specializes in connected mobility solutions.

Looking ahead to the rest of 2024, although the automotive market outlook has significantly worsened compared to previous months and despite ongoing geopolitical tensions globally, we confirm that Brembo will close the year with moderate revenue growth, maintaining percentage margins in line with those of 2023.

We remain confident in our ability to navigate the complexities of the current environment and deliver value to our stakeholders.

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

LAURA PANSERI: Thank you again. We can now open the Q&A session. Thank you.

Q&A

OPERATOR: Excuse me; 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 while asking questions. Once again that's "\*" and "1" for questions.

The first question is from Monica Bosio from Intesa San Paolo. Please go ahead.

MONICA BOSIO: Good afternoon everyone and thanks for taking my question. I have 3 and then maybe I will come back to the queue. The first one is it's a housekeeping question. In the previous call, the group indicated the CAPEX in the region of €350 million and the net debt guidance at €500 million. Are you confirming both the CAPEX and the net debt?

The second question is on the Chinese car market. According to S&P, the car market production in China is seen at minus 6.2% in the third quarter and at minus 2% in the fourth quarter. Should we expect Brembo will perform in line with the market or the group is gaining market share and is set to over-perform the market, signing a positive top-line growth in China in the second half?

And the very last is on Porsche. Porsche had to revise its guidance on the impairments related to aluminum shortage from European suppliers. Do you see any impact on your targets from Porsche downsize and cutting production? Thank you very much.

MATTEO TIRABOSCHI: Ciao Monica, Matteo speaking. Yes, we confirm for the full year a net debt around €500 million, regarding the CAPEX probably something between €350-400 million for the full year. We are accelerating some investment because it's required by the market.

MONICA BOSIO: So, €350 - €400 million?

MATTEO TIRABOSCHI: Yes.

MONICA BOSIO: Okay.

DANIELE SCHILLACI: Good afternoon, Monica, Daniele speaking. Regarding the Chinese market, indeed, it's true that the forecast on the H2 is negative versus 2023. But this depends on the segments of the market; if we look at the segments where we are present, for the 2H we don't see any severe impact like the one shown in the S&P forecast. Let's not forget, that in China we are also growing extremely fast also in our aftermarket business. It is becoming extremely important also in China and in Asia in general. And this will contribute a lot, of course, also on our forecast on H2.

MONICA BOSIO: Okay.

DANIELE SCHILLACI: Regarding Porsche, we don't have today any major impact about what we heard on the news.

MONICA BOSIO: Okay. Thank you very much.

DANIELE SCHILLACI: You're welcome.

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

MARTINO DE AMBROGGI: Thank you and good afternoon, everybody. My first question is on the contribution of the New Mexican plant. If you can provide us very rough indication in terms of sales in the first half and what you expect for the full year and in terms of ramp-up costs, should we assume that the bulk, the majority of the operations line in the EBITDA Bridge is mainly related to the start-up costs of the Mexican plant.

The second question is again on CAPEX, because you're anticipating some investment. Could you clarify in which domain if it's for Euro 7 compliant disks or for any other initiative? I don't know. The Chinese

plant for aluminum calipers. Also an additional question on the...in your press release you talked about expansion of capacity in Asia. I refer to the aluminum calipers that have to be doubled. But you also mentioned aftermarket. So what you are referring to in terms of aftermarket business for CAPEX? Thank you.

DANIELE SCHILLACI: Let me start from the investment; as you said we are indeed bringing forward some capex, also linked with the Euro 7. As we said also last time, we have several contracts signed for the Euro 7 in Europe; this of course requires some investment; the timeline, which we thought would be in 2026, probably will be earlier, maybe in less than one year from now, and this is of course very good news, and brings forward also the relative investment. I repeat, it's very good news because I remind you that the coated disc, that will fulfill the Euro 7 requirements, in terms of revenue per unit will be higher than the traditional one.

Also, we are increasing our investment on an important IT project, which is a 360° IT implementation strategy in all the regions (ERP and other projects).

Finally, we have also increased our investment in sales and marketing, to a large extent related to the aftermarket activities. We are growing double digit in the aftermarket business, but also we are promoting our products, not only in shows and exhibitions, but also through some specific marketing actions with our customers, and this also requiring some additional spending this year. But I have to say that this is a very good spending because we are seeing an important revenue growth, by the way, with a good marginality.

Regarding the Mexican plant, I would say nothing really changed versus what we said last time. The ramp up will be completed by the end of this year, as we said. And you will see some revenue probably by the end of the year, but the big bulk will be in 2025.

MARTINO DE AMBROGGI: So, there is nothing in the first half?

DANIELE SCHILLACI: No, you will see some revenue in H2.

MARTINO DE AMBROGGI: Okay. Okay. And just a confirmation. You mentioned that the coated discs could start less than one year from now. So that...

DANIELE SCHILLACI: Yes, we should have a SOP around this time next year.

MARTINO DE AMBROGGI: So, because the previous indication was September, if I remember correctly?

DANIELE SCHILLACI: This depends on the SOP of our customer. Right now we have some updates. We were expecting the SOP by September next year, it might be that one application may start maybe already in July next year. But this is something that is variable, it will depend on the product planning of our customers, but anyhow, it will be summertime next year.

MARTINO DE AMBROGGI: Okay. And very last, the capital intensity of the coated discs is much higher or similar to the normal disks?

DANIELE SCHILLACI: Yes, it is more capital intensive, but also more revenue and profit per unit, this implies also more barrier for the competition. In other terms, we increase the investments, but we increase the revenue and also the margin per unit. And this is something that requires investment, to do which you need a very healthy financial situation, that Brembo already has.

MARTINO DE AMBROGGI: Okay, Thank you very much.



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

ANDREA BALLONI: Yes, good afternoon. Thanks for taking my question. My first one is on the outlook. If you can give us some color in terms of trend by geographical region?

My second question is on free cash flow. We noted the networking capital and provision change was a quite heavy absorption in first half, also absorbing in second quarter. If you can give us more details on that. And what should we expect on Q3 and Q4?

My last question is on Germany production. If you can give us some details on what you are experiencing with the German carmaker, if you are experiencing some price pressure that might be also related to the competition on prices they are suffering in China. Thank you.

DANIELE SCHILLACI: Okay. Regarding the outlook, it's very clear that we have different trends region by region. For the full year we will be roughly 2% below what they had estimated at the beginning of the year; the global market, in term of production, was expected to be slightly above €90 million in 2024, now it is foreseen at around €88 million, with the main drop coming from Europe. Europe as you know very well, this is also linked to your question regarding Germany, Europe, could see an acceleration of the market drop in the next months, so we might see in H2 a market situation that will be extremely tough in Europe. Conversely, in NAFTA, in US, I would say that we see a relatively stable market, around €15.7-€15.8 million, which is more or less the same level that we saw last year. Of course, this year in the US, you will not have the impact of the AUW negotiation that happened last year in Q4 and that had some small turbulence, as you may

remember. Hence, we see a stable outlook on the US market also for the H2.

In China, indeed, for the full year is relatively stable in terms of market, but H1 was positive. And on the H2, as Monica said before, the forecast is seen to be negative. I repeat, in that market for us, what we can see from our customer, is a China relatively stable in H2. So if you neutralize Europe, I would say market is relatively stable. Europe in H2 will be definitely very challenging.

Regarding the cash flow, I'll leave it to Andrea.

ANDREA PAZZI:

Yes. Thank you. The cash flow for the second part of the year, according to the usual seasonality we have, we expect a positive impact; up to June it is negative by €4.5 million, also impacted by an adverse calendar for the end of June, but normally it would be zero or slightly positive right in the semester. For the second half, we expect positive free operating cash flow and the net debt will grow to €500 million, due to the CAPEX, because we are really investing a lot in CAPEX, but with the high generation of EBIDTA.

Regarding your question about Germany in terms of pricing, yes, it's true that when you look at the sales in China by brands, you see that some European brands are indeed suffering. But this is not impacting the pricing in our negotiation with customers. We deal platform by platform and our negotiation is always strictly related to the products. So we don't see any correlation between the performance of the OEM outside Germany and the pricing in our activity.

OPERATOR:

Okay, the next question is from Giovanni Selvetti from Berenberg. Please go ahead.

GIOVANNI SELVETTI: Hello, can you hear me? Hi, everyone. I have 3 brief questions. One, if you can please explain what are the extraordinary effects impacting the tax rate. The second one is around buyback. From the cash flow statement, I can see that the figure has remained the same and equal to €57.5 million. So I was wondering if given the recent weakness in the share price performance, would you consider doing some buybacks in the second half of the year?

And the third one is around again cash flow. The net cash flow for operating activity was down mainly for a big difference in the delta with trade payable. How we should interpret this delta on payables, I mean, suppliers are asking for better payment times. What is this? Thank you.

ANDREA PAZZI : Regarding the tax rate, usually with the semester we have a better and finer analysis about the potential incentive around the world. And so the tax rate for the semester is more aligned to what we expect for the full year. In the first quarter there was an exceptional impact of the functional currency in Mexico that in the second quarter didn't occur.

Regarding payables, if we compare the first semester last year with the first semester of this year, in terms of number of days, we are really similar. This means that the numbers are only adjusted by volumes and volumes are growing, considering also the debt linked to the CAPEX.

Regarding the buyback, we strictly monitor the situation. For the moment we have no action in place, but we have an authorization from the shareholders' meeting.

GIOVANNI SELVETTI: Okay, thank you.

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

ANTHONY DICK: The first question is on the net debt outlook. You've increased the CAPEX guidance, but maintain that €500 million net debt outlook. So, I was just wondering, is it, should we expect exactly the same figures before with any kind of offset to improve the cash generation or should we adjust it by the amount you've increased at the CAPEX outlook?

The second question is on the H2 outlook for the business. Last year you provided a bit more granularity on, on Q3, Q4 performance. I don't know if there's some other specific projects to take into account that would affect your performance over the second half. And the last question is on the aftermarket business. You've mentioned a couple of times, now that this business is growing fast, could you provide now what's the share of this business in your total revenue and EBITDA. Thank you.

ANDREA PAZZI: Regarding the debt for the full year, yes, of course, the CAPEX is increasing a bit. The cash generation is good, we are confirming the same level of marginality last year with a growth in term of revenue. So means a growing marginality and cash. In the second half we don't have the dividend distribution, so we expect to compensate partially the increase of CAPEX with the cash generation.

DANIELE SCHILLACI: Regarding the Aftermarket, it's an activity that is growing in a sustainable way since some years now. To give you the magnitude of the size, today it represents around €0.5 billion at Group level. And it's keeping growing, at a fast pace, almost in all the regions.

Regarding the Q3, Q4 outlook, as I said before, we can see a quite tough outlook in Europe because of the market conditions, not only on the passenger car, but also on the heavy duty trucks and some commercial

vehicles. But in China and the US the outlook is pretty stable. And our customer base over there, when we look at our order bank that we are in a kind of stable scenario.

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

GIANLUCA BERTUZZO: Hi, good afternoon. In terms of raw material and other items subject to cost inflation, we saw a positive impact in the first half. So lower input prices, what do you expect for the second half, which are the trends that we have to bear in mind? And second question is on Sensify. Do you have any updates here? Thank you.

DANIELE SCHILLACI: Thank you. Regarding the raw material for the second half, we should expect the continuity of what we have seen in the first half, no major change. Regarding Sensify, our division is managing plenty of activities with all the customers across the regions. We are keeping doing a lot of tests with our customer and of course we are working also to prepare the launch with the big customer with whom we signed the contract.

We have a quite significant Sensify division in Brembo, full of activities and the team is working with all the main customers to move on. So I don't have any major update versus what I said last time. What you should know, I think, is that Sensify has been pioneering the technology on the so called by-wire technology. And this is a technology that in second half of the decade will be more and more a technology that will be adopted by the OEM.

What is important for us, is to keep working with all the main customers across the world, to test the technology, and when the time is mature, for some OEMs to make it in the platform, Brembo will be for sure, the front

runner to be considered as the main suppliers to fulfill this technology. I don't think it's so important to wait for the second, third customers, that's not the point. The point is that we were the first to have announced this technology. All our customers and stakeholders are facing this technology and are very happy with it. No doubt that this is the technology of the future, no doubt that this will be in the market pretty soon.

GIANLUCA BERTUZZO: Okay, very clear. And if I may, a quick follow-up on M&A. What is the maximum leverage that Brembo can sustain in the case of an M&A transaction?

MATTEO TIRABOSCHI: It's a very difficult question. It depends on the target. If the target is a brilliant, fantastic target, we can also suffer a little bit. So, it depends on the target. If I have to give you a number, the maximum level is 2 times.

GIANLUCA BERTUZZO: Okay. Thank you.

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

MONICA BOSIO: Yes, good afternoon. Just to check, notwithstanding a flat car market, in the first half, the car divisions rose by 4.3%, so the group outperformed the market. But I was wondering if you can split this performance between the original equipment and the Aftermarket. Just to check that even in the original equipment Brembo, I'm sure it is in this way, is outperforming the reference market.

And my second question, I don't know if you can answer, but I will try. Within the car division, can I ask what is the weight of the revenues

generated in the very high luxury and high sports car segment? And what is the weight of the premium mid segment? Thank you very much.

DANIELE SCHILLACI: Regarding the passenger car growth in H1 is the combination of the Aftermarket contribution, which is now more and more significant, and they slightly grow, especially in Asia, on the OEM.

Regarding your second question, let me say that when you talk about the top performing accounts for car, we need to frame exactly what we mean. For example, if you mean only Lamborghini, Ferraris, Martin, McLaren and so on, of course, the weight of these on the total turnover, you can see, as you can imagine, is relatively low. But if it's for sport car, you mean also, for example, the AMG of Mercedes, the M-line of the BMW you know, RS of Audi, combined with the sport car, in terms of revenue, it can be around between 15% and 20%.

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

DANIELE SCHILLACI: Okay.

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

GABRIELE GAMBAROVA: Yes, thank you. Good afternoon to everybody. Just a couple of questions. The first one is on the price trend you see in H2. In Q2, there was a slight...a slight crease. So I was wondering if you can say what you see, basically? And the second one is on, let's say, non-passenger car businesses, such as commercial vehicles and motorbikes. I was wondering, what do you see? What is the outlook for these 2 minor but important, let's say, businesses going on in H2. Thank you.

DANIELE SCHILLACI: Okay. About the market outlook on the motorcycle, we see really full stability for the year. We can see that some brands that were suffering a bit last year are recovering in '24 and vice versa. Hence, if you look at the outlook of the motorbike for the '24, we see a kind of stability.

In the light commercial vehicle segment we are outperforming the market. For the second part of the year, the heavy duty truck will probably continue to be negative; in the light commercial vehicles, this some OEMs will be launching new products, so by definition they will be growing, but the ones that don't have any new product, they may suffer; so our job is to continue to over-performing the market also in H2.

Regarding your first question, we have seen the price effect in H1. This is only due to the normal activity of the pass-through for the raw materials and utility included in our contracts, so this is an ongoing process that we manage without fuss.

GABRIELE GAMBAROVA: Thank you very much. Last one, if I may announce, keeping the tax rate you envisage for 2024?

ANDREA PAZZI: For the full year between 24% and 25%, as usual.

GABRIELE GAMBAROVA: Okay, thank you very much.

OPERATOR: The next question, now once again if you wish to ask a question, please press "\*" and "1" on your telephone. I remind that if you wish to register for a question, please press "\*" and "1" on your telephone. The next question is a follow-up of Martino De Ambroggi from Equita. Please go ahead.



MARTINO DE AMBROGGI: Thank you. Three very quick follow-ups. The first is again on the Mexican plant, just my estimate. Am I right in assuming €40 million €50 million of additional sales coming just from the New Mexican plant by year end, very roughly.

The second is on the homologation for coated discs. Should we expect additional homologation by the end of the year? Obviously, you do not announce them, but just to understand how it is going. And the last one is on the EBITDA bridge because the main contributor was the price line, so by far the most important contributor and I didn't understand in your previous answer if this should be taken as a stable, which means roughly more or less the same input, positive in the second half, which is mainly referred to raw materials, if I understand correctly, or if it's neutral, basically close to zero or what else? Thank you.

DANIELE SCHILLACI: Yes, I would say that regarding the price for the rest of the year, it will be natural convergence process, between the cost and the price that we charge to the customers. This is something that, as I said before, would be a natural and ongoing process. We don't see any major volatility, on this established process that we did already since a couple of years with our customers.

Regarding the Mexican plant, maybe €40 million €50 million is a bit high, to be honest with you, the revenue increase would be in our minds, a bit below your estimation.

On the coated disc, we were the first also in that area, to invest in this activity. And you are right when you say that we should expect some additional business over the coming months in that area.

MARTINO DE AMBROGGI: You are a pioneer, but someone else could have achieved homologation or you don't know anything about.

DANIELE SCHILLACI: I don't know exactly what our competitors are doing. Of course, our competitors are also working in the same direction, it is part of the game. What I can say that is that Brembo is probably the only players that makes the entire braking system, and the one that can offer the best solution to our customers in terms of NVH, quality, performance and durability of the product.

And the fact that we have been pioneering this new product, we think we have in our hands a big chance, to keep increasing this business over the coming years, especially in Europe. I also remind you that this process probably will start also outside Europe, because you have some makers that are exporting from US or China in Europe, and those will need to be compliant with the Euro 7. We know the technology very well and we are quite confident and optimistic

MARTINO DE AMBROGGI: Thank you.

DANIELE SCHILLACI: You're welcome.

OPERATOR: Once again, if you wish to ask a question, please press "\*" and "1" on your telephone. For any further questions, please press "\*" and "1" on your telephone. Management, there are no more questions registered at this time.

LAURA PANSERI: Okay, thank you. We wish you a pleasant afternoon. Thank you. Bye-bye.

DANIELE SCHILLACI: Thank you. Bye-bye.