

# **Brembo SpA**

**“Full Year 2016 Financial Results Conference Call”**

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**MODERATORS:     MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN**  
**ANDREA ABBATI MARESCOTTI, CHIEF EXECUTIVE OFFICER**

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Brembo Full Year 2016 Financial Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Matteo Tiraboschi, Executive Deputy Chairman of Brembo. Please go ahead, sir.

MATTEO TIRABOSCHI: Good morning, everybody. Thank you all who joined us today. I will try to go quickly to the presentation, so we can have more time for the Q&A section.

Turning to Slide #2, we can see the Q4 results of the last quarter of last year, where the sales grew compared to last year roughly +8% at €565.4 million. EBITDA increased compared to last year about 14.6% and it is €106.7 million, EBIT is €73.4 million, roughly +10% compared to last year, tax rate is 20.7% and the net result is €54.5 million, that means 9.6%, better compared to last year about 5%.

The next slide are the results of the full year and we can see that the total sales increased compared to last year, more or less 10% and is at €2,279.1 million, so a good result for the full year.

EBITDA is close to 19.5%, it means €443.7 million, D&A in relative term are similar to last year at 5.1% (last year it was 5.2%), EBIT is at €327.5 million that means 14.4% on sales, increased compared to last year more than 30%, and the tax rate is almost 22.2%, something less compared to last year. Net result is €240.6 million, it means 10.6% on total sales, it has increased roughly +31% compared to last year.

Next slide is the bridge about the revenues. The business is positive for more than €230 million, prices are negative almost for €20 million, the exchange rates are negative for €33 million; here we have Real that is negative for €1.6 million, Argentine pesos negative for close to €12 million, renminbi is negative for €10 million, rupia is negative for €2.5 million, pound close to €7 million negative. The only one positive is the US dollar that is positive for €1.5 million. The scope is positive for more than €28 million, you remember that there was Sabelt in the same period of last year and that there wasn't Asimco, we bought Asimco in May of last year.

We can go ahead to Slide #5, where we can see revenues by application and we can see that all the application, all the business in our application is performing well, passenger cars is increasing more than 12%, motor cycle is positive, close to 6%, commercial vehicle is positive for 8.4%, also racing is positive like-for-like it's 4.6%, we wrote negative at about 10% for the deconsolidation of Sabelt.

Next slide, revenues by area. In all the markets where Brembo is involved Brembo is performing well. I don't want to spend too much time to explain all the markets, but there is just one market that is negative and it's South America, it's negative in the full year for more than 10%. The good news is that the last quarter was positive for 23.4%, this is something good for the current year, we hope.

Revenues by area, we can see that North America is absolutely the first market for Brembo, Germany is the second one with 23.2%, Italy is 11%, China is close to 9%, China probably in next two years will become the third market for Brembo.

The next one, we can see the macro area and we can see how Americas are performing well, it's 30.5% of our total turnover and Asia is 13.4%. The rest is almost Europe, which is 55%.

We can go to Slide #10 where there is a bridge for the profitability. We can see that the volume of the business is positive for €87 million, price in this case are positive for €10 million, we can recover all the price that we lose on the volume of the sales that was negative for almost €20 million. So we have done a very good job.

Operations are negative for roughly €26 million, this is a consequence of our investment around the world, we increase a lot our plants in US, in Mexico and China, and obviously the cost of our operations are increasing a lot. Exchange rate, is positive for €6.7 million and scope is positive for €5.6 million.

We could jump to the financial charges, no particular comment on this slide, just to underline that the cost of debt is quite good, and it's 2.4%. We have some net exchange rate negative for €5.5 million, it's just a consequence of some dividends that we paid from Poland and we have to adjust the money that arrived from Poland.

Tax rate, nothing in particular, we have a tax rate which is at 22.2%. Obviously, we had some special situation in Czech Republic and in Poland. If we take the normalized situation, the real tax rate is 26.4%, it is very similar to the same tax rate of last year.

Next slide, Slide #14, is my favorite slide, we can see the capability of Brembo to create free cash flow. We recovered with EBITDA all the debt that we had in January of last year, and we can pay also all the investments, the net working capital is negative for €20 million, but the business net working capital is negative just for €3 million. M&A of course is Asimco, €73 million, dividends, we paid the dividend last year for €52 million. Financial charges, tax etcetera are negative for €85 million and other are positive for €10 million. We closed the full year with net debt that is €195.6 million.

The structure of our debt is more clear in Slide #16 and you can see that we have more than 100% of our debt that is long term.

Slide #17, nothing particular, just to underline for Brembo now the net invested capital is more than €1.100 billion, so it's quite huge amount of money invested.

Some comments on the main ratios, you can see that ROI is growing year-by-year and this is for us obviously very good news. ROE is in the same way performing very well, gearing absolutely good, and also the ratio on net debt on EBITDA is absolutely good: 0.4 , in line with last year.

The other slides are about the performance of our shares that you know much better than me. So, I can close my short speech and 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. The first question is from Monica Bosio of Banca IMI. Please go ahead, madam.

MONICA BOSIO: Yes, thank you. Good afternoon and I would have three questions. The first one is the usual one. As for current year, when you say that the first months of 2017 allow for cautious optimism, what does it mean exactly, do you...should we expect a growth more aligned to the growth delivered over the last quarter, or its more likely a growth in the region of the one delivered over the full year which is in the region of 9.9%? And the second question is almost related, can you comment...can you elaborate a little bit on the negative trend in the last quarter in UK? And the last question and then I come back in the queue; can you give us a rough indication of the CAPEX...expected CAPEX for the current year? Thank you very much.

ANDREA ABBATI MARESCOTTI: Thank you Monica, Andrea. I guess for 2017, you referred to the line of expectation for 2017 which was in the press release. But I

guess that this would have been a question from your colleagues, so I can cover it already. You all know the data of the market, so as sales of cars Europe made again a very good January, +10%, USA was somewhat losing ground in deliveries, China was flat. Comments on China needs to be done: that exiting from the 10% discounts on the matriculation tax for <1.6 cc vehicles going to 5% - that was expected. So basically what we say is that Europe was very good generally, and USA and China were flattish, but in our opinion China will be growing next months.

MONICA BOSIO: Okay.

ANDREA ABBATI MARESCOTTI: That said, these are the sales of vehicle, what happens to Brembo: deliveries to Europe good, even if somewhat the percentage that you need on full Europe sales is different from what they produced, some of the Germans are somewhat being careful introducing, so there is a growth, but it is not a two digit-growth, it is more a mid single-digit growth in Europe. On the opposite, our deliveries in USA didn't suffer versus last year, they were basically consistent with some small increase. Deliveries in China were good. More important, you see what we see on that quarter, on the quarter, we see a mildly growing market enjoying somewhat in Europe and in China, some market share that we gained last year so, yes, Matteo will later will give the guidance, but somewhat you could expect indexes of the growth quieter then the history, which is already good news because the markets are at such a high level that it's better going slow than risking some different scenario.

MONICA BOSIO: Okay, just a follow-up. Just asking about the growth, but if I missed...if I may, what about the EBITDA margin which was so high, do you think you can maintain it. I don't say to improve because I know that you will not say that you are going to improve, but do you see maintenance of this EBITDA margin?

MATTEO TIRABOSCHI: To increase our EBITDA, I think is quite difficult, at this point.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: 19.5% is an unbelievable number for the automotive sector. For this year I think that probably...first of all, we are working to maintain the same ratio, but it will be very difficult. I think that probably it will be something in the middle between...18 and 19, something like that. Obviously in March it's very early to produce some of this consistent with...

MONICA BOSIO: Okay.

ANDREA ABBATI MARESCOTTI: Your second question was about UK; UK in the fourth quarter is not matchable because we acquired an important after-market customer last year which made the first order in the last quarter of last year which was creating the warehouse to going into production. If you look at the full year number, plus 12.4%, that is significant of the business. And the specific stocking policy of that customer, there was a spike at the beginning of the relationship, end of last year, but this does not make sense because you create a the warehouse the first day, then you sell. I think going forward, that the relationship is going very well, we won thi customer so the significant number in the full year.

MONICA BOSIO: Okay.

ANDREA ABBATI MARESCOTTI: Your third question was about CAPEX guidance for 2017 and with pleasure I leave it to my boss.

MATTEO TIRABOSCHI: This year, we will invest a lot...in 2016 more than €260 million. I think that also for this year, we have to invest a lot, probably something more compared to the year before.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: Something close to €300 million.

MONICA BOSIO: Sorry, can you repeat, please?

MATTEO TIRABOSCHI: Yes, something close to €300 million.

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

OPERATOR: The next question is from Niccolò Storer of Mediobanca. Please go ahead.

NICCOLÒ STORER: Hi, good afternoon and thanks for taking my questions. The first one is related to the...I think that we were all waiting for some start-up costs impacting profitability in the second half of 2016, and at the end they didn't materialize. So could you please give us an update on where you are in terms of start up of the new plants and when you expect cost impacting from the guidance that you just gave on EBITDA, it seems that we will have another year without meaningful impact from start-up costs. The second question, I didn't...Andrea, I didn't get what you said on the trend of the US market, so if you can please elaborate a little more and tell us how the penetration of the aluminum caliper is going. Third question on working capital, I saw that you had a lot of payables, more compared to last year, so I was wondering if you are becoming more aggressive with your supplier or what happened and if this level of working capital on sales is something that you see as sustainable going forward. And very last question on the €300 million CAPEX, if you can tell us a little bit more on the split that you have in mind of this €300 million which is a very huge number probably above of any expectation from our side? Thank you.

MATTEO TIRABOSCHI: I'd start from the middle of your question about the working capital, no, we have a lot of investment inside, so obviously the investment and you have a payment that is longer compared to the normal business or it's very normal, that is matching, what we are doing with our suppliers, absolutely not.

About CAPEX, yes, I said €300 million, but it's a number, we don't have for the moment the exact number that will be this year. Obviously, we have done a lot of announcements for new plants in Mexico, in China, in Poland and obviously this is the consequence. Something is new, something is some plants on which we are working on, I think of Mexico for example, we are working for the new foundry but also for the old one, the aluminum foundry, that is not completed fully, there are some machine that are coming. So obviously, the total amount will be probably in this kind of magnitude.

Start up costs, yes, there are and it's important in 2016 and there are also in this year. Fortunately, all the plants are working very well, the saturation is 100%, so we can absorb this kind of cost without any kind of program and we are working to maintain the same style also for the year, this year.

ANDREA ABBATI MARESCOTTI: You were making the last question about USA and the calipers, of course, my comment of the market was at equal perimeter, so we expect on the rotors somewhat a flat market, we have some new business, but shouldn't change so much as I already mentioned. You will see the positive effect of the growth of some main customers in North America (that we can't mention).

NICCOLÒ STORER: Understood, understood and thank you. Maybe a very quick follow-up on the press release, there you mentioned Italy as one of the five new plants coming on stream. What is this related about?

ANDREA ABBATI MARESCOTTI: Actually it's something like a plant because it is doubling our R&D testing department, because we are developing so many applications for the customers that the space for our R&D center which you personally know was not sufficient, so we are building a second one basically doubling the space for testing and new innovation.

NICCOLÒ STORER: Thank you, thank you very much.

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

MARTINO DE AMBROGGI: Good afternoon, everybody, on CAPEX, you already answered it's too early to give a split, but just to have a rough idea, what's the amount of maintenance inside the roughly €300 million?

MATTEO TIRABOSCHI: Maybe something around €50-€60 million.

MARTINO DE AMBROGGI: 50-60, okay. And this means that maybe we have to consider that part of it is just for the R&D test doubling capacity that...

ANDREA ABBATI MARESCOTTI: Martino, you have to consider a double dynamic, on one side, when you enjoy increasing capacity in plants because of new orders, not for the new plants but for the already running plants, you are able to phase-in at the same moment maintenance and capacity build up, so somewhat when you are in a growth season, you are able to reduce the maintenance CAPEX because this matches one to one with the capacity increase CAPEX.

On the other side of course, we made public whatever is the new investment, we don't flood you with those small capacity increases in the already running plants, so you are not publicly aware of specific €20 million increase, €30 million increase in many plants which are implementing additional capacity at apparently equal perimeter, but as a fact with additional sales. This is why the final number is not totally announceable and somewhat...you can expect some changes and fluctuations.

MARTINO DE AMBROGGI: Yes, it's very clear, but I was trying to look at it in a different way, so if we have a €50-€60 million of maintenance, I don't know, but I assume another €40-€50 million for the R&D which does not provide immediate additional revenues. We can assume that roughly €200 million are the sum of all the additional CAPEX that you have in mind. Am I right just roughly?

ANDREA ABBATI MARESCOTTI: I know where you are entering, which is the development of the sales for the next year. Again, you should consider another parameter which is how much of these investments are for verticalization and how much of these investments are creating markets. Then some of the Detroit foundry and Mexico foundry are mainly verticalising the supply chain to be able to integrate the marginality of the foundry and to control the business, in a portion creating additional business. While the investment in the Dabrowa is fully 100% for additional capacity, the investment in China for systems is 100% for additional capacity.

MARTINO DE AMBROGGI: Yes, okay. So, I need to reduce the €200 million but in any case if the majority of this CAPEX are additional sales for the future?

ANDREA ABBATI MARESCOTTI: Which you will see realized in the corresponding season; you know very well the preceding cycle of the investments let me say 2013 to 2016, which led to totally exploit the capacity during the years, yes.

MARTINO DE AMBROGGI: Yes, okay. And just a follow-up on the sales guidance that you gave, trying to summarize, it's in the region of mid-single digit growth?

MATTEO TIRABOSCHI: Maybe, yes, something between and 5%, 6%, yes.

MARTINO DE AMBROGGI: Okay. And in terms of raw materials, there is no impact apart from the networking capital absorption, because you typically has the coverage of about 3 months?

ANDREA ABBATI MARESCOTTI: We are fairly indexed with our customers. You know that there is a delay of a quarter of the rebate of the customers because of the contracts, there is a small exposure with some contracts in South America and in China, but the impact of the total result of the Company should really be negligible.

MARTINO DE AMBROGGI: Okay. And last question on the new cast iron and steel discs, I remember probably a couple of conference calls ago, you mentioned to have a new potential clients following the expiration of the exclusivity agreement with Daimler. Is there any potential news you can share with us about it?

ANDREA ABBATI MARESCOTTI: Actually we contracted nearly 100% a platform of another customer, but again [indiscernible] certain difficulty, because of the disclosing.

MARTINO DE AMBROGGI: Okay, yes. Is it already included in CAPEX, the capacity needed for this client?

ANDREA ABBATI MARESCOTTI: It is included, of course, that is not building plants; it is managing the total capacity on the ultralight disc, in Poland, North

America and in China. So, basically it is some machining capex, it is included in CAPEX.

MARTINO DE AMBROGGI: Okay, thank you.

OPERATOR: As a reminder, if you wish register for a question please press “\*” and “1” on your telephone. The next question is a follow-up from Niccolò Storer of Mediobanca. Please go ahead.

NICCOLÒ STORER: Yes, thank you. First question on patent box, did you apply for this new discipline and do you expect this to have a relevant impact on your tax rate going forward. Second question on Asimco, which is the turnover that you expect for 2017, is it reasonable to assume some €90 million. And third question on Russia, considering that some of your customer are starting to move on the country, do you think that the time is right to rethink about plants in Russia, or do you think that they are okay with your capacity in Eastern Europe? Thank you.

MATTEO TIRABOSCHI: Patent box, yes, we are working, but for the moment we have nothing concrete to tell you to describe that. We are working but we need a little more time to see

ANDREA ABBATI MARESCOTTO: Asimco is in a normal growth, so you take the sales which you saw incremental on the consolidation period May to December. You have to assume that also the preceding Brembo China has an important growth. So, both companies were growing, so what you see as jump in our sales in China 2016 is not only the acquisition but it is partly due to the market share improvement of the preceding investment. And both China, so let me say are growing with interesting index in 2017, of course, supported by the fact that we are progressively localizing the aluminum caliper business, we hope to have the capacity to give the final of process of tools, prototypes, third quarter of this year to the customers so that early 2018 our early new plant starts. Russia no thanks; we are absolutely able to serve those customers from Poland, and they are actually not pressing us moving to Russia.

NICCOLÒ STORER: Thank you, thank you.

OPERATOR: For any further questions, please press “\*” “1” on your telephone. The next question is a follow-up from Monica Bosio of Banca IMI. Please go ahead.

MONICA BOSIO: Yes, thank you. Excluding the potential impact of patent box on which you need more time, can you give us an indication of the expected tax rate for the current year because the structural or the normalized tax is more in the region of 26%, but I was wondering what can we model for the current year? Thank you very much.

MATTEO TIRABOSCHI: Your question is very very difficult to answer. I am thinking that to give a number, but this number I would say is quite complicated, I think something, around 24% to 25%, something in this area.

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

OPERATOR: Gentlemen, there are no more questions registered at this time.

OPERATOR: I apologize, I apologize. The next question is from Jacopo Tagliaferri of Intermonte. Please go ahead.

JACOPO TAGLIAFERRI: Yes, good afternoon, everybody. I have a couple of questions, if I may, one is on the net debt, you have been able to generate a lot of cash in the first quarter. I would like to understand if there has been some tailwind from the sale...sale of some receivable or if this figure is basically flat year-on-year. And the second one is on CAPEX and depreciation. You said that CAPEX is going to be around €300 million in 2017. I saw a spike in depreciation in the first quarter, can you maybe also comment a little bit on the level of depreciation going forward, please?

MATTEO TIRABOSCHI: Yes, about the depreciation, there is just a little bit increase in the last quarter of 2016, that is more or less one point more compared to same period of the year before, it's a consequence of some investments that we have done close to the end of the year, so nothing particular. I think that for the full year of this year, the ratio will be exactly the same of 2016. And about the net debt, there isn't any action and I think that is absolutely ordinary.

JACOPO TAGLIAFERRI: Okay. Thank you. And finally, if I may, the very last question on some line of your income statement. I was looking at capitalized cost for R&D and/or the revenues both increased year-on-year significantly or should we look at these figures...

MATTEO TIRABOSCHI: There is...to be honest it's not something that we have invested more in the last period, we capitalized but it is nothing particularly. You are talking about the €19 million?

JACOPO TAGLIAFERRI: €19 million, yes

MATTEO TIRABOSCHI: That is €7.1 million in the last quarter.

JACOPO TAGLIAFERRI: Yes. And also...

MATTEO TIRABOSCHI: That is €7 million more compared to the...

JACOPO TAGLIAFERRI: And also the revenues, which went from 14 to 28.

MATTEO TIRABOSCHI: About the capitalization, I will not comment particularly, we are investing a lot in R&D and obviously this is the consequence and sorry, the second one was?

JACOPO TAGLIAFERRI: Other revenues and income.

ANDREA ABBATI MARESCOTTI: Other revenues, you know, I actually don't remember, €40 million the delta on the quarter is €8 million I don't have the evidence of this number.

JACOPO TAGLIAFERRI: Okay. Thank you.

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

MARTINO DE AMBROGGI: Yes, one more question on China. Am I right in estimating Asimco EBITDA in Q4 around 11%, 12%?

ANDREA ABBATI MARESCOTTI: The EBITDA of our companies in China are absolutely aligned. So you can assume that today Asimco is performing very well absolutely in line with the preceding Nanjing.

MATTEO TIRABOSCHI: There is no dilution about our margin from China, or Asimco particularly.

MARTINO DE AMBROGGI: Even standalone?

ANDREA ABBATI MARESCOTTI: Yes.

MARTINO DE AMBROGGI: Okay. And during your initial speech, you mentioned China could become the third country. Did you also tell what is the time span?

ANDREA ABBATI MARESCOTTI: Early 2018, could already be full year 2017.

MARTINO DE AMBROGGI: Okay. So that means...

MATTEO TIRABOSCHI: To duplicate the revenue from China.

MARTINO DE AMBROGGI: Within, which timeframe?

ANDREA ABBATI MARESCOTTI: Two years or smally more, but let's say two years..

MARTINO DE AMBROGGI: So that means €200 million additional sales.

ANDREA ABBATI MARESCOTTI: Martino, last year the world increased 4 million cars, 3 in China, 1 in Europe, the growth is only in China; that is the reality. If the Company wants to grow besides the market share, the real only market is China.

MATTEO TIRABOSCHI: China is the first market in our sector.

MARTINO DE AMBROGGI: Now that's clear, but if we say to double the Chinese sales from current €200 million, it means €400 million, is it right?

ANDREA ABBATI MARESCOTTI: Could be, if not the result of 2018, let me say could be the tendency that we see in the second half of 2018. So maybe the total number 2018 is about €200 million, but this is actually second half of 2018, in small portion is a movement of some volumes from Europe to China, which in our opinion could be compensated in Europe, if Europe goes well as it should, but you are really asking a guidance on a two year span, while we do normally on six month...

MARTINO DE AMBROGGI: Yes, I tried to extrapolate what is the growth, yes.

ANDREA ABBATI MARESCOTTI: You are really long from today.

MARTINO DE AMBROGGI: And just one more question on the Caliper with five openings, I didn't see any press release concerning potential new business or clients for this. Is it still in the let's say embryonic, still an embryonic business or it is...

MATTEO TIRABOSCHI: It is not embryonic, it is a quite important business, but it's the same story, we have now the authorization, our customers speak about the business that we have.

ANDREA ABBATI MARESCOTTI: The awards along the last 12 months with the OE customers of aluminum Caliper, which you know very well who they are, were basically all successful, but there is an integrity rule so we cannot announce them.

MARTINO DE AMBROGGI: Okay. But this business is progressing?

ANDREA ABBATI MARESCOTTI: Well.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: Gentlemen, there are no more questions registered at this time.

MATTEO TIRABOSCHI: Thank you everybody and have a nice weekend. Bye.