Operator

Hello, this is the Chorus Call operator

Welcome to the presentation of Brembo's quarterly results. After the initial presentation, there will be a Q&A session. I now give the floor to Dr Matteo Tiraboschi, Brembo's executive vice-president. Dr Tiraboschi, please.

Matteo Tiraboschi

Thanks, good morning to you all and thank you for joining us today to comment on the results of the first quarter of 2014. Here with me are Andrea Abbati Marescotti, our managing director, and the IR (Investor Relations), Laura Panseri.

Now let me quickly comment on the presentations I found on our website. I'd start from slide number 2, which recaps the results of the quarter and shows, starting from the first line of the profit and loss statement, an increase of the main revenue, in excess of 20 percent. It surely is an extraordinary increase, in line with the end of 2013, but not an increase that we can imagine will continue throughout the whole of 2014.

As for the profits margin, the EBITDA is consolidated at 69 million, so it's at 15,5%, an increase of over 46% compared to last year. Amortization grows, grows almost at 10%, settling at over 23 million, that's equal to 5,2% of the revenue, a reduction, as for the relative, of almost half a point compared to the same period in 2013. This, I believe, is a good indication of how our

investments, that in the end are those that pull the amortization quota, are correctly and carefully measured against the volume of the business. Once again, the EBIT reaches double figures, above 10%, 10,3%, almost 46 million, an improvement of over 75% compared to last year.

The financial burden is 2,6 million, last year it was 4,2 million, so there is a reduction of 37,6 percent. Here there's the usual effect that sometimes helps, sometimes doesn't, in this case helps in the debt conversion of some subsidiaries that accrued debt in euro though their currency is different from euro. Taxes are 7,4 million, with a tax rate of 17%, so they manage to determine a net result for the cycle of almost 36 million, equal to 8% of the turnover, a definite improvement compared to last year, when it was 20,6 million, so growing above 74 percent.

Let's go to slide 3, where we see the composition of the business growth in terms of turnover during the last quarter. Starting from 372 million in 2013, the turnover has contributed 85 million, the prices are negative for 1,900.000 euros. This is the effect of some cost-efficiency measures that we have acknowledged, and particularly of the price decrease of some raw material, first and foremost ferrous scrap. And the exchange rates, that are negative by almost 9 million. Here the major players are the dollar, worth about 3 million, another 2 million between the Brazilian and Argentinean currencies, and another 2 million with the Indian rupee. The sum of these entries takes us to 447 million euros. Had the effect of the exchange rates been not so negative, the growth of the revenue account would be better off by 2 points, so we would have closed with 22,5% more.

Let's go now to slide 4, where we view the contribution of the different branches of the business and we see that all contribute in a definitely good way. Passenger Cars is on the rise at 25%, and three sides have grown massively in this quarter. The motorcycle is on the rise at 13%, exchange rates aside, and here India is worth a lot, it would grow by 18,4 percent. Commercial vehicles grow by almost 11% and the world of competitions by 9 percent.

In the following slide, number 5, we see that, after considering the exchange rates, the business is positive in all geographical areas, in all the areas where Brembo operates. Italy, and that's good news, is on the rise at 12%, Germany is always very strong, over 23%, and the rest of Europe is also performing well, +39% for France, +37% for the United Kingdom, + 10% for the other European countries. India sees a -3%, but this figure is determined by the exchange rate between rupee and euro. Exchange rates aside, it grows by almost 15%. China is on the rise at 22%, Japan 13%, South America has a -10%, but here, too, the effect of the exchange rate is a strong factor. This effect aside, the growth would be almost 13 percent. And America continues to rise, +27,7 percent. Here we are losing 4 points because of the exchange rates effect.

In the following slide we see the EBITDA performance. In particular, in slide 7 we see how the business has positively contributed with 31,6 million, the prices are negative by 300.000 euros, so the effect that we have seen on the turnover has been widely absorbed. Compared to last year there is equipment that has been re-debited to the clients, but we will discuss it during the course of the year.

Operations are down by 9,6 million and here it is definitely Brembo's industrial footprint that keeps growing, adding to the balance the new and

emergent plants and positive monophasic exchanges to the value of 100.000 euros. The sum of these entries takes us to EBITDA's 69 million.

In the following slide, number 8, we can see the lower end of the profit and loss statement. In particular, in slide number 9, we can go over the financial obligations. You'll find that the net financial obligations are equal to 3 million and 100,000, more or less as last year. The effect of the exchange rates is less negative than last year by 300,000 euros, due particularly to the conversion of debts in zloty and Czech crowns. As for the companies in which we don't hold the majority share, the consolidation with the equity method has been positive by 1,3 million. The sum of these entries results in financial obligations equal to 2,6 million, an improvement of 1,6 million compared to the same period last year.

Now let's examine the real bearing of the financial obligations in the area of debt. We can see here that we're talking about 3 million, almost the same as last year's 2,8 million, with an average debt for the period that is rather in line, 366 million. Last year it was 365, so there is a rather moderate difference, with a debt cost of 3,4 percent. Last year it was 2%, so it has got worse by approximately 0,2%, because a part of the substantial investments we made were in remote countries where the cost of money is higher. Let me explain, in Brazil the cost of money is equal to 12-13%, in Argentina it touches 40%, in China it is around 9-10%. So, the effect on the turnover is absolutely modest.

Slide 10 shows our tax rate, that is 17% and standardized, so excluding the extraordinary effect of Poland and the Czech Republic, it would settle at around 27-28%, i.e. 27,1% of last year and 28% of this year. Let's now move to the financial position with slide number 11. We see that our starting point was a stock debt of 320,5 million, and the EBITDA has positively contributed to it

with 69 million. During the trimester we have invested 23 million; 64 million were absorbed by the working capital; 1 million and a half between financial obligations etcetera. The final entry takes us to 340 million outgoing debts for the first quarter.

I would skip slide 12 because I believe that number 13 is more significant and effective. We have our debt, which is 86% long term and 14% short term, always in line with the structure that we intend to maintain in the future. Slide 14 also shows the structure of our debt; slide 14 recaps the major indicators. The ROI is in constant, continual growth, settling at around 22,4%; the ROE is over 31, at 31,4% so under 75, 73,2%, so it's doing really well. The relation between the net debt and EBITDA is also good, 1,5%, and the relation between profits margin and financial obligation also looks really good to me. I would skip the last two slides that you know better than me, those on the performance of the shares, this has been going really well since the start of the year, growing by 32% (this is the data from the day before yesterday, if I remember well) and is surely the best performance of both the index against which we are comparing ourselves and our peers. With this I end this quick survey of our presentation and leave space for questions. Thank you.

Operator

This is the Chorus Call operator. We will now start the Q & A session. The first question is from Monica Bosio, from IMI Bank. Please.

Monica Bosio

Well, good afternoon. I have three questions, the first being the usual

one. I have seen in the press that you enjoy a good increase in the proceeds-margins and you have remarked how the first trimester has been affected by the mix. The first question is if, generally speaking, you can confirm the guidance of revenue growth between 8 and 10%, with an EBITDA margin of 14 percent. I wonder if, in this context, you could give us an idea of what the constant mix trend could have been. I suppose the mix derives from racing and in part from commercial vehicles, so I wonder if you could give us a better idea of the 25,1 % growth of the automobile sector. This leads me to the second question, about your growth rate forecast for the car sector in the next few trimesters. Maybe the first trimester has been affected by an extraordinary amount of orders. And the third has also recorded the United States' performance, so I wonder if you thought about accelerating the idea of investing in the foundry industry in the United States.

Matteo Tiraboschi

The first trimester has surely been a very important one, because we were not expecting +20%, but we have actually found that our figures match what our main customers were doing. Obviously, forecasting another year with the same rhythm as the current one is neither credible, nor sustainable. We said that in 2014 we would expand in single figures, maybe in the upper end of it, but single figures. Clearly, with this start, we can announce that we are growing a little more than our forecast, so I believe I can say that 10% is achievable, perhaps even 10,5 percent. The year is going to be long; this is the first trimester and there's still nine months to go. Fourteen percent was the amount we promised ourselves. Now it's true we started with +15,5%, but 14 is still our target. I hope we can do better, I believe 14 is an important number. As for the

trimester, it is really extremely difficult to say how the constant mix effect would have grown. We obviously have seasons in our business, for instance motorcycling, racing, upper market, it's clear that they have grown massively, so they have contributed to the good start of the year. Considering the net value and imagining the contribution of these people on what could have been our growth and performance compared to the margins is, in all honestly, an exercise that A) I haven't done and B) is rather difficult to do,

Monica Bosio

Sorry if I interrupt, but this mixed effect will return in the second trimester, that is the strongest one in the year, is it right?

Matteo Tiraboschi

Yes, but it may have been an anticipated phase, so perhaps some customers may have purchased more stock in the first trimester than in the second. It's also difficult to imagine that the passenger cars' sector will keep like this, because in this sector we bring together three different entries: one is the upper market world, which is highly seasonal, and where we don't have a long-term orders' visibility, but almost a day-to-day one. We then have the world of the car brakes and disc brakes. They are surely growing well but I don't believe they will keep growing at 25% all year long. Our forecast for the last quarter is surely a very round number. As for the United States, I believe we need to take a decision on the new foundry rather quickly. It is clearly becoming more and more of a reference market, where we are growing massively, so we'll need to firmly sustain this growth and integrate a part of the margin relating to the fusion process. Thus, I believe, a decision has to be taken before July or soon after

Summer.

Operator

The next question is from Martino de Ambrosi, from Equita. Please.

Martino de Ambrosi

Good morning everyone. Going back to the guidance, just to have an idea of the visibility that you're going to have in the second quarter as regards the top line, to comprehend how you keep seeing a slowdown no matter all, even though you have already given some explanation, I'd like to understand the current forecast for the second quarter, in order to draw a line on the second part of the year. You see, what I can tell you of the total mix of the different parts of the business is that, from what we see now, I believe that in the second quarter we'll make something like 11-12 percent. Clearly, it still needs to be lived in, I mean, even the world of racing or motorcycles might still have a positive effect on the period, on the second trimester. So, as regards the turnover, if in the second quarter you were to make even +11-12%, why would you still see a single digit in the second H, i.e. a drastic slowdown? I was expecting to hear you cautious as usual, but a bit more positive regarding the top line.

Matteo Tiraboschi

This is because the visibility we have is only until Summer. In the following phase we don't have such a clear visibility; our clients might have even made significant orders in the past, but rather than being way too enthusiastic and draw the line forward thinking of a 15-16% on the full year, I'd rather be a bit more conservative. From what we gather, our clients do not fill entire squares,

but chains, tubes have some more machines than normal, so I believe it is right to err on the side of caution.

Martino de Ambrosi

Ok. I want to ask you the same question regarding the margin. Typically, the first quarter is never the best of the year as regards the EBITDA margins. Maybe this year is different because of the mix effect to account for, but even so, with a turnover that is, no matter what, cautiously on the rise, you still confirm 14 percent. I'd like to have some more explanation, why is it not possible to do any better?

Matteo Tiraboschi

You have to bear in mind that the first quarter here compares to the first quarter of 2013, which was weaker. During the first quarter of 2013 we grew 6,7%; the same year we ended at 12,8 percent. So, in the comparison, the first trimester is easier; the second, third and fourth will be more difficult.

Martino de Ambrosi

I was thinking about the absolute value margin, you said it's 15,5%, if I'm right.

Matteo Tiraboschi

Yes, you're right. This is because I have anticipated part of our richer business, the more favourable one for us, which is competition rather than motorcycles. This helped us a bit.

Martino de Ambrosi

Ok. If I may, I'd like to conclude with two purely quantitative questions, however I saw Capex is lower than what I would have thought. I saw 130 on the year, always confirmed.

Matteo Tiraboschi

Yes, confirmed.

Martino de Ambrosi

So we can say that the temporary slowdown of the first trimester is purely a coincidence.

Matteo Tiraboschi

Yes.

Martino de Ambrosi

Ok. Another question, even more trivial, is that I thought the amortization was going to be even slightly lower than the fourth trimester of last year. I imagined it could be some currency effect or is there any other explanation?

Matteo Tiraboschi

Honestly, I haven't looked at this. In currency terms there might be something that has to do with dollar consolidation, in the States there could really be something.

Martino de Ambrosi

I would have expected a boom, with a minimum temporal Like (trend) compared to the explosion of Capex in the past few years.

Matteo Tiraboschi

Yes but, honestly, I'll have to look into it, because it's a correct question that, at the moment, I can't answer. I actually want to give you another answer, even though you didn't ask the question, on invoicing, because I was just looking at it earlier on. On average, we used to do 30 million, in reality we made half of it, 14 million, in the current trimester.

Operator

The next question is from Niccolò Storer of Mediobanca. Please.

Niccolò Storer

Hello, good afternoon to all of you. I wanted to ask a somehow more general question on market trends, in particular about how you see the commercial vehicle business during the rest of the year. Many companies that have exposed themselves to commercial vehicles have already reported on the figures of the first trimester, showing signs of a business slowdown. Considering that you have an important market share in Europe, what do you say about it? The second question is shorter, just a clarification. I see you still have some deferred taxes from the Czech Republic, which I thought had been paid off. Can you help me with this? Thanks.

Matteo Tiraboschi

I'll start from the last question and then I'll leave to Andrea the pleasure

of answering you on the overview. So, up and until last year, in the Czech Republic active deferred taxes were determined by our fiscal losses. This year, instead, we are receiving the benefits for a well-known station in the Czech Republic, that is not as important as the one we have in Poland, it's much, much less, but has in any case its value, so we are now using the Czech republic tax shelter. We are not using the losses any more.

Andrea Abbati Marescotti

Let me now answer you, Niccolò, on the market trends for commercial vehicles. The commercial vehicle market that is in a really tight spot is in China, and we're not particularly exposed to it, and it's really flat and weak in North America, where we have little exposure. In Europe, it has recorded +6%, but now we need to understand if this 6% is composed by final purchases or if it specifically the re-establishment of a vehicle pipeline. Our clients have performed really well. We can see that deliveries to our main customers have increased by 10-15 percent. This increase in the order portfolio of Q2 (second quarter) is good and continues at the right pace. So, in all truth, I don't see any worrying sign regarding commercial and heavy vehicles. Right now, we haven't definitely achieved peak levels, but we see consistency, because the second trimester should be reasonably good as the first.

Operator

The next question is from Giorgio Iannella, from Kepler Cheuvreux.

Giorgio Iannella

Good morning to you all, and well done. The usual question on the

market share, in particular on the car sector, is how much of that growth is possibly explained by an increased market share, or by new customers, or by a specific issue with some markets, maybe the US. The second question is a bit vague, and it's if you could give us some update on the avionic market, where you are in the certification process, etcetera. Thanks.

Matteo Tiraboschi

So now, the first question. Simplifying, the automobile growth in Europe, particularly in Germany, and in the United States - as the greatest volume increase that you can see in the first quarter have clearly these names on it - has mainly 3 drivers. The first is the general recovery in Europe. Clearly, since more or less all the countries have recovered between 5-6-8%, depending on the different countries and premium vehicles equipped by us, there has been a general increase for all the clients. The second phenomenon is that during this trimester the German customers in particular have performed really well worldwide and nationwide, and the Americans have also performed well. So, the top 6 that are fundamental for us, the Germans and the Americans, have outgrown the market. The third phenomenon, that is is clearly the leitmotiv of all Brembo's past few years, is that we have a bearing across the premium segment and, generally speaking, premium cars gain market quota compared to generic cars. Thus, fundamentally, so long as you see a stable Europe and premium cars' market gains, as well as a strong performance of the great German and American customers, you see the combination that is responsible for Brembo's growth. These are specific cases of market share increase with an American client and a couple of German ones, but the main drivers are the ones I told you, the premium factor of Germans and Americans, and a good Europe that is

recovering.

The second question was about avionics. The certification process is 2/3 under way, in the sense that we have received the certification on our process of product development, and on the products themselves we are now completing the certification of the production process. It's a long but consistent route and, if I remember well, our target for completing the certification process is before the end of the year.

Giorgio Iannella

Is it feasible to see the appearance of a separate line of core business spares for next year?

Matteo Tiraboschi

There's going to be an amount of business, but not such as to be made explicit.

Giorgio Iannella

Well, another quick question, the last. What are your general competitors, the big ones, doing regarding the so called mid premium segment? Are they becoming more aggressive, are they trying to react to our entry in the market, is there any particular initiative or, in your opinion, your investment, that has been successful so far, will continue along the same line?

Andrea Abbati Marescotti

Ok, these are always difficult questions, because we don't normally find ourselves doing benchmarking with our competitors week in, week out. If I

mentioned the last 6-8 months' signals, they are a little bit less aggressive, meaning that, having seen an important increase of aluminium brakes during a period in 2012-2013, they have thrown themselves in the market at any cost, creating problems in the dynamics of the unit prices that we have mentioned. Now we witness some interesting cases of tenders where there is less competition, or at least where the competition is less focused on price aggressiveness. It may be too early to give such a signal, but we have had some important phases in which this has started to appear among German-American customers, as well as among the Japanese ones.

Matteo Tiraboschi

If I may I add a few more words, it is clear that in our market we stepped on our competitors' feet because we have tried to turn cast-iron brakes into aluminium ones, so we have made them rather nervous. Those who forced their way in, had to account for the management of some considerable problems later on. I'm thinking in particular of one who put forward a very aggressive bid and later faced huge problems in the manufacturing of the product. They proposed the customer a product that was half a kilo heavier and lost platforms around the world. So now they are realizing, as Andrea rightly said, how difficult it is to manufacture this product. So now, maybe, before saying goodbye, I'd like to ask you if you want to share with us the areas that you perceive as more critical. If you have reasons to worry this year, what is the level of criticality that you recognize, provided there is one.

Andrea Abbati Marescotti

We live constantly worried. This leads us to worry about everything

because, in the end, our worry is to make our products run well every day. We have many products; they are all huge now, so an accident means that a single plant could have consequences on our revenue account. We always want to offer our customers the level of service that we have continued to give in spite of our growth, with constant innovations as regards both products and production concepts. So our battlefronts, the ones where we wake up every day with palpitations are a lot. But you'll calm down with the quarter. Thanks a lot.

Operator

The next question is by Renato Gargiulo, from Banca Aletti. Please.

Renato Gargiulo

Yes, good morning everyone. I would like to briefly touch upon the previous question, where you said that the competitive pressure on pricing is slightly decreasing in the automobile sector. I was wondering about commercial vehicles and motorcycles, how you see the situation and the trend for the next few trimesters.

Matteo Tiraboschi

You have clearly seen a really contained pricing effect. There is a combination of many factors, amongst them the trends regarding raw materials. So, using this logic, one could expect a similar trend, or a reduction. I don't expect important issues, really.

Operator

Dr. Tiraboschi, there are no further questions booked at the moment.

Matteo Tiraboschi

Well, thanks again for your time and speak to you soon. Have a good day.