

Brembo

Full Year 2014 Results

March 5th, 2015

Chorus Call Operator

Good morning. This is the Chorus Call Operator. Welcome to the presentation of Brembo's 2014 annual report. After the initial presentation, there is going to be to the possibility to ask questions. Now let me give the floor to Matteo Tiraboschi, Brembo's deputy Executive Officer.

Matteo Tiraboschi

Welcome and thank you all for being here in order to comment on Brembo's full year results. Here with me there are Brembo's CEO Andrea Abbati Marescotti, and our IR Laura Panseri.

Let me start with slide number two, showing the results of the fourth quarter 2014. As you can see also at the end of the year the turnover was consistent, growing by 12.4%, against the year before, meaning a turnover of 473 million Euros. EBITDA accounted for 72 million Euros, that is 15.6%. Amortizations had an incidence on sales which is in line with that of last year. Its value in absolute terms is of 28.1 million Euros. EBIT account for 9.5%, meaning almost 44 million Euros. Financial charges accounted for 3.3 million Euros, with a contraction as compared to last year. Last year they accounted for 4.9 million Euros. Taxes accounted for 6.2 million Euros, the tax rate being 15.3%. Over the last quarter, the tax rate decreased significantly, due to the facilitations after the investment we made in Poland in Niepołomice, that caused a tax reduction of 3.6 million Euros. The net result is of 34.7 million, 7.5% of the turnover.

Now let's have a look at slide 3, with data about the full year. The turnover overcome 1.8 billion Euros, with a 15.1% growth. EBITDA was close to 280 million Euros, meaning 15.5% of the turnover. This means we had a good growth as compared to last year. Amortization grew in absolute terms of 11.8% as compared to 2013, with an incidence of 5.6% on the turnover, that is slightly lower than last year. We had an EBIT growing by 9.9%, close to a double-digit growth, meaning 178.4 million Euros. Financial charges accounted for 13.5 million Euros. Taxes accounted for 36.2 million Euros, the tax rate being 22%. In the last part of 2014 we changed the accounting principles related to the way we consolidated BSCCB. BSCCB is the joint venture we have with SGL, which produces carbon ceramic disks. Until recently we used to consolidate it according to the equity method, meaning that we included it in the financial charges line. However they are a company producing important parts for our business. That is why we decided to change our accounting principles and we decided to consolidate them in the EBITDA line. Figures related to BSCCB used to be small. Since they are starting growing significantly, they run the risk of distorting data about financial charges. Of course this change has also been applied to data related to 2013 in order to allow a coherent comparison with data related to 2014.

Let us now consider the first line of the income statement. If you focus on the chart on the left, the topline accounted for 1.566 billion Euros, meaning the 2013 turnover. The volume mix positively contributed for more than 261 million Euros. Discounts accounted for -8.6 million Euros. As we will see later when considering the EBITDA line, this price reduction was fully offset by efficiencies in the supply chain. Exchange rates accounted for -15.5 million Euros. The total sum of all these entries is 1.8 billion Euros.

If we consider the business performance, all sectors perform well. Passenger cars increased by 18.6% as compared to the full year; motorbikes increased by 15.5% as compared to the year; commercial vehicles decreased by 2% as compared to the full year and by 13% as compared to the last quarter of 2013. However it must be noticed that that last quarter of 2013 the commercial vehicles sector performed particularly well because our customers expected a very positive year for commercial vehicles and bought a lot over the last part of 2013. Unfortunately 2014 was a quite flat market and this has had a negative impact on our commercial vehicle sector. Competitions grow by more than 9%.

Slide 6 shows sales according to geographical areas. North America is definitely the first market for Brembo. Sales there accounted for 463 million Euros, growing by 24%. Germany grew by 15%, accounting for almost 433 million Euros. Italy grew by 14%, accounting for 242 million Euros. The remaining European countries are all positively growing. France and the UK are performing very well. Eastern countries grew by more than 4%.

As for non-European areas, India grew by 16%, though parity in exchange rates would provide us with a 21.4% growth. China is also very well performing, with a growth close to 15%. Also Japan is performing well. South America is struggling because they decrease by 11% even though their growth before the exchange is around 5%.

Slide 8 shows data related to our EBITDA. It accounted for 213 million Euros in 2013. The volume mix contributed for 82 million Euros; prices for 10.7 million Euros; operations for 30 million Euros. as for operations let me remind you that this figure includes accounting adjustments due to the fact that we moved the production of Harley Davidson from Italy to the United States. It also includes all costs related to Brembo's industrial footprints being enlarged. Exchange rates are negative, -1.5 million Euros. As a result of the consolidation of BSCCB, we have a 5 million Euro scope, which is the difference between last year net results, accounting for around 1.4 million Euros, and this year results, being of around 6.4 million Euros. the sum of all these entries is 280 million Euros, as far as EBITDA is concerned.

Moving to the bottom line of the income statement, there is basically nothing to say about financial charges.

As for the cost of debt, it decreased. Its incidence is of 2.7% against 3.4% last year, meaning that rates diminished as well. Furthermore we are also working on funding so as to furtherly decrease the cost of money.

Slide 11 shows figures related to our tax rate. If we do not consider the effect of all the extraordinary events in Poland and Czech Republic, our tax rate is close to 27%. Last year it was about 30%. So, the 22% tax rate we recorded is in fact a normalized 27% tax rate.

Slide 12 shows data related to our debt. At the beginning of the year we had a 320 million Euro debt stock. From the one hand EBITDA almost completely counterbalanced it. From the other hand, investments increased it by 123 million Euros and working capital by 22 million Euros.

Then we sold our small subsidiary, SABELT, producing security belts for children positively contributed for 1.7 million Euros. We also paid dividends in May last year for 32.5 million Euros. Financial charges accounted for 45 million Euros. Other entries accounted for 8.3 million Euros.

If we look at the debt and how it is structured, slide 14 shows us that it is basically on the medium and long term. This is also the peculiarity of the end of the year. The cash flow has been particularly positive over the year.

Slide 16 shows all main indicators which are performing better and better: ROI accounts for 21.3% as compared to 15.8% last year; bearing liabilities accounted for 50%; ROE for 24% as compared to 20.8% last year; the debt/EBITDA ratio is under 1%; incidence of financial charges on margins is as good as it is on sales.

I am done. Let us now move to the Q&A session.

Chorus Call Operator

This is Chorus Call Operator. Let us now start the Q&A session. The first question is from Monica Bosio by Banca IMI.

Monica Bosio

Good morning. I have four questions. The first one is my usual question about your outlook on 2015. You talked about a good start, and according to the positive data related to the fourth quarter, I was wondering whether you could predict a higher turnover as compared to that you firstly expected. When presenting data about the third quarter you talked about a one-digit growth in 2015. Should I refer to data related to the fourth quarter as a topline for 2015, I would expect a double-digit growth ranging between 10% and 12%. My second question is about EBITDA. The market is expecting a growth of about 15% on sales, which data about 2014 broadly overcome. Moreover accounting principles have changed. So, my second question is: do you expect an EBITDA at least in line with that of 2014? My third question is about BSCCB. They contributed a lot and it seems they are going to do so more and more in the future. Can you tell us more in terms of sales and margins related to Brembo SGL Carbon Ceramic Breakes? Finally, my last question concerns commercial vehicles. 2014 was a difficult year. Since the macroeconomic scenario is going to be better in 2015 all over Europe, do you expect a positive trend for 2015 full year?

Matteo Tiraboschi

Let me start by data related to sales in 2015. I don't think we are going to experience a double-digit growth. We will work for a double-digit work, but I would now confirm what I said during the conference about data related to the third quarter. Probably the topline is going to be a double-digit topline, but I expect a single-digit growth. I do not think that in 2015 we are going to perform as well as in the last quarter.

Monica Bosio

What about the exchange rate effect?

Matteo Tiraboschi

Frankly, I do not consider it. I only consider our portfolio. The exchange rate effect can be either positive or negative. Our guidance is after the exchange rate effect. As for profits we are working to meet two important objectives. A foundry in North America and foundry in Mexico. So, for sure, there are going to be some expenses more than in 2014. Of course, we are going to work hard so as to have the same data as 2014. However this is not that evident. Concerning BSCCB we continue consolidating them according to the equity method. It is only equities that change. In 2014 equities increased by 5 million Euros as compared to

2013, meaning not a very important piece of data. However, they had an important effect on financial charges. As a consequence the picture was not that clear, that is why we decided to report data about them in the topline, because it is in line with our business. Concerning commercial vehicles I let Andrea answering.

Andrea Abbati Marescotti

Last year the market struggled to remain stable. Our factory performs very well, it is well saturated. However the market does not help. In January we has a flat start. The total European production of commercial vehicles was flat but sales were slightly better. 7,000 vehicles were stocked. We need to wait some time in order to understand if this was due to a given commercial policy or if we are going to see an increase in orders. To me the fact that commercial vehicles are stable is a good news. We expect a slight growth but I need some month-time to give more details.

Chorus Call Operator

Next question is by Niccolò Storer by Mediobanca.

Niccolò Storer

Good morning everybody. I have four questions. My first question is about the 6.4 million Euros by the joint venture. Do they have an impact on revenues or do you simply moved them from above to below EBITDA? My second question is related to what you expect from the European automobile market. Many manufacturers provide very cautious outlooks. They are even more cautious than what the first sales let us imagine. My third question is about your income statement. Since you did not propose important dividends, I was wondering whether you had scheduled some important acquisitions. Finally, as for CAPEX, I understand results are less positive than expected. Should we expect a shift related to a given expense in 2015 and consequently higher data?

Matteo Tiraboschi

Let me start by dividends. To me they are important. We even increased them by 40% to 0.80. To be correct, they are made by a 0.60 plus a 0.20, but to me they are important dividends. Consequently we do not have an extraordinary acquisition planned. However, given the financial situation of the group and the cost of money, I think it is time to start growing even non-organically. So some acquisitions are possible but we haven't started thinking about it yet. Concerning BSCCB being consolidated, we moved it but it does not influence the bottom line of the statement. Instead of being included in the financial charges, the 6.4 million Euros are above the EBITDA.

Andrea Abbati Marescotti

As for the automobile market, the European market started well, +6% as to the end of January. In February data are quite similar in all 28 countries. However orders by customers have not increased accordingly. In terms of production, we only had a +4%. This means that manufacturers prefer being cautious. Concerning our orders, they are good until May 2015. They fully support that guidance about growth that Matteo confirmed. Even the North-American market is performing well though it suffered in terms of production, which was inferior than last year because of snowstorms. Since factories are basically located in the North-East, some have been closed. We also closed a factory for a week because too much snow had fallen. However sales performed well, because a good portion of it was not due to production. However we should

not be scared. I think that the first quarter is going to be as satisfactory as we expect. These are the markets which we are more interested in. We still do not have official data related to the end of the year in China, but production there is performing very well. Results seem to be coherent. Unfortunately there is a bad news. We imagined that Argentina and Brazil could not perform worse than last year, but in Argentina they produced 20% less than year. In Brazil production is basically still. From data related to 2014 you did not notice outstanding problems. We managed to absorb this market, which is causing problems to all those involved in the automobile market. In 2015 we already know it is not going to perform well. However we are not going to suffer from this.

Niccolò Storer

What about the important destocking activities in Brazil at the end of 2014? Isn't it a positive piece of news?

Andrea Abbati Marescotti

This coin has two faces, as usual. Yes, the Brazilian market experienced important destocking activities due to fiscal facilitations proposed for the last two months of the year. Facilitations being over we do not know if we are going to assist to more production in 2015. Even though forecasts made by market analysts cannot be considered as viable, they expect a +3% in the next 36 months. Frankly, data related to January are dramatic. We are waiting for data related to February, but to me in Brazil there is only one solution: keeping capacities and costs under control.

Niccolò Storer

What about CAPEX in 2015? Since in 2014 it was below what we expected, will it increase in 2015?

Matteo Tiraboschi

Yes, I think it will be close to 150 million Euros.

Chorus Call Operator

Next question is by Martino de Ambroggi, from Equita.

Martino de Ambroggi

Good morning everybody. Concerning a CAPEX below expectations, do you mind explaining why it was so?

Matteo Tiraboschi

Nothing special, we simply postponed some investments. We thought we could have a more important outflow. However some American initiatives asking for such investments were postponed. As a consequence, we think we are going to make such investments later in 2015.

Martino de Ambroggi

What about the tow foundries? Since you are not going to make investments only in 2015, but also in 2016, do you think that data related to CAPEX in 2016 are also going to be around 150 million Euros?

Matteo Tiraboschi

Yes, I do.

Martino de Ambroggi

What about operations in the EBIT bridge? In 2014 it accounted for 30%. How much will the two foundries influence data related to 2015?

Matteo Tiraboschi

First of all, that 30% is also made of data related to Harley Davison. Since we are no longer producing in Italy, but in the US, we had to change out accounting principles. As for the two foundries I cannot quantify how much they will account for. As said the previous years, these figures are not that important. We always have to include extraordinary activities, which have now come ordinary ones.

Martino de Ambroggi

How much did Harley Davidson influenced this figure?

Matteo Tiraboschi

I cannot tell.

Martino de Ambroggi

OK. In your presentation you talked about an important cash inflow in the fourth quarter. If I got it correctly, you said that the situation has been offset in 2015. Is this related to a temporary phenomenon?

Matteo Tiraboschi

The situation at the end of 2014 is related to the medium term and the long term. For the long term data are over 100% which is counterintuitive. That important inflow at the end of the year was an extraordinary phenomenon. As for cash inflow, the whole 2014 has been a positive year. We have a cash inflow of 50 million euros despite dividends being redistributed. For Brembo these figures are particularly considerable.

Martino de Ambroggi

What about factoring?

Matteo Tiraboschi

Factoring is about 2.4 million Euros, but data were related to September, meaning it is 0.

Martino de Ambroggi

Do some realities still overspend despite a more positive market?

Matteo Tiraboschi

Yes, they do.

Martino de Ambroggi

What about the aerospace and defense sectors?

Matteo Tiraboschi

We are continuing developing initiatives and applications. Unfortunately we are still waiting for the customer's green light. We have signed agreements, but still do not basically anything about it. Something happened in 2014. Some more is going to happen in 2015, but we are still waiting for a meaningful order.

Martino de Ambroggi

Are you going to reach 20 million Euros in 2015?

Matteo Tiraboschi

I don't think so.

Chorus Call Operator

Next question is a follow-up by Monica Bosio, from Banca IMI.

Monica Bosio

A last question about the possibility of growing non organically. Are you thinking of small acquisitions in the aerospace and defense sector or you think you are going to stick to your sector? In this last case, do you mind providing more details about countries and activities?

Matteo Tiraboschi

First of all let me tell you that we are talking about desiderata, because nothing concrete has happened. For sure the aerospace sector is of interest, because it is a different market as compared to that of the automotive sector. However it is a market with many similarities to that of the automotive, meaning that our skills, competences, and know-how are particularly useful in the aerospace sector. Having said that we are a company operating in the automotive sector, meaning that we are looking for possibilities also in this sector. As for countries, we look for acquisitions both in North America, Europe, and Asia. What is difficult is to identify adequate targets. As for the size of acquisitions, this depends a lot on the target. The global situation encourages us to make more important acquisitions as compared to the ones Brembo made in the past. Brembo has always made small acquisitions. Maybe it is time to start making more important acquisitions.

Corus Call Operator

Next question is by Michele Baldelli, from Exane.

Michel Baldelli

I would like to ask something about the selling price and the effect of the fourth quarter on EBITDA. We are talking about more than 7 million benefits. Are these data due to efficiencies on the supply chain, meaning are they structural? Or are they just extraordinary results due to one-off events?

Matteo Tiraboschi

The figures you are mentioning are the difference between the discounts that we grant to customers because of efficiencies and other reasons from the one side, and, from the other side, the way we are able to offset such discounts thanks to the way we manage our supply chain and our R&D department, which

gives an added value that our customers particularly appreciate. So there are more than one entry in the chart which not only counterbalance discounts but they even provide benefits. I cannot tell you if we are going to do the same in 2015, because this is something which is particularly related to the short term, semester by semester, through costs which are recharged to customers, the efficiencies you were mentioning, and on and on. It is quite complex to predict what is going to happen in this field.

Chorus Call Operator

Next question is a follow-up by Martino de Ambroggi, from Equita.

Martino de Ambroggi

Concerning the historical USD's exchange rate, what is your guidance related to the high single-digit growth?

Matteo Tiraboschi

Making forecasts on the basis of simulations about future trends of currencies may be misleading. Our sentiment about our growth in 2015 is that we are going to perform a single digit growth. We hope that our topline is going to record a double-digit growth.

Martino de Ambroggi

What about the tax rate? Do you think you are going to be below the standard 27%?

Matteo Tiraboschi

Yes, because we still have an important benefit from what we did in Niepołomice. We profited from that for around 3.6 million Euros in 2014 and we are still going to profit from that in 2015. I think that we are going to have a tax rate ranging between 20% and 22%. However it is particularly difficult to say.

Martino de Ambroggi

As for 2017 and 2018, do you expect the tax rate is going to be standardized?

Matteo Tiraboschi

As I said, in 2015 we are going to have a 20-22% tax rate. In 2016 we are still going to profit from a lower tax rate as compared to the standard one. In 2017 I think it is going to be the standard one or close to it.

Chorus Call Operator

There are no other questions.

Matteo Tiraboschi

I thank you all for participating. Have a good day.