

# **Brembo S.p.A.**

**“First Half 2016 Financial Results Conference Call”**

**Thursday, July 28, 2016, 14:00 CET**

**MODERATORS:**     **MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN**  
                          **ANDREA ABBATI MARESCOTTI, CHIEF EXECUTIVE OFFICER**  
                          **LAURA PANSERI, INVESTOR RELATIONS, MANAGER**

OPERATOR:

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo First Half 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: Thank you. Good afternoon everybody. Thank you for joining us today to comment the Brembo first half results. Here with me, there are Andrea Abbati Marescotti, our CEO, and Laura Panseri, our IR Manager.

We'll go quickly through the presentation, we go directly to Slide #2, we can see the results of the Q2, where we can see that the total sales are around €583 million, that means +11.2% as compared to last year, EBITDA is 20% with EBIT 15.3% on the total sales, and the net result is €66.7 million that means 11.4% on the sales.

Go to the first half results, we can see in Slide # 3, sales are €1,146.8 million, +10.4% compared to last year, EBITDA is close to 20%, D&A is 4.6%, just a little bit less compared to last year, EBIT is just a little bit more than 15%, and the net result is €127.1 million, 11.1% on sales.

Go to Slide #4, we can see how our revenues moved during the period, volume mix - it means business- is positive for €143.6 million, price is negative for €11.3 million, exchange rate is negative for €18 million, and the scope is negative for €6.4 million. You remember that last year there was Sabelt in our account, we sold Sabelt during the month of May of 2015, and this year we have two months of Asimco.

Go to Slide #5, where there are the revenues by application. You can see that all the business were positive, passenger cars is positive +14.3%, motorcycle +3.3%, commercial vehicle close to +14%, just racing is

negative, but like-for-like, also racing is positive the half is positive for 5.6%.

Next slide, we can see revenues by area, all the markets where Brembo is involved, they are positive, but Europe is very positive, the same is North America and Asia. We had a problem in South America, where the business is going down, the exchange rate doesn't help us, but recovery is evident.

Slide #8, we can see the bridge of EBITDA, where the business is positive for 46.5 million, price is positive €13.6 million, operation is negative €13 million, exchange rate positive €6.7 million and scope is negative for €2 million more or less.

Slide #10, financial charges, we will not particularly comment upon the slide, they are just the cost of debt in this first half at 2.4%, last year it was 2.8%.

Tax rate Slide #11 in line with last year, tax rate is 23.2%, actually the tax rate is the same tax rate of last year, we had some exceptional extraordinary effects, if we try to normalize this effects, the tax rate is close to 27%.

Next slide, net financial position, we can see in the first half, how much we invested - more than €110 million-, net working capital is negative for €50 million, M&A is Asimco - more or less €72 million, dividends €52 million, financial charges and taxes and so on €44 million.

Next slide, we can go directly to Page #14, we can see the structure of our net debt, approx. 90% is long-term, just 10% is short-term.

Financial result Slide #15, we can see that net invested capital is more than €1 billion; this is the first time that we have seen this result. In Slide 16, main ratios, we can see ROI that is quite positive 33.4%, ROE 34%, Gearing is at 34.3%, net debt/EBITDA is 0.6%, which is quite a good number. And also the EBITDA on net financial charges are positive also EBIT, we got no issues on this point.

Last slide is about the shares, the performance of Brembo shares, you can see that the performance is quite good compared to indexes, and also compared to our peers. This is quite a quick overview of the results of first half we can open the Q&A session.

## 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 Niccolò Storer with Mediobanca. Please go ahead.

NICCOLÒ STORER: Hi, good afternoon, good afternoon to everybody. I have a few questions for you. The first one is related to Asimco, which is the level of revenues that you expect this year, because apparently the first quarter was quite weak compared to the trend seen last year. And also you said that the €11 million is for two months while during last conference call, we said that basically Asimco would be consolidated for just seven months of this year. So just to understand better the trend at Asimco? The second question is related to Brexit what are your clients doing after the results of the referendum in the U.K. And are you seeing some slowdown in particular areas? And the last question, if you could please give us an update on negotiation for the new worldwide platforms you discussed about during the past first quarter call. Thank you.

ANDREA ABBATI MARESCOTTI: Asimco is basically performing very consistently with the preceding exercise, which is already good news, we extensively visited the company, so personally I had a very good touch of the consistency of what we were targeting versus what is happening. The €11 million sales level for two months is exactly consistent with the current capability of Asimco. So you can project on a 12 month basis, something around €65 to €70 million, so of course we will consolidate only from May 1<sup>st</sup> this is why you

see €11 million in two months. The marginality is stable, the managerial team is stable, the relationship with customers is good. I believe it is the beginning of an exciting journey, we will see, but as of today we are confident that our target was really good target and that performance is what was declared. Together with the announcement today of the alloy verticalized plant, this of course gives you the total picture of a very important policy of Brembo to have China becoming very, very quickly the third market after USA and Germany, also in the future, and we have a really good relationship with the customers. So as of today everything is really good.

Turning to Brexit, Brexit as we see the business two years far from beginning, because till today and for the next 18-24 months whatever are the rules, they will stay as they are. The only customer which would have some impact because of the Brexit is Jaguar Land Rover, which absolutely is very important customer to us, being in the top seven, you know, that our top seven are the three Americas, the three German and Jaguar and Rover. But Jaguars Land Rover has such an astonishing record of growth worldwide that whatever potentially would happen in UK in term of slowdown of the local sales, will not change the fact that Jaguar and Rover as a global customer is very astonishingly growing.

Your third question was sorry?

NICCOLÒ STORER: On the new platform.

ANDREA ABBATI MARESCOTTI: The famous global platform, those are very long speeches with our best customers, you know, that I am speaking about the German customer. As of today this is very, very promising, I cannot confirm yet the total “yes-go”. You need to understand that we are talking about a platform extension, which targets the timeline 2020 to 2030. So it is far away from three, four, five years span of business plan, while of course, is

vital for our future. We are absolutely confident the relationship with the customer is perfect.

NICCOLÒ STORER: Okay, thank you. And may be considering that you mentioned the new investment in China; could you please tell us exactly which is the timing and how the CAPEX spending will be split over years. And if in your €200 million guidance for this year, such an investment could be considered as already included? Thank you.

ANDREA ABBATI MARESCOTTI: I prefer to give the total snapshot. We are playing in China as basically the only localized, alloy caliper producer but only for assembly and we were having some turnover. Because of very good winning of the localized platforms of the...I should say the German customers basically, arriving in SOP in 2017 to 2020, we are now reaching a mass of volumes which allows us to localize a fully verticalized investment, which is what was announced today - the €100 million investments. Of course part of the turnover was already applied by China because it was locally assembled even if casted and machined in Czech, and part of the turnover...significant part of the turnover of additional, which tells you that basically what we announced as the incremental turnover is the real number, €100 million. We are able now today to announce this investment; because of the rules of payment of China there is a portion of this investment which will be cashed out in 2015, I guess that the total number the €200 million capex will be more precise at the end of the third quarter, but more or less is the level we will reach or marginally exceed in 2016.

NICCOLÒ STORER: Great, thank you.

OPERATOR: The next question is from Monica Bosio with Banca IMI. Please go ahead.

MONICA BOSIO: Good afternoon, everyone. Just two questions, one is again on China, so if I have well understood the total additional revenues will be €100 million of turnover, I am just wondering where we can expect the pick...how we can split this revenue...additional revenue trend, and if we can just begin to factor some figures into 2017? And the second question is the usual boring question, but it is due, I am sorry, but with the number you have done and with the statements on the outlook, and given that the Brexit will take time to have some potential negative impact, at this point in time even if you have the ramp up costs from the foundry, both the top line figures and EBITDA margins seems to have to...seems to me too much...really too much conservative, unless, you do not expect a downturn of the market of the NAFTA market or something dramatic, sorry if I ask.

ANDREA ABBATI MARESCOTTI: I will reply for China then the guidance of course is up to Matteo. The plant in China will startup beginning of 2018, if you are able to be very excellent in executing the construction, we will start delivering prototypes September/October. So the €100 million revenues will be progressively deployed through - let me say- the beginning of 2019. Already a major portion by the end of 2018 and full deployed by the first/second quarter 2019.

MONICA BOSIO: Okay, so the...from 2019 and going forward, is it correct?

ANDREA ABBATI MARESCOTTI: Yes.

MONICA BOSIO: Okay, perfect. Thank you, Andrea.

MATTEO TIRABOSCHI: Guidance, it is not – to be honest- very easy to give the numbers. But if I have to do, I can say that total sales, probably will be single-digit...high single-digit, but I think single, not double-digit. EBITDA, yes, the first

half is quite good (close to 20%), I can't imagine to maintain the same speed for the full year. We have the start up cost in Mexico and Detroit that will be quite important, I think last time we said, EBITDA like last year.

MONICA BOSIO: Yes.

MATTEO TIRABOSCHI: Something around 17.4% or something like that. I am more confident about this numbers, probably something more, but of course but not 19% or 20% for the full year.

MONICA BOSIO: Yes, that's for sure, but even if we account €20 million of ramp up costs for the second part of the year, I didn't...manage to achieve 17.4%?

ANDREA ABBATI MARESCOTTI: Monica, to substantiate this with real facts; we are today experiencing very low start up costs in the second quarter because we are on one shift, on the cast iron foundry in Homer, but experiencing really outstanding capability to saturate that shift. We were not planning to start up the second shift before November, but since we were exciting with the result we are now starting hiring for the second shift, which is scheduled to start at September 1<sup>st</sup> , which means that July already we are doubling the headcount without producing real output.

MONICA BOSIO: Okay.

ANDREA ABBATI MARESCOTTI: So we should really experience in the third quarter and in the fourth quarter, the full desaturation of the second shift, which is mid-term a very good news, because we are by far pulling ahead the ramp-up, but could move significant start up costs in the third and fourth quarter.

MONICA BOSIO: Okay, very clear. Thank you, thank you again.

OPERATOR: Next question is from Martino De Ambroggi with Equita. Please go ahead.

MARTINO DE AMBROGGI: Yes, good afternoon, everybody, just some clarifications. First, you talked about top-line up high single-digit, is it like-for-like or we should add some Asimco contribution?

MATTEO TIRABOSCHI: No, with the Asimco contribution.

MARTINO DE AMBROGGI: Asimco, okay. And currency is include?

MATTEO TIRABOSCHI: Yes, it is included.

MARTINO DE AMBROGGI: Okay, perfect. On Asimco, very clear on sales, may be I missed it sorry, but in terms of margin where we are today and where we can go?

ANDREA ABBATI MARESCOTTI: The strategic reason for the acquisition of Asimco is that we are targeting to fire the best competitor. We were seeing Asimco able to make competitive offers against us with our traditional customers, so the joint ventures 50% Chinese, 50% German, America. We discovered early before acquiring somewhat a different business model in Asimco, somewhat less verticalized. But this model works also because the costs of energy and machining and so on are different, in those different regions, you know, that Asimco is 1,000 kilometers from Nanjing, looks like the same country, but you know that China is very big.

I guess that the strategic option was setting Brembo as the...maybe second supplier of rotors in China, which may be a very good position, while we will be the leader in calipers and this is what we are pursuing. The marginality – let me say- is consistent, is aligned more or less one or two points make not the difference with the Group, but the real strategic move

is setting us at a good marginality in China as a leader producer. So the real focus for me in Asimco is deploying the penetration with the customers, is not going to point more or less or marginality this is not the season.

MARTINO DE AMBROGGI: Okay, in terms of CAPEX, you already answered, but just to have an idea since the Chinese plant requires quite time before be fully exploited. Just an anticipation what could be the trend of CAPEX going forward?

MATTEO TIRABOSCHI: For the full year, you mean?

MARTINO DE AMBROGGI: Full year and I know you are reluctant to talk about the next year.

ANDREA ABBATI MARESCOTTI: It's quite complicated you know, for next year we need to do it or this year I think that we will be around €200 million more or less.

MARTINO DE AMBROGGI: Okay, so not accelerating compared with the previous guidance.

ANDREA ABBATI MARESCOTTI: No, no.

MARTINO DE AMBROGGI: Okay, perfect. Thank you very much.

OPERATOR: The next question is from Michele Baldelli with Exane BNP Paribas. Please go ahead.

MICHELE BALDELLI: Good afternoon to everybody. I have four questions. The first one, if you can elaborate on the line "other revenues" which saw a good increase in Q2, if there is any one-off on it. Then if you can elaborate probably I mean from the last quarters that why FOREX is always positive as a contribution on EBITDA line given that historically it had not that much

of a positive or negative impact. Third question, relates to the change of business model in the United States, with the internal production what shall I assume in terms of inventory requirements, what was the business model before in terms of inventory, was your foundries that holds all the inventory and then the shift it to your customers or they do have on your books the inventory, and therefore, how can it change with internal production.

And then last point, it's about Mexico and China, because I was looking through some numbers about capacities, parameters, employees. Since the Chinese investment is three times the Mexican one while revenues, additional revenues there should be pretty similar and also the capacity should be pretty similar. But for sure, I'm missing something and I would just like to understand better. Thanks.

ANDREA ABBATI MARESCOTTI: The line "Other revenues", you can understand that in our other revenues there is everything in a Company as big as ours. So, we booked some topics there, I guess that on the total performance of the Group, they are absolutely negligible. It is a sum of different voices, nothing particular, neither positive nor negative.

Three, inventory requirements of the new business model in North America, 90% you've already seen them on the figure. Net working capital is already basically is counting them, so this is the level net working capital we can operate with the investment which we announced and which is already running, both for alloy and cast iron.

Fourth, you are right; the intensity of CAPEX in Mexico is lower than the one in China. There are many different reasons; one, the climatic is different, and so Mexico does not experience winter, so the requisites of the building are absolutely different from the one of China. If we'd done a similar investment in Michigan you would have seen more comparable numbers.

And second, the environment requirement for the anodization process in China are absolutely, unbelievably restrictive and we agreed with the Chinese government a top of heart solution, which costs us something more in terms of CAPEX, but let me say we will be the only alloy caliper producer located in China, so that is worthwhile the effort. I'm not sure I understood the second question about the FOREX.

MATTEO TIRABOSCHI: If I understood, it is about the exchange rate for the first line, basically negative due to translation is that we have in Brembo North America in US dollar and we needed of course to change in Euro. And in EBITDA it's positive, 6.7% is the cost that we have in Poland as we sell in euros. In this case we have benefit.

MICHELE BALDELLI: Okay. Thank you very much. And just lastly on China, will you have a fiscal incentive like the one in Poland or Czech Republic?

MATTEO TIRABOSCHI: No, no.

ANDREA ABBATI MARESCOTTI: Michele, you are already lucky if you get, okay, to build and produce.

MICHELE BALDELLI: Thank you very much.

OPERATOR: The next question is follow-up from Monica Bosio with Banca IMI. Please go ahead.

MONICA BOSIO: Yes, excuse me. Just a follow-up, I know you have a lot of iron on your fire, but I was wondering if you have some update on the potential acquisition or deal in the aerospace and defence segment, given the press rumors of some months ago about the potential acquisition of Mecaer Group or something similar.

MATTEO TIRABOSCHI: Monica, for the moment nothing new, no news. We are working, you probably read something on the newspaper, is one of several company that we are starting, but for the moment there is nothing that's concrete on the table.

MONICA BOSIO: Okay. So don't you expect to finalize anything by the end of the year, maybe it will take a little bit more time?

MATTEO TIRABOSCHI: I don't know, if we can find the correct target, with the correct condition, we are ready to do it, but for the moment nothing is on the table.

MONICA BOSIO: Okay. Thank you, Matteo.

OPERATOR: The next question is a follow-up from Niccolo Storer with Mediobanca. Please go ahead.

NICCOLO STORER: Yes, thank you. Before we talk about the start-up costs from North American Investments to hit the third and fourth quarter figures, looking at 2017, what should I expect as start-up costs for the American plant, and also, how investments in China will affect numbers? I'm not...really I am not asking you numbers and impact in percentage, but just to have an idea of the period in which start-up costs will concentrate. Second question, maybe a comment on the trend for the quarter for sales in motorbikes and trucks, which were apparently much slower than in first quarter. And last on Brazil, are you seeing any kind of improvement or at least flattening in the negative trend because many other companies operating in the automotive segment reported that they are starting to see the situation stabilizing in the market. Thank you.

ANDREA ABBATI MARESCOTTI: Okay. Start up 2017 is a impossible question. The annual investment in Mexico is going very well. We are near to reach...near to reach neutrality of the impact of this investment of our P&L, which is already an astonishing result after six months.

So it could really be that Mexican plant for alloys has no tangible impact in the future. But of course, you see that this plant is today producing one-fourth of what it should produce at total capacity, all the same it could happen, and it will depend on the escalation of the shifts. But on the other side, the model of purchasing CAPEX for the alloy is more on a modular term. So I'm really confident that the alloy investments in Mexico could basically not be too much tangible on our total P&L.

Regarding the cast iron foundry in North America, we are now escalating the second shift, we will see ramp-up cost through, third and fourth quarter. Then it will come the moment in which we escalate to the third shift because of course we designed the plant to be fully saturizd and we are confident on that. There will be some start-ups costs in 2017. These are absolutely impossible to quantify them today. And the second question about Chinese plant your question was...?

NICCOLO STORER: When we will see on the P&L the start-up costs for the new investment, maybe second half of 2017 or?

MATTEO TIRABOSCHI: Not before. Let me say not before, maybe then the fourth quarter, 2017. We are committed with some customers to deliver prototypes around the end of third quarter. So let me say through the end of 2017.

Then your third question was the current performance of the market of motorbikes and trucks. Motor bikes is doing very well in Europe. There is one customer which has difficulties in North America. I don't want to make declarations for my customers, but if you look at the sales of Harley Davidson, it is not the best season for Harley Davidson in North America.

Truck is more just looking at small numbers is going well. By the way, we are targeting very good platform improvement, so mid-long-term, we are really confident that trucks will be a lever of our increase.

Brazil: volumes slowdown flattening, yes. We see today an order book for the third quarter which is potentially equal to the second quarter, so if your question is potentially the volumes are not going down any longer, it may be that we are at the bottom, yes.

NICCOLO STORER: Thank you, very much.

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

GABRIELE GAMBAROVA: Yes. Good afternoon. A few questions from my side. The first regards the tax rate. I saw that in Q2 it went down a bit, around 22.6% and I was wondering if the guidance I have here around 25, if I'm not wrong for the whole year is confirmed or there is something, I mean could be better, in comparison to this indication. Then, I was wondering if you benefitted in anyway from the low raw material cost in Q2? And then, again on the Chinese, the new Chinese plant if I understand well is a sort of, I mean, its likely to be very similar to the Mexican van, so I guess you are telling us that the startup cost at the Mexican plant might have a very limited impact on the P&L, so I was wondering if this could happen, might happen even in China?

MATTEO TIRABOSCHI: The tax rate in Q2 is an estimate. Normally, it is quite complicated the correct calculation of the full year, obviously during the year; it is an estimate. Normalized tax rate is something in between 25% and 26% and 27% more or less. We had some benefit for the investment in Czech Republic and Poland at the moment that are quite important for us of course.

ANDREA ABBATI MARESCOTTI: Second question is, low raw material cost in Q2: yes we benefitted. When you see on the EBITDA variance because of prices, the portion of that is the fact that we are so much slowing raw material costs, that the adjustment of the indexation with the customer arrives later than the real cost. You could think that if and when the raw material cost will increase back, we somewhat give back a portion of this benefit to our customers. Startup cost of China alloy plant, China is different from Mexico. You need to understand that Mexico alloy is starting up basically aside our traditional cast iron plant, with already an established organizations, so they are benefitting of being matched by organization established 10 years ago, totally operational, totally supportive in a country, which is absolutely known to us, so, we are basically making an industrial venture, which could be in Italy. We feel totally at home and we do whatever we want. China is different. China never produced in its life alloy, while in Mexico we are very near to other people that are alloy producers for other component, so as of today, I think the alloy plant in China could experience normal startup costs, which are by far bigger than the ones we have seen today in our P&L.

GABRIELE GAMBAROVA: Okay. Thank you.

OPERATOR: The next question is a follow up from Martino De Ambroggi with Equita. Please go ahead, sir.

MARTINO DE AMBROGGI: Yes. Thank you. Matteo, I know very well. We know very well you are conservative, usually conservative, but looking forward, let's say in 19% EBITDA margin without talking about 20% but 19% setting aside all the non-recurring positives and negatives, particularly startup cost and so on. Is it 19% or something similar sustainable level of let's say normalized profitability going forward?

MATTEO TIRABOSCHI: And I think to be honest, Martino that in automotive to have the 19% of EBITDA, this is definitely very difficult...to be honest, for me, I'm not confident this is sustainable.

MARTINO DE AMBROGGI: Okay, and for China, the new plant is producing aluminum calipers. Should we assume profitability above the average for calipers as it used to be?

MATTEO TIRABOSCHI: We need to wait and see, but if I have to give an answer now, it is not at the same level that we have in Europe for the moment.

MARTINO DE AMBROGGI: Okay, and just a curiosity taking the 10% growth for the top line, how much is caliper? How much is disc?

ANDREA ABBATI MARESCOTTI: Both divisions we are performing very well.

MATTEO TIRABOSCHI: Absolutely.

ANDREA ABBATI MARESCOTTI: I would say that if you see the two divisions, if you look them on the 36 months, they are proceeding hand to hand.

MATTEO TIRABOSCHI: Don't think that disc is a commodity. Disc is performing but margin are very, very well, even if we don't invest in CAPEX for discs.

MARTINO DE AMBROGGI: Okay, and anything new on the new discs? new clients for the newly developed disks?

ANDREA ABBATI MARESCOTTI: We have new client with the new technology and they are very important client for us, but you know that we have problems with the

disclosure of the name, but we are working very well with two important players that are very interested in using our new technology for life disc.

MATTEO TIRABOSCHI: Okay. Thank you.

OPERATOR: The next question is a follow up from the Michele Baldelli with Exane BNP Paribas. Please go ahead.

MICHELE BALDELLI: Yes, thanks for taking my follow-up question. It is about these trends of the raw materials because it seems from the EBITDA bridge you probably gained some thing from these let's say decreasing raw material costs and the decrease of the selling price, which didn't follow through completely, at least from the numbers that we have got where there could be also some discount because you increased the volumes on your purchasing. But, aside from these, I just would like to understand if this gap between selling prices and the raw materials, given that raw materials bottomed down in the last few months could be narrower in the coming months, so it will close. So if there are still let's say some price decline that needs to go through in Q3 and Q4 due to this raw material...

ANDREA ABBATI MARESCOTTI: No, during H1 2016 the prices variation was €13.6 million which is a sum of: discounts given as of contract with the customer (you know, that we don't discuss discounts on a contingent basis. We just had the long-term contracts); variance effectivity on reducing the cost of what we buy; and the impact overall of the utilization on the prices which has some time of applications so that when they go down we keep on having the best prices while we change the prices because of the beginning of the next quarter. So, you can imagine that the potential impact of not already adjourned prices to the customers because the raw material is a fraction of 13. so I don't even know the number 2 million, 3 million, 4, million. If the prices start to go up, we will have cost increasing without immediate

indexation of the customer, again in the range of very few millions. There are no special discounts arriving.

MICHELE BALDELLI: Okay. Thank you very much.

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

ANDREA ABBATI MARESCOTTI: Thank you, everybody. Bye-bye.