

Brembo S.p.A.

“Full Year 2015 Financial Results Conference Call”

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OPERATOR:

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo Full Year 2015 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 afternoon everybody, thank you for joining us today to comment the Brembo full year results. Here with me there are Andrea Abbati Marescotti, Brembo's CEO and Laura Panseri, Brembo's IR Manager.

Go through the presentation Slide #2; we can see the Q4 results. We can see the sales that increased more than 13% compared to last year. The total amount of sales is around €524 million. EBITDA is more than €93 million that means 17.8% on sales, better compared to last year, more than 29%. D&A are close to €26 million, 5% on revenues, EBIT is close to 13%, €77 million, financial charges €2.1 million, taxes close to €13 million and tax rate is close to 20% compared with 15.3% that was the tax rate of last year. The net result of the quarter is close to €52 million that means 10% of sales.

Going ahead with Slide #3, we can see the full year results with sales that are stronger than last year, more than €2.073 billion, 15% more compared to last year. EBITDA close to €360 million which means a 17.4% on the sales, D&A is more than €100 million, EBIT more than 12%, €251 million, better than last year 41%, financial charges are €70.8 million, taxes €58 million (ph) that means tax rate close to 24%. Last year it was 22%. The net result is €184 million, close to 9% of sales.

Go ahead to Slide #4. We can see how revenues moved during the year. The business volume/mix increased more than €200 million, prices, i.e. discounts for the agreements we have with our customers is negative for €20 million, exchange rate, it was quite important, more than €100 million, scope is negative and it is essentially Sabelt, negative for €18.4 million. The total amount of sales is more than €2 billion.

Move to Slide #5, we can see how our business is going during the year. All the businesses where we are involved are performing quite well. Passenger cars is positive for something around 19%, motorcycle more than 11%, commercial vehicle more than 10%. Racing is negative is, but you may remember that we sold Sabelt at the end of May, like-for-like also racing is positive (in the full year it is positive for 16%)

Go ahead and moving to the geography, in the market where we are, we can see that all the market with just one exception, that is South America, are positive. Italy is positive for 2%, Germany is growing in a good way, more than 11%, France is negative just for 1.2%, U.K. is very well, the other Europe markets are very positive, very good also India. We have a quite important help from exchange rates. China is performing in a good way, the same in Japan. South America is the problem; it's a problem not just for revenues, but also for the profit. We are losing money in this moment in South America. And with the exchange rates of last year, we lose more than 12% of our revenues. North America, that is United States and Mexico, is very good, it's increasing something like 30% with the exchange rate of last year, this growth is half it's 14.5%.

Moving to the slide with our EBITDA, Slide #8, we can see how the volume, the mix of the business is positive in the margin. We created margin for €67 million, the price helped us for more than €15 million,

operation is negative for €18 million, exchange rate is quite positive, close to €40 million, scope it's Sabelt for 2.6 million.

Go ahead to Slide #10, we can see the cost of debt, we can see that the incidence is exactly the same as last year on the revenues and the cost, the real cost is in line with the year before, it's 2.7% with some different cost of debt. I mean that in Europe and U.S. the cost is very, very good, it's less than 2%, but we have some debt in South America that are quite expensive, around 18%, and in China that is 6% or 7%.

Tax rate, Slide #11, we try to show the normal tax rate, starting from the real tax rate that is 23.7%, if we try to normalize tax rate it's close to 27%, that is very similar to the figure of last year.

Slide #12, the net financial position, I think it's probably one of the most important chart. We can see how the EBITDA closed completely our exposure but we invested more than €150 million, net working capital is very, very positive, it's negative just for €1.7 million. But to be honest, the business is negative just for 0.3, the rest are other issues that we had in this period. M&A is Sabelt, we paid dividends for €52 million, taxes account and financial charges and so on are €62 million, other close to €40 million. The net debt that we had in the end of the year is €160.7 million.

The structure of our debt, Slide #14, we can see how our structure is quite strong, the portion of the long term is very important, it's 134%, but we need to consider that we have in our equity the amount of money that we need to use for ASIMCO probably in the end of this month or first days of April, that is something like €87 million, something like that.

We can jump to Slide #16, where there are the main ratios and I think they are very good ratios, all the ratios are increasing in a good way, ROI is

close to 29%, ROE is 27%, Gearing is 23%, also in the ratio net debt/EBITDA is 0.4%, so I think that all the ratios are working in the correct way.

Something about the performance of Brembo stock, that probably you know better than us; during this portion of 2016, the performance is negative, - 11.4%.

In Slide #18, we can see that the performance of the full year last year is a positive for more than 61%. The last one is with our peers and we are performing better compared to the main peers that we have.

This is a quite fast presentation, we can 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.

MONICA BOSIO: Good afternoon, everyone, and congratulations for this set of results. I have few questions, the first one is the usual question; you did a lot in 2015, due also to the positive impact of FOREX. Can you share with us some indications of the expected growth on a standalone basis, without ASIMCO? I remember that Andrea in the third quarter conference call stated that you are expecting a flat market for premium cars in Europe. So I was just wondering, what could be the growth of Brembo ex- ASIMCO and what kind of growth are you expecting from ASIMCO? And if you can also tell us when are you going to consolidate ASIMCO? And the second question is on the USA, excluding the FOREX impact, the growth

in the USA was in the region of 20%. Do you expect to replicate these results or would you view more reasonable growth rate in the range of 10%-15%? And the last may be, I would follow-up later. Do you expect to continue to lose money in Latin America; are you planning some actions or something similar? Thank you very much.

MATTEO TIRABOSCHI: Thank you, Monica. I'll try to answer to your question about this year, what we can see. We can see a sales increase, probably single-digit, not double-digit. I think in this moment it is single-digit...medium single-digit also with ASIMCO probably. We don't know if...we say we are not managing in this moment ASIMCO, we need time to know better this new Company.

And U.S. of course for us are quite important, and we are investing a lot of money there in U.S. probably in the next months we will tell you something new about our investments in that area, that for Brembo is the most important market. What we can see for this year is a growth not 30% we don't consider FOREX exchange. I think that the business will help us to grow less than 10%, something around 10% or a little bit less than 10%.

And for the last, Brazil, in this moment is quite a nightmare, but not only in this moment. It's 3 years that we are working to try to stop the losses that we have in this country, we are losing money at this moment, but even in the market, the market is going down, we have quite an important market share, more than 50%, so it is quite impossible to cover with I would say with the new business because there is new business at this moment.

MONICA BOSIO: Okay, and just a very last question on the EBITDA margin, I forgot it. Okay, I can imagine that you will have digested the ramp-up costs related to the new initiative? So I can imagine that you cannot replicate this kind of EBITDA margin, but it would be very appreciated if you can give us a range, may be 17% might be....

MATTEO TIRABOSCHI: 17% is quite very important goal, of course, we have several startup cost in this period, but we are pushing to have a good performance for the margin; 17% is to be honest high...I think that the 16% or something like that, probably something more 16% is possible, but to achieve 17% is very challenging.

MONICA BOSIO: Okay and the ramp up costs really will start to impact from the second quarter or just from the first quarter?

MATTEO TIRABOSCHI: Probably something goes in the second, but to be honest we start with the new foundry Homer in 28th of April, with a small startup cost, in the second part of the year we will see consistent startup cost.

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

MATTEO TIRABOSCHI: Thank you.

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

NICCOLO STORER: Yes good afternoon. Good afternoon to everybody. My first question is on your market expectation, meaning that all market actors are basically predicting very slow growth for this year, while we are seeing a very strong, very strong registration across markets in the first two months of the year. So I was wondering if you can give us a more color on this kind of dichotomy. The second question is on working capital, I was pretty surprised by your very little change in working capital, and I was wondering if we have to imagine some extraordinary item in it or if it is all, how can I can say, like-for-like, and that's it for the moment. Thank you.

ANDREA ABBATI MARESCOTTI: Thanks Niccolo, Andrea speaking. Market: you made the exact description of what is happening. On one side, the full year expectation by all the experts are not so brilliant, on the other side the deliveries in January and February were really good. And I can confirm that our portfolios are...what we can see confirmed, it's very good for the first quarter. And as of today even providing **way** for the second quarter even if there could be changes. For what we see the level of stock in Europe is normal, in North America it is nearly normal, a little fatter but this is normal for the winter in North America, it is in control in China. So, sales are good and stocks are nearly normal.

All the same as you saw from our press release, we maintain an attitude of cautious optimism. We would not be surprised seeing some mid-term slowdown by some customers, because the macroeconomics are not so emphatic. But, if I divide the market for which, you know, very well for us it's an important portion among normal and premium there is the further optimism coming from the fact that the premium brands are really even outperforming the already good rates of sales of January and February. So this is why we remained positive, cautiously positive very careful of what the market is doing.

Also like I mentioned vehicles and ready trucks is showing a very promising signals in Europe, so there are many signals of a potentially nice market, but there is a question mark at the end of this.

Working capital, as for inventories we did very well. We are at a level, which I don't say it is benchmark, but it is a really good level, but we targeted to keep this level so you didn't see any special maneuver, neither you receive I guess specific changes in the future; for how it accounts to payables and receivables, okay, there were a couple of customers that decided to pay a little bit better than the normal, but the effect is intangible a few million. I guess we can certainly target to keep this kind of trend of the net working capital also for the next years.

NICCOLO STORER: Okay. Thank you very much for the comprehensive answer. Maybe just a brief follow-up on what you expect for 2016 in terms of pricing, are you seeing some pressure on new contracts you are being awarded? Thank you.

ANDREA ABBATI MARESCOTTI: Not pressure on already awarded business, Of course, as everyday life, if we target and certainly every day we do it, big future platforms, we could decide to make some GIVING to assure later growth of Brembo, but...In the normal range of what you already saw in the preceding years.

NICCOLO STORER: Thank you. Thank you.

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

MARTINO DE AMBROGGI: Good afternoon, everybody. The first question is on the EBITDA margin because originally your target was 16% for the current year. You achieved much better performance already last year, so thinking what was your picture at the beginning, what was much better than you expected. We had the split of the drivers, so I understand the currency was not included in your estimate I suppose, but what was the most important surprise that you saw differently from what was your original assumptions?

ANDREA ABBATI MARESCOTTI: The real difference versus our forecast was persisting very strong volumes in the last three, four months of years, while we expected some seasonal slowdown, so a very strong saturation of many of our important plants.

MARTINO DE AMBROGGI: Okay. So the follow-up is why apart from the startup costs that in any case you didn't quantify, but why should we expect a slowdown of the margin in 2016 because you are projecting additional growth in terms of top-line, I suppose volumes. So the picture shouldn't change a lot apart from startup costs and unpredictable FOREX evolution?

ANDREA ABBATI MARESCOTTI: You are totally right, but startup costs with many plants going into new production or many expansions because many times we just speak about the new plants, but you know us very well, we are making continuous expansions of new plants, which imply startup costs, it's the impact that Matteo was forecasting in his guidance.

MARTINO DE AMBROGGI: So let's say €15- €20 million could be a reasonable estimate?

ANDREA ABBATI MARESCOTTI: You said the number.

MARTINO DE AMBROGGI: Okay, okay.

ANDREA ABBATI MARESCOTTI: It's very difficult Martino, it depends on too many factors, too many factors, which are at the time of validations by the customers, the real capacity to grab quicker or slower...difficult to us.

MATTEO TIRABOSCHI: Martino, it's very, very difficult. If we try to give you a number, sure, we we give you a wrong number, it's quite complicated.

MARTINO DE AMBROGGI: Okay. So it's our responsibility to find the wrong number, okay. And on the top-line growth, you mentioned the mid to single digit including acquisitions, ex-FOREX, what's the underlying assumption for the Chinese market in terms of both direct and indirect exposure?

ANDREA ABBATI MARESCOTTI: Sorry, what do you mean with direct and indirect?

MARTINO DE AMBROGGI: Yes, because we know you have a direct exposure with the production in China and the indirect exposure through the clients selling cars in China, but you deliver your products in Europe. So just as an idea, what is the assumption in your + 5% roughly, what is the Chinese market expectation?

ANDREA ABBATI MARESCOTTI: Okay. So I now get this. Yes, Europe could be 5%, I don't know, it's really...in my head Europe is something between 3% and 8%, so the average of this number is 5%, but it will depend. Even if Europe...what is going well in Europe is Western Europe, Eastern Europe is terribly dropping, of course, the incidence of the total market 27 countries of Eastern is lower, but best case Europe 7%, 8%, lowest case for what we see today, 3%.

China is an unbelievable question mark. The very strong sales in January and February depended from the government discretion to take very low the registration tax for the vehicles below 1.6 cc, so our mid expectation for China is 5%, 6%, 7%, 8%, but of course we are targeting growing China through new business acquisition, which could maybe not materialize in short term but certainly with the addition of ASIMCO puts us in a very competitive position.

North America is outperforming our expectation, it could be between 3% and 5% because North America is at the records ever, and unfortunately Latin America is showing minus 30% versus the already horrendous levels of 2015.

MARTINO DE AMBROGGI: 30%, so 30%?

ANDREA ABBATI MARESCOTTI: 30%, 30%. Brazil sold 3 million vehicles in 2013, 2.5 million vehicles in 2014, round numbers of course. 2 million vehicles in

2015 and the startup of this year is for something around 1.6 - best case-, which is 20% less than 2 million, maybe even less.

MARTINO DE AMBROGGI: Okay. Okay. And if I may, just one more question on CAPEX for the current year and a connected question on D&A, I saw in Q4, this is a just housekeeping question, but I saw D&A coming down in Q4 despite strong growth in CAPEX, but I suppose it will remain also for the current year, so just to understand why this divergence?

MATTEO TIRABOSCHI: It was because of Sabelt, because there was a goodwill that we posted in that line.

MARTINO DE AMBROGGI: Okay. Yes, yes. Okay. So it's a one-off effect. CAPEX for the current year?

MATTEO TIRABOSCHI: For current year probably, I think something around €200 million for the new investment, plus ASIMCO.

MARTINO DE AMBROGGI: Okay. Thank you.

ANDREA ABBATI MARESCOTTI: Thanks.

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

MONICA BOSIO: Yes, thank you. Just a briefly follow-up on your initiatives in the aerospace and defense segment, I know that you cannot give us a lot of details. But are you expecting to announce something within the end of the year?

MATTEO TIRABOSCHI: I hope. We are working very hard on this point, because it is quite an important issue for us in the future. But it is not easy. We are working seriously on this project, I hope that for the end of this year we can tell you something consistent.

MONICA BOSIO: Okay, because what I have seen is that, you generate a lot of cash at the end of the year, that the net debt provision was the most surprising figure?

MATTEO TIRABOSCHI: To be honest, we have a lot of investment that we are doing at this moment. We have finalized a new industrial plant, for next three years. And we are working on it; probably we have...some invested more...some more important investment that we have to do in the U.S./NAFTA market and also in China.

MONICA BOSIO: Okay. So the rate of decrease in net debt will be lower than the current year. Is it correct?

MATTEO TIRABOSCHI: This year it is very, very low, it is 0.4. I think that this year it will be increased a little bit, yes.

MONICA BOSIO: Okay. Thank you very much.

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

MICHELE BALDELLI: Yes. Thank you for taking the question. I have a question about the CAPEX. If you can strip-out, let's say, or say how much of this €200 million that you foresee for this year is on the new plants in North America, please. And then, you were mentioning investments to be done probably in North America and China in the future years. If you can elaborate a little bit more about it is because of the, let's say, new

tendering, which you have won. So let's say, there is already something going on, on this? Thank you.

MATTEO TIRABOSCHI: I think, about the 200 million you have the information, how much is in U.S. because it is in press release, first one is for Homer, the foundry of Homer. And I don't remember exactly what was on the press release...

COMPANY REPRESENTATIVE: \$100 million.

MATTEO TIRABOSCHI: 100 million US dollars, is not obviously all in one year, something is last year and something will be in this year. There is the other investment that is in Mexico, it is the foundry for aluminum, and is 30 to 35 million, something like that. The rest is something in Europe and something quite important in China. We are pushing a lot in the U.S. market and China market. And also the new program that we are developing in these weeks, it's how to increase our market share in that market, with new investment of course.

MICHELE BALDELLI: Thank you.

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

NICCOLO STORER: Yes. Thank you. A brief follow-up, you said that you expect to grow around 10% in North America with the market up, if I understood well 3% to 5%. So basically, the additional...the 5% to 7% of performance is coming from the penetration of light alloy calipers? Thank you.

ANDREA ABBATI MARESCOTTI: Yes, Niccolo. Specifically, the growth expected in 2016 is more on the caliper's side because with the progressive setup of the Mexican plant for calipers...alloy calipers, we are putting there new

platforms awarded. So the difference between the market growth, and our growth is specifically more on the caliper side, than on the rotors, and there are platforms which will be discussed with the customer in the next month...for the next year, which should impact positively our volumes, not specifically, I guess, in 2016. So more on the calipers than on the rotors in 2016.

NICCOLO STORER: Thank you.

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

GABRIELE GAMBAROVA: Yes. Good afternoon to everybody. I have just a couple of questions. First one; regards ASIMCO, and I'm sure you already touched this aspect. But can you remind me, what is the current EBITDA margin of the Company, and how much will it take to close the gap versus the consolidated EBITDA margin? And then, second question again on ASIMCO, if I understood well, the closing could be at the end of this month. So we can assume that you are going to consolidate it on a line-by-line basis by Q2. And last question regards tax rate for 2016, I have in mind 25% roughly. Is this correct? Thank you.

MATTEO TIRABOSCHI: Yes, to answer to the last question, tax rate 2016, yes 25% is more or less what we expect. Yes, second question about the ASIMCO, I think that in the 2Q, we can see the numbers of ASIMCO in our numbers. And about the EBITDA ASIMCO, we are not managing now the Company; we don't want...we prefer not to give this kind of details to be honest.

GABRIELE GAMBAROVA: Okay. Thank you very much.

MATTEO TIRABOSCHI: Thank you.

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

JACOPO TAGLIAFERRI: Good afternoon, everybody. I have two questions, please. The one, I mean if you put together all the indication you were providing on the market. Would you say that compared to what you were saying mid-November, when you released the third quarter result, the outlook all-in-all has improved or has remained unchanged, or has deteriorated? So this is the first question. The second one is, again, on the guidance for revenues in 2016, just too...I we would like to be sure that, I understood correctly, you are saying that consolidated sales might grow mid-single digit at constant FOREX and scope? Thank you.

ANDREA ABBATI MARESCOTTI: So, the answer to the second, it is yes, it is mid single digit at constant, as you said. And also the first one is easy, yes, the outlook has improved, and there are less clouds and the figures are a little better than we expected. But it is too early to do this guidance. But yes, it is promisingly better. The question we have in our minds is how long, will it last or not, this is the question? No, discussion as these months were really good.

JACOPO TAGLIAFERRI: Okay. Thank you.

OPERATOR: Mr. Tagliaferri, gentlemen there are no more questions registered at this time.

MATTEO TIRABOSCHI: Okay. Thank you very much for your time. Bye-bye.