

Brembo S.p.A

"Nine Months 2019 Financial Results Conference Call"

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MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN
DANIELE SCHILLACI, CHIEF EXECUTIVE OFFICER
LAURA PANSERI, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo Nine Months 2019 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 Ms. Laura Panseri, Head of IR. Please go ahead, madam.

LAURA PANSERI: Yes, good afternoon to everybody. Thank you for joining us today to discuss Brembo Groups 9 months 2019 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Daniele Schillaci, CEO of Brembo. The presentation has been made available on our website in advance therefore we suggest to go directly to the Q&A session.

Before we begin, let me remind you that any forward-looking statements we may make during today's call are subject to risks and uncertainties that can cause actual results to be materially different. I also remind you that this call is being recorded.

With that, we can start with the Q&A session, please.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question comes from Renato Gargiulo with Fidentiis. Please go ahead, sir.

RENATO GARGIULO: Yes, good afternoon. Well, my first question is on your...on profitability. Your full year guidance or profitability in line with last year is implying a margin dilution of more than 300 basis points in the third quarter. I was

wondering if you can give us your, let's say, some indications about your underlying assumptions for such a decrease in the last part of the year? My second question is about pricing environment. What are you seeing right now if you are experiencing any price pressure from your clients, and what are your expectations going forward? Related to this looking at your EBITDA Bridge you had a good contribution from prices in the third quarter more than offset in volumes and operations. How do you see this item in the fourth quarter and going forward? Thank you.

MATTEO TIRABOSCHI: Thank you for your questions. We said during the last conference call that the margins would be in line with the year before, 2018. Today, we can see that we did something better, probably also the last quarter of 2019 will be better compared to what we saw before. We stated that IFRS was embedded in the number that we gave, well today we can say that EBITDA margin will be in line with last year, and IFRS can help us with some zero point something. So trying to be more clear, I think that we can do something better compared to with what we said during the last conference call.

About the EBITDA bridge, there are some positive that are prices and exchange rates. The item operation is the result of the new 2 plants that are in ramp-up phase, one is in Poland (Dabrowa 3) and the other one is the new plant in China, where the ramp up is proceeding in line with the program.

About the pricing I leave the answer to Daniele.

DANIELE SCHILLACI: Yes, regarding the pricing, if you look at the year-to-date 9 months, we are relatively flat versus last year. So we don't see any big variation on that topic, today I would say we are relatively flat.

RENATO GARGIULO: Okay. Thank you. If I may just one follow up. Can you give a guidance on net debt including IFRS 16 for the full year? Thank you.

MATTEO TIRABOSCHI: I think something very similar to the number that you can see today.

RENATO GARGIULO: Okay. Thank you. Thank you very much.

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

MONICA BOSIO: Yes good afternoon and thanks for taking my question. The first is a follow up on Renato's question. So basically, if I have understood well Matteo, you are now guiding for a 19% plus something coming from IFRS. Can we say that we can land in the range of 19.8% as the IFRS impact...should the impact for 0.8% has a total impact? And the second question is on volumes. In the previous call, you guided for a volume slowdown in the range of 2%, 3% if I remember well...sorry revenue slowdown in the range of 2%, 3%. Is it still the case, do you keep this guidance and is this guidance including the FOREX impact?

The second question is, maybe I know that it's too early to speak about 2020, but we would appreciate if you can give us some indication of...on the order-intake what is your feeling, what is the sense on the market, if the visibility has reduced and which is the exit...the exit from 2019 in order to just try to figure out what is going on?

And the very last question is on the breakdown in terms of countries and in terms of Business Unit in the last quarter. In terms of countries, I've seen that North America in the third quarter decreased by 3.6%, is it due to the General Motors strike or is it...there are another reasons? And for commercial vehicles, they have been basically flattened in the third quarter, while in the nine months they were up by 9.3%. Does this mean

that the recovery or the improvement is at the end, what do you expect by year-end for the commercial vehicles? Thank you.

MATTEO TIRABOSCHI: So regarding commercial vehicles, Daniele can give you an answer; I'll try to give you an answer to all the other points. About NAFTA, yes, GM is an important customer for us in North America and obviously the strike had some impact in our numbers.

About EBITDA: 19 +something percent, I can't tell you +0.8 for IFRS; it is more than 19, but to be honest it is very, very complicated to give you a number seriously. The last quarter normally is a complicated quarter every year, but this year is very in particular, it's very tough. It is tough also to understand now what will be the approach of our customers during the month of December.

About the volume, as we said negative for 2 or 3 points. Probably we can do something better; I think that probably it will be something around 2%...minus 2% (forex included).

For the next year 2020, you know that we normally don't comment in this period of the year, we are still finalizing the budget and so we prefer not to comment on next year. What I can say is that it will be a tough year, but not a terrible year. I think that next year will be something similar to this one, with the same problems and a similar situation.

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

MATTEO TIRABOSCHI: About commercial vehicles, Daniele?

DANIELE SCHILLACI: On the commercial vehicle what we can say is that if you split our commercial vehicle on the 2 categories, what we call the heavy duty and the mid utility. Clearly, our consistent and persistent strategy on having more and more penetration on both segments will continue. This is one of the reasons why we see an increase in terms of turnover versus last year.

So we don't see any major change for this last quarter. And of course we want to pursue this good trend also within 2020. Both on the mid-high utility vehicles and also on what we call the LCV market.

MONICA BOSIO: Okay, so a good trend for 2020 is it right.

DANIELE SCHILLACI: Yes, of course we want to pursue a good trend during 2020, as we are having in 19, this is absolutely what we are aiming for, absolutely.

MONICA BOSIO: Okay, thank you. Thank you.

MONICA BOSIO: Okay.

OPERATOR: The next question is from Alexandre Raverdy with Kepler. Please go ahead.

ALEXANDRE RAVERDY: Good afternoon. Thank you very much for taking my questions. The first one is on...I would like to come back on the bridge, please. Specifically on pricing, because I see the pricing impact on the top line is negative, but it's positive on the EBITDA. So could you please help me understand a bit more the drivers behind that? The second question to come back to the GM strike, so you said it was an important customer for you. Can you please quantify the GM striking part on the top line and on the EBITDA and if its material is it reflected on the guidance? And maybe finally, could you please remind us why your performance in India is so strong even the sharp market downturn in the country currently? Thank you.

MATTEO TIRABOSCHI: Regarding the GM strike we can say nothing, because we are speaking about our customer, and you know very well that it is very complicated for us to talk about someone else.

About the price, yes, it is negative in the first line of our profit and loss because there are some agreements with our customer about discounts, but in the meantime, we recovered the cost of the raw material very well and it's positive at EBITDA level, as you can see in the EBITDA bridge.

LAURA PANSERI: The third question Alex, could you repeat it?

ALEXANDRE RAVERDY: Sure. I just wanted to understand why you continue to perform very well in India while the market is going down sharply. So is it linked to the mix, just to understand a bit better?

DANIELE SCHILLACI: In India what is going better and better is our BYBRE brand, which is what we use in India, and especially thanks to the business with one of the local producers of motorbike. I would say that despite the global market, automotive market in general is going down, our penetration in the local markets is going relatively well. So we are monitoring what will be the trend for next year in terms of the markets, especially with limitation of the motorbike, but I would say that we aim to continue this good progression also for 2020.

ALEXANDRE RAVERDY: Okay. Thank you very much.

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

MARTINO DE AMBROGGI Yes, thank you. Good afternoon everybody. The first question is on the truck business, because you mentioned 2020 flattish. But if I look at Volvo's expectations, the European market will be down 14% year-on-year and the U.S. market will be down 29% if I am not wrong. So just if you could elaborate on what are the reasons I suppose higher penetration

in the existing platforms or new platforms. Just to understand the reasons why you expect flattish market in 2020?

DANIELE SCHILLACI: Yes, indeed partially you have already given part of the answer. We have 2 elements, of course, Europe is Europe, but as a global market the truck business, based on what we can see, it is going slightly down, but it's not so heavily down as a global market. And the second reason is indeed we are having more and more penetration with some customers on that area, this explains a bit progression that we are having this year and we're going to have hopefully also next year.

MARTINO DE AMBROGGI: Okay. Thank you. And in terms of free cash flow generation, if I understood correctly you are guiding for a flattish debt Q4 versus Q3, while typical if I look at the long historical figures...the historical serie typically you generate cash in Q4. So is there anything particular in this quarter?

MATTEO TIRABOSCHI: You're right. Normally last quarter we generate cash. Obviously this last quarter is a very particular quarter, we have no clear idea on how our customers will close the year, if they are working through 31st of December or if they will close before. So there are lot of question marks in this moment; it's not clear how the Q4 will be for our final customers, so we are probably prudent, but we consider the position that we have today is in line with last part of the year. To be honest, on our cash generation we didn't perform well about inventory. We are higher compared to our target, probably if we have something around €20 million in the overstocking in our plants. But this is also the consequences of the 2 new plants that are in ramp up phase in this moment.

MARTINO DE AMBROGGI: Okay. And connected to the free cash flow for just an update on the CAPEX for this year?

MATTEO TIRABOSCHI: The CAPEX will be in line with what we said in last conference call, something around €200 million.

MARTINO DE AMBROGGI: And am I wrong in expecting a decline next year?

MATTEO TIRABOSCHI: Yes...it depends, we are finalizing the budget now, but probably we need to invest more in R&D, less in additional capacity, we have enough capacity for the next years but we need to invest more in R&D.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Gianluca Bertuzzo with Intermonte. Please go ahead, sir.

GIANLUCA BERTUZZO: Good afternoon to everybody and thank you for taking my questions. I have 2. The first one is on the discount asked by your client. I would like to understand, if their attitudes on this topic is more aggressive than before. If it is a widespread topic with your customer and if you may eventually recover the eventual discount from finding efficiencies in your business? And the second one is on electric vehicles. If I am not wrong electric vehicles that adopts brake-by-wire system are forced to install also redundant legacy breaking system because of regulations. I would like understand if my thinking is correct, and if you can enjoy some positive trends from this? Thank you.

DANIELE SCHILLACI: The first question, when you look at our slide on the revenue, you can see that the pricing topic is really marginal. So of course, more and more with all this transformation that's happening in automotive sector, of course, everybody is probably investing a lot in R&D and so on. And it is quite natural to try to optimize the cost everywhere. But in our case, our relation with the customer didn't really change and the evidence is indeed

on the revenue slide. But you are absolutely right saying that despite the drop is very marginal, We are working to improve the efficiency at least to absorb this slight drop, but of course also to prepare also for the future eventually major efficiency to keep of course our margin at current level. Your second topic for the electric vehicle, that your question is...can you reformulate your question sorry for break-by-wire?

GIANLUCA BERTUZZO: Yes, because the electric vehicles that are coming to the market, I understood that they have to have dual braking system in the sense that they use brake-by-wire but they have also legacy braking system because the regulation requires that to do so. It essentially doubled the countdown [ph] or increase the content in terms of braking in the car. It is a positive trend for you or am I completely wrong on that.

DANIELE SCHILLACI: Of course, we have already displayed our brake-by-wire technology lately, that we think is a very interesting solution and evolution for the future. But today, if you ask me on the current EV cars, I would say we are working on the evolution of the current braking system. So we don't see any major transformation in the short and midterm I would say. But of course, bbw is something that we are thinking of and of course we are keeping developing.

GIANLUCA BERTUZZO: Thank you.

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

MICHELE BALDELLI: Hi good afternoon to everybody. I have question about the plants that are on sale by Akebono brakes. What do you think about it? Are you thinking about any kind of move around those or do you know what is going on and who could be interested by those? And another...second question, very simple just to be clear that I understood. If selling price on

the topline are going down but you gain in terms of EBITDA is because of the trends in the raw materials that you still need to pass to customers?
Thank you.

LAURA PANSERI: Sorry Michele, can you repeat the first question about Akebono. We couldn't hear you. Thank you.

MICHELE BALDELLI: Yes, so basically on Akebono, I just wanted to have your views on what is going to happen to their plant in Europe and if you will play a role in buying out or doing something I don't know.

MATTEO TIRABOSCHI: Akebono is a competitor, it's a company with a long story in Japan, but we are not interested in anything about Akebono, in Europe, in U.S. or anywhere. Generally we are not commenting on our competitors or other players in our sector.
The second one, sorry I don't remember.

LAURA PANSERI: If the price benefit on EBITDA level was a consequence of the raw material trend.

MATTEO TIRABOSCHI: No, it's just the difference between the discount that we recognize to our customers and the effect of the raw material.

MICHELE BALDELLI: So it is probably yes or temporary because of the gain from the raw materials.

MATTEO TIRABOSCHI: It depends. If raw material increase obviously there is an hysteresis, but there is a period when we absorb the cost and after we recover this cost.

MICHELE BALDELLI: Okay. Thank you.

OPERATOR: For any further questions, please press "*" and "1" on your telephone. The next question is from Marco Corsiglia with Intermonte. Please go ahead, sir.

MARCO CORSIGLIA: Yes, good afternoon. I understand this call is for the 3Q results, but I would have a question regarding your strategy on M&A given that recently there has been a new interview from your Chairman regarding your willingness to make acquisition transforming one even in sector different from the automotive. So the question is just what are your strengths on which you think to leverage when you think about acquisition, because I think that you are not planning to do something totally uncorrelated with your current business or with your current expertise and strengths, so just to have an idea, what could be the potential line of the developments?

MATTEO TIRABOSCHI: Regarding this point, to be honest, you have to keep in mind that we are very, very focused on our business. Our business is quite complex, the season that we are living is very complicated. So first of all, we are very focused on our current business. Obviously, the journalists and magazines are very happy if they can write something different from the ordinary life of a Company, and this is the point, they are writing different articles about possible acquisitions, M&A or transformational deal and so on. Sure, we look what is on the market, what we can do with our partners, but in this moment there is nothing concrete on the table.

MARCO CORSIGLIA: Okay. Thank you very much.

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

GABRIELE GAMBAROVA: Yes. Thank you for taking my question. The first one is, if you can provide us an update on the level of stock in the industry?

MATTEO TIRABOSCHI: From my point of view, in this moment the stock that we see is correct. There is not a problem about overstocking, like it was 10 years ago during the big crises, when all the customers around the world had a lot of stock. In this moment, I think that – from what we can see - they have the correct number in USA, in Asia, also in Europe. There is, from my point of view, no issue about the stock.

GABRIELE GAMBAROVA: Okay. Thanks. And the other question regards the markets in particular, NAFTA in Q4, I understand you mentioned that GM aspect, but there are some projections for Q4, which are pretty negative. So any comments on NAFTA in Q4 would be interesting. I mean, what you see on this market apart from GM the strike, what could we expect from Q4 in NAFTA? Thanks.

DANIELE SCHILLACI: I would say that we don't see - at least so far- big fluctuation at year to date. Since now several months, a lot of things have been changed on the U.S. market, but the 16.6-16.7 million units for the U.S. market is something that in the end, is quite stable over the months. And from what we understand, this should be very close to the landing point also for the Q4. So this means that there is not particular I would say big event today, let us think that in the Q4 there will be something up or down. Most likely, the market will land very close to this 16.7 million units.

GABRIELE GAMBAROVA: Okay. Sorry, very last question. Since the last time we hear you there was this announcement over the FCA/PSA tentative merger. Can you comment, I mean, do you see any consequence, any opportunity from this from a similar, let's say, combination for you and your risk?

MATTEO TIRABOSCHI: No. We are very indifferent about the possible deal or merger. For us, there are no consequences.

GABRIELE GAMBAROVA: Okay. Thank you very much.

OPERATOR: Once again, if you wish to ask a question, please press "*" and "1" on your telephone. The next question is from Andrea Balloni with MedioBanca. Please go ahead.

ANDREA BALLONI: Yes, good afternoon everybody, and thanks for taking my question. My first one is, to be short, I am thinking about Q4 '19, do you see any reason why EBITDA should be lower in absolute value compared to €121 million EBITDA reported in Q4 last year?

MATTEO TIRABOSCHI: The fact is that Q4 is more complicated than last year; the market you know very well, is not performing well, there is some confusion on the market; probably we are a little bit prudent, but, for the moment this is what we see. This year is a really complicated one.

ANDREA BALLONI: Yes, I totally agree with you, but if I look at the first part of the year which was much more complicated that compared to last part, and thinking about drop in global car production on in the range of 7% in Q1, minus 5% in Q2. In both quarter your EBITDA was up in the range of 6-3%, so that's the reason why I am asking why should we expect an EBITDA lower and absolute value compared to Q4 last year, if we consider that in Q4 we see a global car production should be a little bit better compared to the first part of the year?

MATTEO TIRABOSCHI: Yes, the production should be better, but we don't know if they are going to work for 3 or just for 2 months. This is the point, we don't have in this

moment the view about the activity of our customers. It is quite normal in this time of the year, but this year obviously we are more prudent.

ANDREA BALLONI: Okay, clear. My second question is about visibility you have on the next months, you usually have 2 to 3 months visibility, thanks to the order intake. I understand that this year it could be quite complicated compared to the past, but what do you see so far over the next few months also considering that Q1 2019 was very, very weak in terms of global car production. Do you see any small recovery from a side or something that's better compared to Q1 2019?

DANIELE SCHILLACI: If we look at what we are hearing here and there in terms of forecast for next year, about the automotive sector, for instance if you take China, ...what we understand is that next year the market should be stable flat versus this year, of course, we had a sharp drop this year -10% or so versus last year. It seems that U.S. we are talking about some stability, maybe slightly up market and in Europe not stable, all in all. So if you summarize everything, we think that is...if China stabilize it will be versus this year the automotive industry relatively flat. So this means that for us, we are honestly speaking, we should see a kind of stability in our business also now for the Q1 of next year, that's a bit qualitatively what I can tell you.

ANDREA BALLONI: Okay. And my very last question, I am really sorry for that, I didn't get your answer to Martino question about debt in Q4, just to understand that debt again the year should be quite in line with...at the end of 9 months that is pretty surprising to me, not just because usually in Q4 you generate cash, but mainly because of the fact that during the first nine months of the year, your free cash flow generation was absolutely weaker compared to my expectation, and compared to last year. So can you repeat your answer about the trend of that during the last part of 2019?

MATTEO TIRABOSCHI: I mean, we are prudent, but you know, the answer is similar to what we have just said about last quarter. It is a strange quarter, we have to live to understand what will be the last months of 2019. This is the point, and we have no clear situation about our customers. So, probably we can do something better, sure. We have 20 million in stock that we need to work to transform in cash; it is not easy in one month or just a little bit more than one month, but this is the point.

ANDREA BALLONI: Okay, thank you.

OPERATOR: Ms. Panseri, gentlemen, there are no more questions registered at this time.

LAURA PANSERI: Okay, thank you. Thank you everybody and good afternoon. Bye-bye.