

Brembo S.p.A

"Full Year 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 presentation of Brembo Full Year 2019 Financial Results. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Laura Panseri, Head of Investor Relations. Please go ahead madam.

LAURA PANSERI: Thank you. Thank you and good afternoon to everybody. Thank you for joining us today to discuss Brembo Group's full year 2019 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman, and by Daniele Schillaci, CEO of Brembo. The slide presentation has been made available on our website, so we won't comment every slide, but we will go directly to the Q&A session.

Before we begin, I leave the floor to Daniele Schillaci, our CEO for a short introduction after which you will have the opportunity to ask your questions. Please.

DANIELE SCHILLACI: Thank you very much, Laura. Good afternoon to all of you. I am Daniele Schillaci, CEO of Brembo and I'm here with Matteo Tiraboschi, for this meeting. I just wanted to make a brief introduction, given the very critical situation we have on the Italian market today, as you may have heard, we are really under strong pressure about this coronavirus, the situation is very tense especially in the north of Italy, and it is evolving every day, sometimes every hour; in this moment for example we don't even know if we could be in a position to keep our operation ongoing. So in this context, you can imagine, it's very, very complicated to make some forecast, because the forecast that we had yesterday is different today and

probably it will be even different tomorrow, it's an extremely, extremely volatile environment where the accuracy of the outlook for the future is in this minute extremely difficult. Therefore, we will try to do our best to reply to your questions, but I just wanted to share with you the current situation where we are and of course to have an understanding on that. So if you don't mind, we can start with the first question.

Q&A

OPERATOR: Thank you, this is the operator, and we can start with the Q&A session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." We kindly ask you to use handsets when asking questions. Anyone who has a question may press "*" and "1" at this time, that's "*" and "1". The first question is from Renato Gargiulo with Fidentiis. Please go ahead.

RENATO GARGIULO: Yes, good afternoon. Well, I know that as you were saying, visibility around [ph] is not high. I was just wondering and then regarding China in particular, if you can just give us any indication about at least the first quarter of the year, if you already have some potential impact also in terms of production from the current situation? And then my second question is...also in this environment what are you seeing in terms of prices from your customers, if you...what is your assumption at present for this year? Thank you.

DANIELE SCHILLACI: Okay, for the first question on China, we started our operations around mid-February. I would say that all our production sites are ongoing now and we hope to go back to normality as quick as possible. It seems that the situation in the main cities in China is step-by-step moving to the right direction. Of course, the loss of February and for the beginning of March

will be something that will have an impact of course for all the industry; we have some assumptions here, we can see a recovery in the mid of Q2 or Q3 of this year, so time will tell, but what I can confirm is that since the last week of February, all our operations are back on track. This is what I can say about China.

The second question about pricing, if I correctly understood, because the quality of the connection is not great. I don't have any particular update about this question, I would say that the situation of our customer is as usual, so far, there is no particularity to be highlighted on that point so far.

RENATO GARGIULO: Okay, thank you. If I may, a last one on CAPEX given the current situation, do you see room to reduce CAPEX investments this year, compared to last year? Thank you.

MATTEO TIRABOSCHI: To be honest, it is difficult to give you a correct answer in this moment because it depends on the markets; obviously we'll have a quite important portion of maintenance CAPEX, but we don't know if we need to increase the volume of our production, so we need to wait until we know how the market will be before we decide if we have to cut some investment around the world. Obviously, the total CAPEX will be lower compared to last year.

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

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

MONICA BOSIO: Good afternoon, everyone. And thanks for taking my question. The first one, I know that the situation is really volatile and things are changing that it's not easy to quantify. So just to figure out something, what would have been your growth rate without the spread of the coronavirus? So what

would have been the revenue expectation only considering the Chinese effect for the first 2 months. Were you projecting a downsize in revenues or a flat trend in revenues for 2020? And then all the analyst will try to do the simulation for all the rest.

And the second question is, can you just give us an indication of your breakeven point in terms of revenues? And do you feel you have enough room to contain costs in order to face this current situation? Thank you very much.

MATTEO TIRABOSCHI: Monica, ciao, Matteo speaking.

We are working to understand exactly the impact of coronavirus in China. What we can see in this movement is that in the same conditions with coronavirus just in China and not in the rest of the world, The growth of the group for this year would be something around +2.5%-3%...

Regarding our breakeven point, it's difficult to say, but our simulation is that the Group would remain positive, also if our revenues went down in the region of 25% more or less, at global level. If revenues fell more than 25% then it would be a problem.

MONICA BOSIO: Okay, so the threshold is -25%?

MATTEO TIRABOSCHI: More or less, yes.

MONICA BOSIO: Thank you very much very useful. Thank you. And do you have room to contain cost or some action to keep the situation under control in case of...

MATTEO TIRABOSCHI: Obviously, we are working to take under control all the costs, all the investments and the cash-flow especially; but, here every day and every hour we have some news, so we have to do another exercise. Now, in this moment there are some discussions about closing Lombardia area

and this is another challenge for us of course, so we are working to understand how to manage this new situation in the best way.

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

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

MARTINO DE AMBROGGI: Yes, good afternoon, everybody. Just a couple of follow-ups on the previous issues. The first is on CAPEX, just to understand what is the level which cannot be cut. So the minimum CAPEX for the current year, whatever happens.

MATTEO TIRABOSCHI: First of all, I hope and I think that the world is not going to stop, so there will probably be some very difficult months...but in our minds the second half of the year would be something more close to the normal life. If I had to give you a number, probably a wrong number, but just to give you an idea, it is something around €120-€150 million for this year. But, it is a very liquid number, and will depend on the market.

MARTINO DE AMBROGGI: Yes, okay. And the second is just precise indication for the breakeven is referred to EBIT level or bottom line the minus 25%?

MATTEO TIRABOSCHI: Bottom line.

MARTINO DE AMBROGGI: Bottom line and with or without new actions in case of need, I mean including some new cost savings...?

MATTEO TIRABOSCHI: Obviously, if revenues go down, we have to take strong measures naturally.

MARTINO DE AMBROGGI: Okay. And thinking about brighter future, so constructive question. For new platforms, I know you typically do not disclose the names, the size, the timing and so on, but the close of new platforms is going...as it used to be in the past, So you are gaining market share in calipers maybe also in discs so just to think about a brighter future and not only negative questions?

DANIELE SCHILLACI: Regarding the awarded orders we have gained so far, nothing has changed. Orders of new platforms with the customer that have been agreed have been maintained, which is of course was extremely important. I would say that in this very tough period, we are expecting of course, a sort of re-calibration of the makers in the next 2 months of the supply chain, to face a little drop on some markets. But if you look at the full- year, everybody is expecting H2 as a kind of catch-up to offset what we're going to lose in the first half. So again, if you look at the full-year, hopefully, the situation should be a bit better, maybe not in line with the forecast that everyone had made at the beginning of the year, but I don't want to believe that what we are experiencing in these days will be the norm for the rest of the year. So the production planning, the platform for the time being are kept for all our customers.

MARTINO DE AMBROGGI: Yes. I was looking for maybe some comment on new platforms conquered in the aluminum calipers in particular?

DANIELE SCHILLACI: On the aluminum calipers, as usual we cannot disclose the name of platforms and customers, for confidentiality, but all the orders that we had signed before the coronavirus are kept - both for aluminum calipers and discs -.

MARTINO DE AMBROGGI: Yes. Thank you.

OPERATOR: 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 about China. Again, if I've understood correctly, you have mentioned about a top line growth of the full-year in the range of 2.5% to 3% only considering the drop in China during the first part of the year. But could you please quantify exactly the amount of a drop you are seeing right now in China so far? Last year Q1, China generated €17 million sales just to understand, which amount of sales are you going to lose this quarter?

My second question is about net working capital that has absorbed a pretty material amount of cash in 2019. Do you expect any recovery in 2020?

And my very last question is about production plants in Italy. I was wondering, which percentage of a production do they cover? I mean, which part of sales...of Brembo sales has been generated in 2019 by the Italian plants?

MATTEO TIRABOSCHI: Starting from the first question, in this moment, we can't give you the correct number about China because the quarter has not finished yet, so we do not have the exact number. The number I said before is the total growth of the Group only with the Chinese situation.

ANDREA BALLONI: My second question was about the net working capital ...should we expect any potential recovery in 2020 after last year absorption?

MATTEO TIRABOSCHI: About the working capital, in this moment it is too difficult to give you a precise answer. We are working of course to manage it in the best way; last year with the ramp-up of the new plants, the working capital increased, the program for this year is to take it under control and to bring

it down. But in the current situation obviously, the production is trying to give all the products for our customers. So in this moment, we are working at 110% of our capacity in the Lombardy area, so it's quite difficult to predict the level of NWC.

ANDREA BALLONI: Okay. And the last question was about the Italian production. Just wondering, which percentage of total sales of Italian production covered in 2019?

MATTEO TIRABOSCHI: The number is something around 15%-20%, but take into consideration that we can move some applications from Italy to other countries in Europe. The issue is if in the weeks or next month also other countries have the same problem. And I don't know what will be the approach of our customers in that scenario.

OPERATOR: The next question is from Massimo Vecchio with UBI Banca. Please go ahead.

MASSIMO VECCHIO: Good afternoon, everybody. It's perfectly understandable you're not in a position to give us financial guidance. But I'm more interested in understanding how your operations are doing, so both in terms of your supply chain and your customers. So I was wondering if you can tell us in terms of supply chain if your suppliers are all up and running and they are producing right now and if the guaranteed month of supply and also what is your inventory in terms month of supply? And on the customer side, what kind of talks are you having with your customers are they delaying R&D and new product introductions? Are we talking about slowing down the production rates? In other words, I'm trying to understand if the stock market is more worried than the industry or if the industry is as worried as the stock market.

DANIELE SCHILLACI: Okay, regarding the operations, we have to say so far, we are operating in a linear mode. For example, if I go by region China, as I said, is now operating, with no major issues, and that in Europe with the current situation as of today, I repeat, because you might have seen a few minutes ago the news that there are some discussions to shut all the operation also in Lombardy area, which is where we are operating; but if I have to answer now, now we are operating in a linear and smooth manner, including the supply chain. So we have been, of course, anticipating few weeks ago with the purchasing department all the countermeasures, and so far we are operating.

In terms of customers, we are proceeding with our scheduling as planned for the time being, no major short supply or issue. But if Lombardy is going to be closed, as it's being discussed in this moment, of course this is something that we need to consider and as you can imagine there is a task force in place in this moment. Yes, there are several options, as Matteo was saying before, we have operations in Poland and in Czech Republic that can support our customers, so we could reschedule some planned operations. That is something that is linked to the decision that the government will be taking in the next 24-48 hours; but so far we are operating in a smooth manner, this is what I can say.

MASSIMO VECCHIO: Okay, thank you very much.

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

ALEXANDRE RAVERDY: Good afternoon, gentlemen. Alexandre Raverdy from Kepler, I have 2 follow-ups. The first one on the topline. So you mentioned plus 2.5% to 3% excluding the impact from the coronavirus. Can you please specify which assumption...underlying assumption you took in terms of global production? Just to understand the implied outperformance degree?

That's the first one? And the second question is on operating leverage. Thank you for sharing the breakeven point. Could you please just help us understand the operating leverage or how variable are the costs, for instance, in China versus the other regions, as there may be the risk that of some production hiccups in other regions outside China. Thank you very much.

MATTEO TIRABOSCHI: Yes, the assumption was the overall market expectations: market in U.S., is expected to continue to be positive; in Europe, thanks to new applications, new customers and new models it was positive; in China, we are confident that after this problem in the first months of the year, in the second part of the year, China will come back to be a positive market. About the costs in China. I don't have details at the moment.

ALEXANDRE RAVERDY: Okay. Fair enough. Thank you very much.

OPERATOR: The next question is from Andrew Holland with Holland Advisors. Please go ahead.

ANDREW HOLLINGWORTH: Hi, good afternoon. It's Andrew Hollingworth, actually from Holland Advisors. I know you've got a lot of short-term difficulties and challenges you face, so good luck with all of those. But I'd really like to ask if I can discuss a longer term question. The first question is just you talked about in previous transcripts about your maintenance capital expenditure being €60 million to €70 million over-over-year. And I'll appreciate there's been previous questions on capital expenditure and I am not that worried about what you spend this year either in good or bad scenarios? But could you just explain the difference as to why your maintenance capital is for the €60 million, €70 million year-over-year when your depreciation charge is more like €200 million a year, and what

the differences are and whether some of the differences are down to sort of...sort of customer spend and talk about that?

And the second question, I've got, it is just sort of ignoring the virus issues and the challenges for the time being, I mean, what we seem to see is a lot more Brembo [ph] usage in sort of one of your customers who...I know you didn't mention by name, but in terms of electronic vehicle producer, you know, he's been using your equipment in sort of lower priced cars than you'd have had historically. And longer term, is that something that you think there's a much bigger market for the...for what you sell? And could you just talk about whether or not that's something was part of your planning and thinking and the investments you've made up to now or whether that's something that's a long way out, and it's still really the top end that you are expecting longer term demands returned...return. Hello?

DANIELE SCHILLACI: Yes, let's start from the second question. Regarding electric vehicles, it's very clear that, if we look at the trend of this decade, this decade will be probably highlighted by the hybrid cars and EV cars. So this is the trend and we are pretty sure that this trend will be confirmed over all the decade. We will see the mix of the EV and hybrid going up. Probably, the hybrid will be the core technology and EV will probably accelerate in percentage for the second part of the decade, but clearly, this is the trend of the automotive market. For us, of course, we are already in our long-term strategy anticipating this trend and we are of course - both for discs and calipers - moving into that direction. It's not a big disruptive technology that can put in danger our core business, so it's just a matter of adapting our products to that new technology. We didn't mention that in terms of weight, a hybrid car is heavier than ICE cars, so this is even better for us, because as I mentioned the size of the braking system is bigger. So we feel confident that our knowhow and our technology will be convenient for our customers with the hybrid and EV technology.

MATTEO TIRABOSCHI: Regarding your first question, about the D&A, the golden rule is to invest the same amount of your D&A. We had less than €200 million D&A, but over the past we have invested much, much more than that, obviously, because we were in a period when all markets and regions were growing. In this moment, the market is in the best option flattish, so we are thinking to invest something less compared to our D&A. Obviously our industrial footprint is global, it's everywhere in the world, our maintenance CAPEX as you said is around €60 million, €70 million, probably something more now, because the plants around the world are increasing, probably something close to €80 million per year, and the difference is the CAPEX invested for new capacity and additional volumes. But as said before, I don't know for this year, how much we need to invest for the growth of the next years, given the current situation.

ANDREW HOLLINGWORTH: Can I just ask a quick follow-up on that? Sorry. I understand also there is a difference between what you are spending on CAPEX and depreciation in terms of you talked about in past about spending [indiscernible] €70 million, €80 million in terms of the expansionary CAPEX you got for, you know, your excitement of future growth. I understand that. My question is more towards the invasion of accounting terms, the depreciation charge of €200 million would suggest that is the ongoing, that's depreciation of the existing asset base and that's actually the amount of money you have to spend to keep the existing asset base constant, but obviously your comments on maintenance whether that €70 million or €80 million suggest that actually there is a much lower cost of actually maintaining the existing assets. So those have come about because maybe some of the spend that you do on growth capital for new projects you depreciate quite quickly because you are being very prudent on that. That's what I am trying to understand it's why I have a notional depreciation charge of €200 million, but I have actual example of likely

maintenance CAPEX of €80 million. That's what I am trying to understand.

MATTEO TIRABOSCHI: Sorry, I can't really understand your point here. Normally, the golden rule is to invest in maintenance CAPEX the same amount of D&A; in the past we have invested more because to expand capacity over the world.

ANDREW HOLLINGWORTH I agree and I understand. Maybe we could discuss offline separately because it's not a great line and we can catch you with some examples maybe that's very helpful at some stage?

LAURA PANSERI: Yes...sorry, Ladies and gentlemen, this is just to inform you that we have time for a couple of more questions. Thank you. Please, operator.

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

GIANLUCA BERTUZZO: Good afternoon, everybody, and thank you for taking my question. The first one is about the 2019 results. You had an organic growth rate of minus 2.6% which is an outperformance of around 2 percentage points compared to global registration which is lower than you historically had then considering also the quality of development of the other divisions. Can you elaborate a bit on that and why the outperformance reduced last year, is something that we can expect to continue or you expect to go back to your historical level of outperformance of around 5 to 6 percentage points. The other question is on M&A, is the situation offering some more opportunities and if you can maybe provide further call on your M&A strategy? Thank you.

MATTEO TIRABOSCHI: On M&A: we are obviously looking for a good target, also in this season. I always say it, it's not easy, but maybe in a situation like this, we could find a good opportunity for something interesting.

About the total revenue, obviously we are doing something better compared to the market, but the market is not positive; so in the past the growth was double-digit because the market was growing, and we were performing better compared to the market, but in this moment the market is going down. Last year we lost about 1.8%, but the market lose 7%, so the ratio is more or less the same of the past.

GIANLUCA BERTUZZO: Thank you.

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

MICHELE BALDELLI: Hi, good day everybody. Let's put it this way. I would like to have your views, as if it was mid-February. So, let's forget about coronavirus. What would then your expectation for your business this year? So this plus 2%, plus 3%, it could have assumed what kind of market growth in terms of volumes for the overall global car production. And the second point is in terms of CAPEX expectations before any impact from coronavirus in Europe. What could have been your best guess of range on the CAPEX total one? So basically if you can split tangible CAPEX and also the capitalized R&D cost, please?

DANIELE SCHILLACI: The first part of your question without let me say the coronavirus, our picture of the domestic market in 2020 was the following. China, positive...slightly positive, let's say 3% to 4%, U.S. in line with last year because they have achieved already a quite substantial market, Europe was let me say break even versus last year or slightly down, 1%. So this means that the global demand in automotive market for 2020 for us was

slightly positive versus 2019; that was of course before the coronavirus in Italy. That was our forecast until end of January.

Depending on how the current situation will evolve, we will give you another forecast. We cannot tell you today, if we will be able to keep this +2.5%-3%, I would say this will be quite complicated, especially if in Europe all the countries are going to face of the coronavirus issue. My first feeling is that the automotive market forecast that was done, it had a totally different picture and we will navigate day-by-day, week-after-week to try to do our best. So, this is what I can tell you, and to do a forecast now is mathematically impossible. But, anyway, the second half should be on the paper a bit better than what we are seeing right now; this is at least what the experts are saying in the automotive industry.

MATTEO TIRABOSCHI: For the second question, about CAPEX into normal life: if this year was a normal year, probably our total CAPEX would be similar to last year, something around €250 million, something like that, probably with a different mix: higher for R&D and lower for operations. In R&D, we are continuing to invest, obviously as I said before, we are trying to reduce all the investments for new capacity everywhere in the world.

MICHELE BALDELLI: Okay. So, basically the R&D spending will also double? Can we say so?

MATTEO TIRABOSCHI: Double, I don't know, it's increased a lot.

MICHELE BALDELLI: Okay. Thank you.

DANIELE SCHILLACI: Thanks.

LAURA PANSERI: Okay. Thank you ladies and gentlemen. Thank you for attending this call, I wish you a good afternoon. Bye-bye.

DANIELE SCHILLACI - MATTEO TIRABOSCHI: Thank you very much. Bye-bye.