

Brembo S.p.A.

"First Half 2021 Financial Results Conference Call"

Thursday, July 29, 2021, 14:00 CET

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 First Half 2021 Financial Results Conference Call. 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 Ms. Laura Panseri, Head of IR. Please go ahead, madam.

LAURA PANSERI: Good afternoon, ladies and gentlemen, and thank you for joining us today, to discuss Brembo Group's first half 2021 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Daniele Schillaci, CEO of Brembo. A slide presentation has been made available on our website in advance. Therefore we suggest to go directly to the Q&A session.

During this call, we will discuss our business outlook, and make forward-looking statements which are based on our predictions and expectations as of today. These comments are subject to risks and uncertainties that can cause actual results to be materially different. Finally, remind you that this call is being recorded.

Having said that, I leave the floor to Matteo and Daniele, and to your questions, please.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer 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." Please pick up the receiver when asking questions. Anyone who has a question, may press "*" and "1" at this time.

The first question is from Monica Bosio with Intesa SanPaolo. Please go ahead.

MONICA BOSIO: Good afternoon everyone, and thanks for taking my questions, and congratulations for the results. This is the first time; I say this during a call. Just skipping on the negative part of the results, can you comment on the net debt evolution and on the dynamics of the net working capital? The second question, is regarding the divisions. I've seen that over the first half, the car division has come back to the pre-COVID level, while motor cycles well exceeded the pre-COVID levels. Can you give us some flavor on the full year trend for motorcycles? And very last question if you have some color on the future introduction of Brembo new products such as Brake-by-Wires? Thank you very much.

MATTEO TIRABOSCHI: Hi Monica, Matteo speaking. Starting from the net working capital, the comment is more or less the same that we made during the last conference call. We have a buffer or stock that we need to manage in a better way - maybe something around €20 million in over-stock - but we are working very hard to get to the end of the year with a lower level of inventories. About the net financial debt, I have no particular comment: compared to same period of last year the position is much better. Obviously, some of our businesses are more seasonal - aftermarket, racing and motorbike – they are asking for more parts during this season, so the debt naturally is increasing, but it's quite normal in the life of Brembo business during the year, I have no further comment about it.

MONICA BOSIO: Okay. So the overstock is, if I have understood well it is €20 million.

MATTEO TIRABOSCHI: More or less yes. More or less yes, it's something around €20 million.

MONICA BOSIO: And your CAPEX guidance for the full year is unchanged?

MATTEO TIRABOSCHI: Yes, we said something in the region of 200-250 € million, and we confirm that.

MONICA BOSIO: Okay, thank you. And as for motorbike?

DANIELE SCHILLACI: Yes Monica, hi, I am Daniele. Regarding your second question, you are totally right, on the motorcycle, the first half was really good, and I would say that the motorbike market is growing almost everywhere. And also given our very strong operation in India, we are having also in Asia interesting trend for the time being. And we see this good momentum of the motorbike lasting also for the rest of the year; the demand is quite strong and we are following these positive trend with our customers. And by the way, the fact that – as you know - we have now fully integrated SBS, and hopefully soon J.Juan, the fact that we are integrating more vertically the motorbike BU, in light of the good momentum that we see will last also for the 2022, this is a good news for us. And also, to conclude with the motorbike, I'd like to underline that, on top of the traditional top customers, we are also acquiring new business on the e-bike in the mid and low segment, mainly in China. So it will be a new very interesting experience for us in that area. Regarding the passenger car segment, during the last call in May we said the forecast was around 84-84.5 million; now the forecast seems to be more around 83 million, due to the chip shortage topic, but still strong. Anyway the Chinese market in 2021 will be probably the one who will be at the same level as in the pre-

COVID period, while Europe and U.S. should be slightly below, but overall, I would say the car sector seems to resist well, despite some headwinds occurring as you know.

Regarding Brake-by-Wire, it is of course a super strategic product for us. I can tell you that during '23 there will be the first application on the market, which is relatively soon for such new product with a prestigious OEM. Also, last week, we were part of the innovation day of another big OEM that invited us to show and test the Brake-by-Wire and the feedback was very, very positive. So I expect that Brake-by-Wire will no longer be a sort of prototype, but it is really moving to the application phase. But I will be more than happy, hopefully or I should say almost certainly, to be able to give you some update by end of the year.

MONICA BOSIO: Okay, thank you very much.

DANIELE SCHILLACI: Thank you.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. The first question is on the top line guidance, if you could split among the different divisions, just to have a rough idea what could be the mix?

And the second question is on the EBITDA guidance, because if I look at the margin in the second half its implicitly lower than in the first half and even lower than the second half of last year, despite similar sales? So just to know if we should take into account some specific driver some specific variable?

MATTEO TIRABOSCHI: The guidance for the revenues regards all the activities that we have. We don't disclose details about single business unit.

About the stability of the margins, please bear in mind that we are talking about something “around” 19.5, it means that can be also 0.6, 0.7, or something lower, but in this moment, given the complexity of the situation, especially regarding the shortage of microchips, we can’t give a precise number. So, as stated in the press release, it's something in the region of 19.5%.

MARTINO DE AMBROGGI: Okay.

MATTEO TIRABOSCHI: We hope of course to be able to do better, but at the moment it is very difficult to tell.

MARTINO DE AMBROGGI: Okay. And what would be the contribution of the newly acquired company?

MATTEO TIRABOSCHI: SBS contributed with revenues for €9.5 million, (net of some intercompany business) and €2.8 million EBITDA, in H1.

MARTINO DE AMBROGGI: So we need to double it to get the full year.

MATTEO TIRABOSCHI: More or less yes.

MARTINO DE AMBROGGI: And how the scouting activity for acquisitions in the electronic business is progressing?

DANIELE SCHILLACI: Yes, we are looking for companies who can support us on the electronic and electric part of the product, especially for the brake-by-wire needs. To be honest with you, today we are more in the loop of a partnership, we have identified 2- 3 long-term partners on that. But of course, as usual, if there is an opportunity that we consider interesting for us on the M&A

side, of course, we will consider it. But we are more today, let me say, on the kind of long term partnership mode.

MARTINO DE AMBROGGI: Yes. Okay. Thank you.

DANIELE SCHILLACI: You're welcome.

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

GIANLUCA BERTUZZO: Good afternoon, everybody, a couple of questions from our side. The first one, we saw a negative impact from prices at EBITDA level of about €30 million in the first half. This impact included also the raw material? Should we expect this headwind for the second half of the year to moderate, given the kick-in of pass-through contracts with your clients? This is the first question. And second one, I was wondering about the implication of the Brembo Inspiration Lab. Thank you.

MATTEO TIRABOSCHI: Hi Gianluca, the raw material price increase for the first half is something around 1 percentage point on the EBITDA. It's difficult to tell you something about the second part of the year, because we don't know if there is a sort of stabilization of the raw material price or if the price are will increase also in the second part of year. If we can maintain the same price levels as today, we can try to recover something, in percentage of course, but bear in mind that we have a time leg between the time of the increase and when we can pass it on to our customers, normally it's a quarter or four/five months.

GIANLUCA BERTUZZO: Okay. Regarding Brembo Inspiration Lab?

DANIELE SCHILLACI: Regarding the Brembo Inspiration Lab, as we announced 10 days ago, it is a very important project for us, because in line with our strategy to move forward on the digitalization of the company, we thought that it was the right decision to go where the best knowhow in the world is, in terms of artificial intelligence applications, data scientists, data engineers. We took the decision to open the Brembo Inspiration Lab in the Silicon Valley, more precisely in Sunnyvale, just beside Palo Alto, in the heart of the Silicon Valley.

We've talked a lot of about this lab, because, as you can imagine, this lab will be a kind of compass for us in the specific world of software AI. Of course, we have already good competencies here in Stezzano, but we want to be somehow challenged by new people living in the right place in the world. To give you the size of what we are thinking, in Inspiration Lab, as a first stage we think 10-12 people will be there, helping us in implementing the digital transformation process in Brembo.

As you know, we have more and more customers in the Silicon Valley area, from traditional OEMs to the rookies; so, on top of the operations that we have in North America, this will be the place to be even closer to our current customers, and new potential customers.

GIANLUCA BERTUZZO: Okay. Thank you. And if I may just a follow-up. On the order intake for electrical vehicles, our imposition on these new type of vehicles. Is your penetration higher compared to internal combustion engine cars?

DANIELE SCHILLACI: It depends what you mean by electrification, if you talk about zero emissions or electrification platform, but if we take both of them, if you look at all the new platforms of the vast majority of the OEMs, which are now almost all electrified, and all the business that we have taken since one year, I would say they are all electrified. So our penetration on that segment is expected to increase sharply over the next years, absolutely.

GIANLUCA BERTUZZO: Okay. Thank you very much.

DANIELE SCHILLACI: You're welcome.

OPERATOR: The next question is from Andrea Balloni with Mediobanca. Please go ahead.

ANDREA BALLONI: Yes. Good afternoon, everybody. Thanks for taking my question. A couple from myself. First one is about the full year '21 outlook. Can you give us a breakdown of your 20% to 25% sales growth between reference market trend and Brembo over-performance and the number in our guidance was 12%, increase for the market, and around 3% over performance for Brembo?

And my second question is about the visibility you may have over the next months. All the main market players are commenting about chip shortage to impact, also in the second half. That was quite unexpected some months ago. What do you expect over the next year? Do you foresee chip shortages to have a drag effect also in first-half 2022 or should we expect chip shortage to bottom out over the second question?

And my very last question is about your production capacity, if you can provide an update about utilization you expect to achieve in 2021. Thank you.

DANIELE SCHILLACI: Hi, Andrea. I'll answer to your first question. Yes, 20%- 25% is what we see as growth. Take into account that the growth in motorbike and also in the aftermarket segment was significant in H1 and they will continue to be strong also in H2. So, of course those businesses will contribute to the 20%-25% growth. Then of course, the passenger car segment will be above 12%, but the 20-25% forecast includes all the segments.

The second question, regarding the chip shortage: we are reading a lot of things in the recent press, of course. What we can say is that it seems that

from Q4 this year, the situation should start to ease, and this should be good news. If this happens, we expect the entry point of 2022 to be less worrying than what we saw on that respect at the beginning of this year. Take also into account that the reference market where we operate, which is the premium market, of course is impacted by this problem, but probably it is less impacted than the mass market.

And about the capacity utilization, it is today at around 85%, on average.

ANDREA BALLONI: Thank you. If I may just a follow-up about the first question. So if I understood correctly, your expectation for the reference market are unchanging in the region of 12% and the upgrade in the guidance is basically on the Brembo over performance indeed?

DANIELE SCHILLACI: Yes, this is what I'm saying. You know, if there hadn't been the chip shortage issue, the market instead of 83...83.5 which is the latest forecast, the market would have probably been something closer to 90 million already this year, and around 87-87.5. But with this of course, the market growth is around 12%, with Brembo over-performing, as I said before.

ANDREA BALLONI: Okay. Thank you.

DANIELE SCHILLACI: You're welcome.

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

MARK POWER: Thank you and good afternoon. I would like to focus on the balance sheet, please. And just your thoughts on capital needs of the Brembo business in the medium and long term. First, I guess [indiscernible], can you remind us how we can think about the capital spending needed to sustain the

business and the level of capital investment needed to drive revenue growth. And I have a follow-up.

MATTEO TIRABOSCHI: It is quite a difficult question. If I had to give you a number, it is something around €200 million per year, more or less, to sustain the business that we won for the next years.

MARK POWER: But as you look out in the medium term, is it proportional to the sales growth presumably?

MATTEO TIRABOSCHI: More or less, yes.

MARK POWER: And just to expand that on to working capital. Obviously, working capital is elevated today. My calculation could be 15% of sales and historically it has been more or like 10. Do you expect working capital to decrease when the business normalizes or when post-COVID, I guess.

MATTEO TIRABOSCHI: We will try to go back to 10%; it will not be an easy challenge, but of course, our strategy is to maintain a ratio at around 10%.

MARK POWER: Okay. And just if could put the two answers together, it's just in a very high level view, is it fair to think about the business where revenue can grow faster than the growth in investment capital, if that makes sense to you?

DANIELE SCHILLACI: I would say, if you look at our mid-term plan and also the market forecast, I will be tempted to say that the revenue growth might be higher than the capital spending, yes.

MARK POWER: Okay.

MATTEO TIRABOSCHI: Also because the value of our product will increase, they will be richer, with higher content and the price will be increased.

MARK POWER: Okay. That's fair, that's clear. Thank you very much.

DANIELE SCHILLACI: You're welcome.

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

GABRIELE GAMBAROVA: Yes, good afternoon and thanks for taking my questions. The first one regards the financial revenues from investment item, I see in the presentation as part of the financial charges, its positive...it was positive by €3.9 million in H1, and I was wondering what's behind this item, like it is something recurring or exceptional, I am looking at Slide 11, where you have the financial charges breakdown?

MATTEO TIRABOSCHI: Yes, consider that this item includes: exchange gains for €3.8 million, interest expense for €5.3 million and dividends from invested companies for €3.8 million.

GABRIELE GAMBAROVA: Okay, understood. And then, if it is possible, regarding the bridge...the revenue bridge on Slide 6, where you have the volume and mix component for €123 million. I was wondering if it is possible have the breakdown between volume and mix also directional, I mean, it's more volume or mix just to understand that?

MATTEO TIRABOSCHI: Its volume, essentially.

GABRIELE GAMBAROVA: Okay. So, your over performance was very strong. And, I mean, was it, I mean, you over performed the reference markets by at least 10

point or more if I am not wrong. Was it, all 100% market share gains or is there any other I don't know aspect that may explain this maybe possibly your client based, I don't know...?

MATTEO TIRABOSCHI: It's over-performance of Brembo and over performance also of our customers. It means that our portfolio is very stable, is very consistent.

DANIELE SCHILLACI: And also as I said before, as a complement, we had also on the aftermarket and motor bike an excellent H1 that contributed also to this over-performance.

GABRIELE GAMBAROVA: Okay. Thank you very much.

DANIELE SCHILLACI: You're, welcome.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. For any further questions, you may press "*" and "1".

LAURA PANSERI: Okay. So, ladies and gentlemen, thank you for attending our call today. We wish you a good rest of the day and a relaxing summer. Bye-bye.

MATTEO TIRABOSCHI: Bye-bye.

DANIELE SCHILLACI: Bye-bye, ciao.