

Brembo S.p.A

"First Quarter 2021 Results Conference Call"

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MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN
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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo First Quarter 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 Investor Relations. Please go ahead, madam.

LAURA PANSERI: Yes, good afternoon to everybody. Thank you for joining us today to discuss Brembo Group's first quarter 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.

Before we begin, let me remind you that any forward-looking statements we may make during the 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.

Having said that, we can start with a 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. 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 madam.

MONICA BOSIO: Good afternoon everyone, and thanks for taking my questions. The first one is on the order book trend. The first quarter was well ahead of our expectations, obviously there are uncertainties ahead due to the semiconductor shortage. So if you can comment on the order book trend and the visibility that you have for the coming quarters, I would really appreciate it. Also on the outlook, I remember that at the end of the 2020, you guided for a market...car market up between 11% and 12% with Brembo outperforming the market. Is it still the case or have you changed your outlook for the year on the back of the semiconductor shortage. And the same if I may, on the EBITDA margin, you were very cautious and at the end of 2020 you guided for something between 18%, 19%, something between 2019 and 2020. So would you feel more confident now after these strong results in the first quarter? Thank you very much.

DANIELE SCHILLACI: Yes, thank you, Monica for your question and good afternoon to everybody. Yes, the order book for Q2, and I would say also the visibility that we have on Q3, remain strong, so no change compared to what we said during the last call. The outlook for the global automotive market is around +12% versus 2020 at around 83.8 million, 84 million units, so we remain quite confident, as we said also last time, to outperform the market.

MATEO TIRABOSCHI: Regard the guidance, it is not easy to answer in this moment, but I think that for the full year, we can see revenues up by around 15% versus last year, and EBITDA margin for the full year around 18.5%-19%.

MONICA BOSIO: 18.5%,19%, okay. Thank you very much. I'll come back to the queue.
Thank you.

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

ANDREA BALLONI: Thanks. Thanks for taking my question. My first question is about profitability. I noted that your gross profit was even better compared to last year, despite the raw material cost increase. So can you explain us how you manage the cost inflation, and what should we forecast over the rest of year?

And my second question is about your over performance. I...we understand your previous answer, so with the market of up of about 12% how much should we assume Brembo to outperform? And my last question is about your CAPEX trend which is the guidance for the full year? Thank you.

MATTEO TIRABOSCHI: Regarding the capex, for the full year it will be something around €200-€250 million, similar to what we said the last time.

About profitability, yes, we are trying to manage the P&L in the best way, we are trying to maintain the same rigorousness learnt during 2020 and this was evident in the first quarter.

DANIELE SCHILLACI: Yes, as a complement on the profitability, I'd like to add that we are keeping a very tight cost control in our operations, and this is working quite well also in 2021. We are not seeing any pricing deviance from our customers, and this two factors allowed us to have a good profitability in the quarter.

Regarding the over-performance that was your last point, the market as I said should be around, 11%-12% above 2020, we think our growth should be in the range of +15%.

ANDREA BALLONI: Okay, and just a follow-up again about profitability. The price increase was almost zero in the quarter we have seen the impact in your presentation of the top line. What should we assume for the rest of the year? ... In the previous conference call, we talked about potential price increase for your product and in order to hedge against the raw material cost inflation, but in the end in the first quarter we saw in the presentation, the price increase was almost zero in term of impact on your top line trend. I was wondering, what should we assume over the rest of the year in terms of price increase?

DANIELE SCHILLACI: As I said before, this is also due to the efficiency of our manufacturing and the tight cost control, so we don't see any major issue in this regards. Regarding the raw material prices you are mentioning, just for you to know, the large majority of contracts with our customers are indexed, so this means that there is a pass-through process to our customers.

ANDREA BALLONI: Okay, thank you.

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

MARTINO DE AMBROGGI: Good afternoon, everybody. The first question is on...follow up on the raw materials just to understand what was the impact of raw materials net of price increase in Q1? And what should we factor in for the rest of the year? In the sense, I suppose the raw materials probably were already negative in Q1 and probably will be offset during the year by price increases. So just to have a flavor of what is the...this variable on

your account? The second question is on the 2 acquisitions. I understand that SBS recorded a 27% EBITDA margin in Q1, I don't know if this should be taken for the rest of the year. So they full year around this level. And the last one in Spain, what are the synergies that you expect to exploit?

DANIELE SCHILLACI: Regarding the raw materials, the process of indexation to our customers has a lead time between 3 to 5 months. So we will have a very light impact probably – if the trend continues like this - that we should see maybe in the last quarter, but it's not said. But the impact is really minimum in that regards. So we have just one quarter to absorb and we've seen that this impact, given the good momentum and the good cost control that we are having, eventually the lack of turnover will be offset by the major cost control impact. So we don't see any major issue about that in our guidance, as I said before, +15% revenue versus 2020, 18.5%-19% EBITDA: this includes all the topics, headwinds like raw materials and chip shortage assumption.

MARTINO DE AMBROGGI: And the synergies from the last acquisition?

DANIELE SCHILLACI: Regarding SBS, our Danish company, leader in brake pads for motorbikes, I have to say that the integration has been absolutely smooth and well done; the team is now fully integrated into our organization and by the way, they are delivering quite well. So I would say, that was a very good experience and we are happy about that.

Regarding J. Juan, of course we have to wait for the final closing, but for us it's absolutely strategic because it gives us the opportunity to be more vertical in the motorbike operations. It's very clear that the two-wheels business - even if we don't talk too much about that - the two wheels business is really booming. And in Brembo, we strongly believe in the potential of this segment also for the future. And thanks to those

acquisitions we will provide for the motorbike segment the brake hoses (through J.Juan), the calipers, the disc and the pads (through SBS). So we are now fully integrated. And this should lead us in the next years to have a really integrated business with higher margins - already good today - and higher potential to be a Solution Provider to our customers, which is totally in line with our new mission/vision. That's why we think the integration of SBS and J. Juan is important in our company.

MARTINO DE AMBROGGI: And if I may on M&A one more question. Should we expect additional small deals to complete the product range like you did in the past few months? Or are you working or maybe your hope is to find a much larger deal?

DANIELE SCHILLACI: I would say that any companies that could help Brembo in its strategy to become a Solution Provider and to leverage all the mega trends in automotive industry, will be considered, regardless of the size. This is our first priority. Regarding the large size, as Matteo very often says, it is also a matter of opportunity. Of course, we will consider everything that can fit in the new vision/mission, regardless of the size, otherwise even if it's attractive, it's not interesting for us. We have to strengthen our core business. This is the mantra of our company.

MATTEO TIRABOSCHI: Besides, the main driver is the value that we can create together, not just the size.

DANIELE SCHILLACI: Yes.

MARTINO DE AMBROGGI: Okay, and very last on the guidance for the full year. You're mentioning 18.5%, 19% EBITDA margin for the full year which implies a decline almost 200 bps of lower EBITDA margin for the remaining 9 months of the year. While you mentioned also that raw materials do not

have a big impact, and probably chip shortage is not so important for you. So could you explain the reason why we should see 200, almost 200 bps of lower profitability for the rest of the year?

MATTEO TIRABOSCHI: Two main reasons: the most important is uncertainty for the next 9 months for the year. Second, there is a sort of seasonality in our business. The first and second quarter normally have a slightly better profitability, the second part of the year a little bit lower. So for the combination of this 2 reasons.

MARTINO DE AMBROGGI: Even if...you mentioned also the order is very strong for Q2 and providing visibility

MATTEO TIRABOSCHI: Yes, but maybe the mix is not so good. In this part of the year, there is more aftermarket, racing, motorbike, in the second part of the year, there is more OE business, so the volume is consistent but the mix could be different.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: Next question is from Alexandre Raverdy with Kepler. Please go ahead, sir.

ALEXANDRE RAVERDY: Yes, good afternoon, thank you for taking my questions. I have 2 questions, please. The first one relates to sort going back to outperformance, I am not sure I understood clearly. So you mentioned 15%, could you please confirm whether this relates to your revenue growth for the full year assuming M&A and FOREX. And the second question is related to the G Sessanta caliper concept. Is that kind of caliper to be commercialized at some stage and if so, any comment on the pricing versus the current product, given the additional

technology would be helpful. And if not, could you please elaborate on the ability you have to put, I don't know, sensors on calipers and provide more connected products in the short to mid-term? Thank you.

MATTEO TIRABOSCHI: About the growth, it's +15% compared to the previous year. It is what are imagining to do in the full year compared to the year before.

ALEXANDRE RAVERDY: Okay. Thank you. And this includes M&A and FOREX, right. It is not organic?

MATTEO TIRABOSCHI: It's all included; concerning M&A it includes only SBS, J. Juan will be included maybe from September or October.

DANIELE SCHILLACI: About the caliper, what you are seeing is a concept, it's our idea to anticipate the future, future made by digital and so on and this is a concept that we are testing; there will probably be some evolution on that, that I will share with on due time, but it's a very interesting concept.

ALEXANDRE RAVERDY: Okay. Thank you very much.

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

GIANLUCA BERTUZZO: Hello, everybody, and thank you for taking my question. Second quarter will be volatile for essentially 2 reasons. The easy comparison of last year and all the productions of car makers this year. Can you help us with modeling for the second quarter? I was wondering if you can provide us some indication in terms of growth. And my second question is on electric vehicles. The strong growth we have seen in the first quarter, I was wondering if it was benefitting also from this type of vehicles and if

you have some updates for us in terms of order intakes...order intake from EV platforms. Thank you.

MATTEO TIRABOSCHI: Regarding second quarter, it looks good. Obviously, this second quarter can be barely compared with the second quarter of last year, when everything was closed for almost half of the quarter, but for what we can see today, the business is going well, absolutely well.

DANIELE SCHILLACI: Regarding the electrification, yes, you're right, the share of electrification is growing, not only for purely EV but also the plug-in and so on. Our customer base is made by all the premium brands, where the majority has now a mixed powertrain and we have deals with everybody in all the platforms. So the growth of EV is also a good news for us, so is the growth of hybrid and plug-in cars. So for us, this is in line with our order bank and our strategy. So the more EVs are on the premium market, the more benefit we get.

GIANLUCA BERTUZZO: Okay, thank you. Just a follow-up, if I may. Is there a reason why we should expect second quarter revenue below the second quarter of 2019?

DANIELE SCHILLACI: We don't think so. Honestly speaking, April was a good month for us, we don't see a Q2 particularly volatile in Brembo. The order bank is good and for the moment, the volatility we see is linked to the chip shortage, which is indirect for us, it regards more the OEMs. But if you look at the order bank in May/June, the situation for us is pretty stable, so we don't see any reason why it should be lower than '19. Of course, the situation might change suddenly, in June or whatever, but if you ask me now, now the situation is pretty solid.

GIANLUCA BERTUZZO: Thank you very much.

DANIELE SCHILLACI: If you remember, in March we told you guys that our order bank in Q1 was good and we were going well; in the end, you have seen the numbers. So in Q2 we don't see any major volatility. We never know what might happen in 3-4 weeks from now, if suddenly the chip shortage becomes so huge that some of our OEMs we will be obliged to stop their production, I cannot predict this of course, but if we look at the order bank today, the Q2 is pretty solid.

GIANLUCA BERTUZZO: Thank you very much.

COMPANY REPRESENTATIVE: You're welcome.

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 a couple of questions. The first one is about, what you said on the quarter of impact from raw materials in '21. I was just wondering why you are looking at it so late in the year. Did you sign yearly contracts for the sourcing of raw materials? What's behind? Thank you.

Second question relates to the business in the passenger cars division, if we exclude disc and calipers so basically, the new business, it is something that is becoming more material, if you can provide any kind of numbers or anybody at least a color?

And the second is on the business in the passenger car division, if we exclude the discs and the calipers. Are we seeing our business that is now getting to significant numbers, I mean, 10s of millions of euros. If you can provide some color or numbers around it?

DANIELE SCHILLACI: Technically, or mechanically, we adjust the price with the 3-4 months lead time, as I explained before. The fact that the raw materials price increase started really at the end of the last year and at the beginning of this year, mainly in January, implies that we are adjusting the price in Q2, like it will be in Q3 and Q4 and Q1 next year. So it is a mechanical approach and it depends on when you have the big price increase.

MICHELE BALDELLI: Yes clear. Thank you.

MICHELE BALDELLI: Yes, if we look in the passenger cars division. And we strip out what is the sales of discs and calipers. So basically the new products, if this is something already representing a significant amount of money, or we are still...?

MATTEO TIRABOSCHI: You know that we can't provide the split between disc and callipers.

MICHELE BALDELLI: Okay. Thank you.

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

GABRIELE GAMBAROVA: Yes, thank you for taking my questions. Regarding the 15% topline growth expected for 2021, is it possible to understand how much of this depends on the price increases following the raw material cost increase more or less?

MATTEO TIRABOSCHI: There is obviously an effect about it, but to be honest, I don't know the number.

GABRIELE GAMBAROVA: Okay. And then, I was wondering on the semiconductor. Let's say shortages. I was wondering, do you use directly in your own products. Semiconductors or put it in another way, the semiconductor issue is a problem that affects only your clients or you have directly, let's say, an impact because you are. You use them in your applications, in your bike systems.

MATTEO TIRABOSCHI: We use some semiconductor in our products, but we have no problem because we built some safety stock, so we had absolutely no impact on that side. The problem is mainly for our customers, obviously, yes.

GABRIELE GAMBAROVA: Okay. And again to try and understand this, this aspect from your standpoint is this something that affects all OEMs let's say equally or it depends on I don't know...they are mass market or they are exposed to some specific geographical area, they are premium. I mean do you see any difference between clients, one another? Or they are impacted let's say fairly...

DANIELE SCHILLACI: Of course we can't provide any details about our customers, but what we can tell you very clearly is that the impact is not equal for all the OEMs, it started mainly in North America, a little bit in China, and now it's more in Europe. But it's not equal, it's everything I can say.

GABRIELE GAMBAROVA: Okay. And what even if it affects more premium or mass I mean...?

DANIELE SCHILLACI: Sorry, I know we don't like to speak about our customers.

GABRIELE GAMBAROVA: Okay. Sorry last question from my side. On M&A you did a very good, let's say a couple of acquisitions in the motor bike trying to let's say to integrate your value chain. Do you see room for similar moves in other areas? I mean this is the blue print for other possible M&A's, maybe in other businesses?

DANIELE SCHILLACI: As I said before, the M&A that we are looking for are within our strategy, and our strategy is focused on digitalization, to be more global, and also to expand each of our business units, caliper, disc, motor bike, performance and aftermarket. So everything that can strengthen the growth plan of each business unit will always be taken into consideration. This is our vision on the M&A. We started with the motor bike, where we had these two opportunities and now the motorbike is in a very good situation; and we are working also in other areas.

GABRIELE GAMBAROVA: Okay. Many thanks.

DANIELE SCHILLACI: You are welcome.

OPERATOR: The next question is from Anthony Dick with ODDO. Please go ahead.

ANTHONY DICK: Yes, hi, thanks for taking my questions. The first topic was on outperformance, so I see that your outperformance accelerated quite a bit in Q1. So, first of all, if you could provide maybe some explanation as to why you think that happened, I think you mentioned electric vehicles, you mentioned premium exposure, if there is anything else maybe in terms of product ramp up or product's ramp up.

And also, going forward, your sales targets seems to imply a slowing outperformance throughout the rest of the year, and especially the 15% seems quite cautious when you take into account the contribution from the latest acquisitions. So, similarly to the questions that was asked on margins, is there reason why your outperformance should slow especially as the geo mix effect should be more favorable in H2 from Q2 onwards actually.

And the second question was on motor cycles, you mentioned a blooming market there, and actually then we saw that your performance in the area was strong in Q1, so I was wondering if you could provide a bit more context and so you mentioned the market, but are you also recording market share gains in that business, also driven by product penetration or something like that? I mean that this ought to be helpful? Thank you.

DANIELE SCHILLACI: I will try to answer to all your questions. The good performance in Q1 indeed was a mix of several factors; the first one is the good order bank in our core business, disc and caliper, where all the regions were growing, but also some of our new customers are going pretty well, and this has a good impact on our P&L. But also, we have other business units like aftermarket and motorbike, which in Q1 had excellent performances, outstanding for us. The 2 wheeler market is booming, our operation in India are going very well, our factories are already at full capacity and this of course has a good impact on the margins. And for the aftermarket, we had also some record months, that was of course very welcome. So, in the end, we saw a homogenous growth in Q1, which was also our record ever.

On the Q2, we are seeing a pretty similar trend, despite the volatility we discussed early on. But in the end, all the business units are growing pretty well, and this let us think that also Q2 despite some headwinds, should be solid. So, this is what I can say to your questions.

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

LAURA PANSERI: Okay. Thank you. Thank you, everyone, for attending our call today. And we wish you a pleasant rest of the day. Thank you and goodbye.

MATTEO TIRABOSCHI: Bye-bye.

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