

Brembo

“First Quarter 2017 Financial Results Presentation Conference Call”

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MODERATORS: MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN

OPERATOR:

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Presentation of Brembo First quarter 2017 Financial Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Matteo Tiraboschi, Executive Deputy Chairman of Brembo. Please go ahead, sir.

MATTEO TIRABOSCHI: Good morning, everybody. Thank you all for participating in this conference call. As usual, here in Brembo's headquarters in Stezzano, there are with me also Andrea Abbati Marescotti and Laura Panseri. We can go quickly through the presentation. Slide #2: we can see the figures of Q1 2016. Sales €632.6 million, better compared to last year more than 12%. EBITDA is €125.5 million, 19.8%; D&A are negative for roughly €33 million; EBIT at €92.7 million, which means 14.7% on sales, financial charges are negative for €1.4 million; taxes are €23 million with a tax rate at around 25%, it is an estimation obviously, and net result of the period is at €67.7 million, it means 10.7% better compared to last year for 12%.

Slide #3: we can see the bridge of sales, the volume, the mix of the business is positive for roughly €40 million, prices are positive for more than €5 million, exchange rates are positive for €5.7 million, here US dollars is the most important value. Scope: it is the first time that you can see Asimco; Asimco is positive in the quarter for €18.3 million. In the time, total sales are €632.6 million.

Revenues by application: more or less all the applications are positive. There is just an exception of commercial vehicles that are flattish; passenger cars are positive for more than 15%, Asimco obviously is in this

number. Like-for-like, the growth is 10.8%; motorcycle is positive at more than 9% and racing is positive for 3.8%.

Slide #5, we can see the revenue by area. More or less, we are progressing in all the countries where we are, with just two exceptions. We are very positive in Italy, +18%, Germany plus more than 6%, France is negative by more or less 5%, the UK is flattish; Other European countries are positive for 10.7%, India is performing very well, more than 22%, with the FOREX of last year we are positive for 17.1%; China is performing very, very well, we duplicated our revenues; of course there is in this number Asimco, like-for-like, the growth is a consistent 48.5%. Japan is negative, 30%, in particular there is one customer with two different applications that is suffering in this moment. South America is positive 28.4% with the same FOREX of last year it is positive for roughly 11%. This is really good news for us. We hope that also the rest of the year can go in the same way. North America is positive for 5.7%.

In slide #7, we can see the breakdown of revenues in the various markets, but I prefer to comment the next one where we can see the breakdown of the revenues by macro area. Europe of course is the most important area for Brembo, more than 55%, Americas — it means North and South America — are around 30%, Asia is going very well. I said before about India and China... Asia is going really very, very well and we are confident to go ahead to increase our revenues in this area.

We can move to bridge of EBITDA, Slide #9. You can see that EBITDA is positive for €18.6 million, prices are negative roughly €1 million and we did not recover on the price increase of raw material. Of course, we are working very hard and we are confident that we can close the gap. Operations are negative for €5.4 million, obviously, we increased our industrial footprint and these are the consequences, particularly for North

America, and with the new foundry, in Mexico for our new foundry and also the operational cost of Asimco are in this number. Exchange rates are negligible and the scope is positive for €3.3 million.

Slide #10, but I can go directly to Slide #11. We can see the financial charges. I have no particular comment about this item, just to underline that the cost of debt is 2.2%, last year it was 2.5%. So, we are efficient on this point. Tax rate, this is Slide #12, it is just an estimation of the tax rate for the first quarter. Tax rate is around 25%. If we try to normalize the tax rate without the special situation that we have in Czech Republic and in Poland, our tax rate is in the neighborhood of 25%, 26%.

Slide #13, net financial position. You can see the investments that we did in the quarter, more than €60 million. Net working capital is negative for more than €94 million, financial charges and taxes are negative for more than €13 million and other are positive for more 11 million. The net debt at the end of the period is €226.8 million. Net working capital is negative and the problems are some customers that are being late in the payments more than usual, and not just in Italy.

The structure of our debt: as we can see in Slide #15, we have a very strong debt structure, 155% in the long term with obviously quite an important amount of money, but we have cash for the dividend that we have to pay at the end of this month, and for all the investments that we have to do in the next month.

Slide #16, I will not particularly comment. We can see in #17, ratios. ROI is around 31%. I think that for a company that is involved in automotive business is quite a good performance. ROE is close to 29%, the same comment, and gearing good 23.6%, also the ratio net debt on EBITDA is 0.5, but also the other ratios are okay.

The last two slides are around the performance of Brembo shares, I will not particularly comment, probably you know, as a matter of finance the performance of Brembo shares. During this period we increased our value around +31%, better compared to the index, and also better compared some peers.

This is a quick presentation of our results. We can open to Q&A session. Thank you.

Q&A

OPERATOR: Excuse me, are you ready for the Q&A session? Excuse me, gentlemen, are you ready for the Q&A session?

MATTEO TIRABOSCHI: Yes, we are.

OPERATOR: Okay, thanks. Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Monica Bosio of Banca IMI. Please go ahead.

MONICA BOSIO: Good afternoon, everyone and thanks for taking my question. My first question is on revenues. Net of Asimco the growth...can you hear me?

MATTEO TIRABOSCHI: Yes, we can.

COMPANY REPRESENTATIVE: Yes.

COMPANY REPRESENTATIVE: Yes, yes.

MONICA BOSIO: Okay. The growth in revenues was roughly in line with my expectation. Actually, Asimco is performing better than my expectations. So, I was wondering if you can give us some indications on the expected revenue trend in China including Asimco, which was consolidated since May 2016. So my question is, because if I project the revenues for the next quarter, excluding Asimco which was already consolidated in the second quarter since May, I land to a 9%...8% to 9% increase in revenues for the full year in the worst case. And so, I just need some support from you on this view. And the second question is on the CAPEX, D&A increased significantly, can you give us an update on the expected CAPEX for the current year? In term of business unit, I have seen that the commercial vehicles were relatively weaker, what does it happen there or what went wrong, if there is something which is going wrong? And a very final question, just an update on the recall from Tesla. Thank you.

ANDREA ABBATI MARESCOTTI: China long term growth net of the assets of Asimco. The big investment which has been announced is the execution systems investment for the verticalized alloy is certainly based on new business, this new business which is acquired is already having some impact even if the plant is still in construction because the localization is ongoing and percentage of the growth is given to this. The customers portfolio is developing, also starting including Chinese customers, so the data that you see on the presentation like-for-like and net of Asimco, which is a growth of 50%, is a difficulty of giving a precise number...roughly what we see as increase, organic increase of our business.

I guess that...the second one the CAPEX. I guess that....

MONICA BOSIO: Sorry to interrupt, sir. So...but if 50% is the organic growth ex-Asimco as a), and if Asimco is going a little bit better than our expectation, is it

reasonable, according to you, that the final year might end on a consolidated basis with a plus 8% plus 9% increase in revenues?

MATTEO TIRABOSCHI: We said last time in conference call, something around...if I remember correctly 6%...5%-6% something like that.

MONICA BOSIO: And you confirm...

MATTEO TIRABOSCHI: Sorry?

MONICA BOSIO: Sorry, sorry.

MATTEO TIRABOSCHI: Okay, probably we can do something better, 8-9 it is very challenging.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: Probably something around 7.

MONICA BOSIO: Okay. Thank you.

ANDREA ABBATI MARESCOTTI: The third and fourth quarters of the year are far to be totally undisvealed, so the second quarter is.....

MONICA BOSIO: [indiscernible]

MATTEO TIRABOSCHI: Sorry, I'm interrupting you. There is a high volatility....

COMPANY REPRESENTATIVE: Yes.

MATTEO TIRABOSCHI: In this period on other market. Very, very high. This is the first time that we can see high volatility also in the lead market. And so, we are, let's

say, a little bit conservative because it is not very clear the future of the sector.

ANDREA ABBATI MARESCOTTI: No, you have a wonderful March, you have a very normal if not average April, then you see beautiful May, so it is very difficult Monica to give you a clear number. There is no one market worrying us [indiscernible]. And as for the market, NAFTA is mildly, mildly slowing down, which is a very good news to us, so we are absolutely satisfied on our preparation on NAFTA. Europe is doing even better than forecastable so, that is good, but it is difficult to see what, to say exactly what is happening in the third and fourth quarter. China is growing consistently. Some signal of improvement in South America but giving a sure number is difficult. CAPEX, I guess we said last time that the number, plus or minus, of what we are doing this year is in something like €300 million, and that is the number we confirm because the initiatives you know are the initiatives that is year running.

Commercial vehicle is doing well. You are right that somewhat the market did better than the specifics of our figures in quarter one, but that is only a consequence of specific customers. We are not of course commenting the specific performance of the customers, but in our customers mixture, the share of market did not change, so basically what you see are that our revenues are a normal pass through of the real performances of our customers which I don't want to comment. But the business is absolutely strong and our forecast for commercial vehicles is absolutely to our satisfaction.

And Tesla recall campaign. I guess you know the details which are public. We are organizing the activity with our customers end to end. We are in total agreement with them. Of course, no one of us was looking for something like this. On the other side, the consequences are manageable.

There is no impact on the customers, on the final customers, of course, a most important thing. There is no impact in our very long term and confirmed relationship with Tesla and so it is an incident, and for customer one, anytime there is a lesson learned for getting more and more excellent, that's okay, we can deal with it. There will be no tangible impact.

MONICA BOSIO: Okay, got it. Thank you very much. Thank you.

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

MARTINO DE AMBROGGI: Good afternoon, everybody. The first question is on the EBITDA margin. Actually, I have two questions on the EBITDA margin. The first one is on the Q2 expectation because if I look at your long-term track record typically in the second quarter you are able to generate higher margin than in Q1. The average over 20 years is roughly 50 bps. So the first question is it the case also for the current year to see, I don't know how much, but in any case a further improvement of a very high margin you achieved in Q1?

MATTEO TIRABOSCHI: I think that we are close to 20% of EBITDA margin, so it's quite complicated. I don't want say impossible to increase, but obviously it's very complicated and difficult to increase the profitability. In Q2, I think that it will be a real, very important goal if we can maintain the same speed that we had in the first quarter. Maybe, it will be something more similar what we had in the period of Q1 of last year, 19.5, something like that, but sure not more, not more compared to the first quarter for this year.

MARTINO DE AMBROGGI: Okay. So if you have another quarter in excess of 19%, the guidance you gave us 18-19, as a second question.

MATTEO TIRABOSCHI: You have to do the two questions in the same time. I don't know. I hope. I hope that you are in the right...

MARTINO DE AMBROGGI: Okay. So there is no update on the 18-19 range?

MATTEO TIRABOSCHI: I don't know.

MARTINO DE AMBROGGI: Okay. So the second, well, the third question is on the...actually the other two questions are one on the new clients for aluminum calipers and steel cast iron discs, if any and if it's possible to talk about it, and the last is on the aerospace. I know nothing happened so far, but just to have a feeling of if you are still in a scouting phase looking at different potential targets or if you have already more or less a clear idea and is just a matter of price, or where we are today, so.

ANDREA ABBATI MARESCOTTI: I will talk on new clients and I guess Matteo better for aerospace development. We are not in the position of this big new clients neither for alloy business nor for cast iron. I can only say that what we see as timings of saturation of our made or being made international investments are really consistent and make us happy, but we cannot reveal anything more.

MATTEO TIRABOSCHI Aerospace, for the moment there are no news, we are working, scouting if there is some possible target for Brembo. In the meantime, we are developing some new activity, new business, but nothing...to be honest nothing important to underline.

MARTINO DE AMBROGGI: Okay, thank you.

OPERATOR: The next question is from Niccolò Storer of Mediobanca. Please go ahead. Excuse me, sir, your line is open. The next question is from Lello della Ragione of Intermonte. Please go ahead.

ANALYST: Hi, thank you for taking my question. I have two, actually. One of these is just a clarification when you explain your EBITDA bridge, when you say the scope that actually the results of Asimco is just a repetition because I got the line disturbed. And the other one, still looking at the EBITDA bridge, when you referred back at one that you show as a negative sign on the operation, I was wondering if we have a look at it for the full year meaning that these are the efficiencies that you need to gain in order to...on the new plant, what's your expectation there because that's only...I mean if I look at it, it is affecting the drop through of the growth on...from the revenues and I was wondering what are your expectation on that plant? Thank you.

ANDREA ABBATI MARESCOTTI: I will answer to the second one, and then I will ask you to repeat better the first one, because I didn't get it.

ANALYST: Okay.

ANDREA ABBATI MARESCOTTI: Second one, projection of the ratios, and the cost for the full year. What we report here in operations are not only the one-time effects so the ramp up, but, it is also, the increase of the cost for new structures in the new plants. So it is structural then...when you have a portion of increasing volume mix which is here reported, which is linked to the ramp up of the new plant we start having shown also the fixed cost of the plant, which is being built.

From the following year, they go back hidden in the EBITDA preceding year apart, but of course, we are making investment which is generating 100% of revenue, which has a contribution margin of I don't know much, and at fixed cost which are here reported.

To answer to your question, give a number to the full year, I will try to make mathematics about the ramp-up cost of this year quarter-by-quarter versus the ramp-up cost of the last year, plus plugging the fixed cost plant by plant. Let me tell you like this, given that we are in a season of very strong investment, the 5.4 operation cost is absolutely effectible, and, by the way, it is compared with the volume mix growth which is very healthy.

I don't see specific impact, all the ramp-up are going well, so I would really envisage that we go on this way.

ANALYST: So, would be a fair assumption to multiply it by four, and this is a reasonable amount or...?

ANDREA ABBATI MARESCOTTI: The ratio between growth and operation is really good. Then we will see the numbers quarter-by-quarter. Can you please repeat the first question?

ANALYST: Yes, when on the same bridge, when you show the scope, the last bucket of the walk. This is related just to Asimco, so this is the EBITDA of Asimco, is that correct?

MATTEO TIRABOSCHI: Yes, it is.

ANALYST: So, I can extrapolate the margin from there. And actually, I have just the last one this is for modeling purposes, the R&D that you are capitalizing

are slightly higher, nothing really meaningful about this, just can we use the ratio that we have in this quarter meaning 1% on the sales to model for the full year or should it go back to the level of last year. This is just the margin...

ANDREA ABBATI MARESCOTTI: I really don't have an answer. You know that as policy basically we pay, I don't know 80%, even more, of our R&D costs directly on the P&L.

ANALYST: [Multiple speakers]

ANDREA ABBATI MARESCOTTI: So what is capitalized really depends upon very long-term projects. So it is impossible to me to say in-depth 1% is the right number or not.

ANALYST: Okay. Thank you.

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

NICCOLÒ STORER: Can you hear me now?

COMPANY REPRESENTATIVE: Yes.

COMPANY REPRESENTATIVE: Yes.

NICCOLÒ STORER: Okay, perfect. Thank you for taking my questions. The first one is again on Tesla. If you can elaborate a little more on which was...what caused the problem to the parking brake, and which is the impact at P&L level under a possible worst case scenario. The second one, if you can give us an update on the ramp up of all the new plants, Mexico, China and Europe. And the third one on the business environment in Europe which,

as you said before Andrea, probably is better than expected. So, which are the dynamics in terms of expected volumes and also on prices and that the pressure...possible pressure that you have from client on prices versus volumes? Thank you.

ANDREA ABBATI MARESCOTTI: Okay. Very clear. Tesla: the design of the project was okay. The specific [indiscernible] low, low 1% to 3%, was designed with the safety factor of six times the nominal load, so the product is okay. Unfortunately, the specific supplier, which is a good and trusted supplier, but in this case failed, and was not able to correctly sort the good part and specifically he gave us some set up parts, which simulate the normal behavior of the [indiscernible] assemble when they are tested 100% at the end of the line with nominal load. But, as a fact, after repetitive use in the network by the customer in specific conditions may happen to fail in some percentage.

The agreement with Tesla, and this is a common understanding between them and us, that being a brake a definition of safety component, the only thing that we wanted to be sure of, both of them and us, is not having any kind of impact with the customers. So certainly the decision to change the component on all the fleet 50 more thousand vehicles was maybe a redundant one, but this is our policy, we do it.

The economical impact is already paid in the P&L you see. So you don't have to forecast an impact under P&L more than you see. And by the way it is not big there, you saw some evaluation by Tesla, we are not yet in the position of seeing the precise numbers, but basically what [indiscernible] expected cost by unit is basically acceptable. And that's it.

And your second question was ramp up of the plants. The Mexican alloy plant is ramping up very well. And by the way with the strong contribution

of the Tesla volumes we are investing in new machining lines, you know, that we make public when we make the plant, but we don't make any specific disclosure, when we step by step increase the capacity of the plant. Very likely the plant will be absolutely full by the end of this year, it's already working in the two shifts. So we are absolutely happy and thrilled about the results of the alloy Mexican plant.

On the other side of the ocean, around the world, the China alloy plant will start effective production at the end of the quarter one, at the beginning maybe, of quarter one 2018, as expected. And we will be delivering already prototype parts of what we call of prototype tools from September 2017, that is totally in line with our expectations. And the investment in Poland for the third module of Dabrowa is going well and we confirm start of production effective January 2018, including the production of the nodular cast iron for our commercial vehicles calipers. Homer is probably the cast iron North America foundry already working on three shifts and producing a positive economical result, which is a good news. I don't know if I forgot anyone. So everything okay, saturation coming as expected, in some cases even better.

On Mexico, we acquired some additional volumes and everything is confirmed, we are really happy. European volumes/dynamics, pricing pressure. For good or for bad, everything is contracted and there will be no price pressure as we cannot make on the customers, they cannot make on us. So the contracts are written very clear and, whichever is the business, we are safe. From what I see in Europe, I don't see a long-term European growth total as the market says at 7-8%.

My opinion someone is making the figures looking a little better than the real market. Europe is growing in my opinion not 7-8%. Our deliveries are growing. But I will not be surprised if in the next quarters there is some

slowdown of the growth. Still being a growth environment, but maybe a little slower.

NICCOLÒ STORER: Okay. Thank you. Just a clarification, sorry, on the Mexican alloy, you say that you plan to reach full capacity by year-end, but without the new additions. The full capacity means the 2 million calipers that you reported in the initial press release?

ANDREA ABBATI MARESCOTTI: At capacity installed, we will reach the line-up of all the machinery requested to produce the 2 millions by the end of the year, so the plant will be full as the real production of mostly rate near to 2 millions and maybe this, no I guess, it as we said, not at the end of this year, likely around March 2018, but we need the machinery somewhat in advance to start them up.

NICCOLÒ STORER: Okay. Thank you.

OPERATOR: The next question is from Filippo Prini with Kepler Cheuvreux. Please go ahead.

FILIPPO PRINI: Good afternoon. One question from me. Could you tell us if the planned change of taxation in the event it stays, would have a tangible impact on your earnings or maybe it's a bit too late to have a view on that, could you share with us which is your effective tax rate in the US and how much of your pre-tax profit is coming from US operations? Thank you.

MATTEO TIRABOSCHI: At this moment, to be honest, we don't know which will be the new taxation, the new approach from Trump government about this issue. So we had not prepared any kind of simulation on this point.

FILIPPO PRINI: Okay. Thank you. Just very briefly on some part of my question, which is your effective tax rate in the United States, if you can share this?

MATTEO TIRABOSCHI: Nominal tax rate is around 35%.

FILIPPO PRINI: 35%, okay. Thank you.

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

MICHELE BALDELLI: Good afternoon to everybody. I have a couple of questions still on the geographies because I would like to understand better all the trends. In United States, the organic growth was pretty let's say softer, can you share with us because if I remember well, you are increasing the sales of aluminum calipers in the NAFTA region and therefore, if you can elaborate a little bit of what is going on, on this side. And then on China, I just wanted to understand such a strong growth, if it's also mildly or anyway, if you are shipping to China aluminum calipers already, or not? Thanks.

ANDREA ABBATI MARESCOTTI: Thank you. First question US growth: you see the growth reported on North America and Mexico, both cases basically the better portion of growth is linked to the combination of increasing penetration of aluminum calipers and success in the mix of some of our customers. So over on this portion, we are increasing significantly compared with the growth rate you see the sales at the market stable or diminishing because, a couple of our customers, of course I don't make the names, are significantly increasing their sales. And this benefit both USA and Mexico, so that should prolong across the year even if market might be declining, our growth should grow, our volumes should grow some percent as you see because of the success of some of our customers.

China, the business for [indiscernible] is already localized 100%, [indiscernible]. The business marginal for alloy calipers till yesterday and today is based on final machining and assembly in, sorry, final assembly in China on components, which are casted and machined in Czech Republic, but that will completely end up at the moment the new plant starts. So this casting machinery will be localized in China, which means that all the alloy calipers, which they are sold in China are invoiced China in China because it is an intercompany that casted machining caliper they ship to our semi-final assembly unit.

MICHELE BALDELLI: Thanks I don't know if it's asking too much, can you elaborate how much of the growth in China is coming from these aluminum calipers?

ANDREA ABBATI MARESCOTTI: I should check the numbers, I prefer you ask later to Laura, who has the right number and give you the right number.

MICHELE BALDELLI: Okay. Thank you very much.

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

MATTEO TIRABOSCHI: Thank you very much, everybody, for your time and have a nice day. Bye.