

Brembo S.p.A

“Nine Months 2017 Financial Results Presentation 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 Nine Months 2017 Financial Results Presentation 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, Investor Relations Manager of Brembo. Please go ahead madam.

LAURA PANSERI: Good afternoon to everybody and thank you for joining us today to discuss Brembo Group’s nine months and third quarter 2017 financial results. Today’s call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Andrea Abbati Marescotti, CEO of Brembo. Since this live presentation has been made available on our website in advance, we suggest that we go directly to the Q&A session.

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

With that we can start the Q&A session. Please, operator.

OPERATOR: We will now begin the question and answer session. Anyone who wishes to ask a question may press “*” then “1” on their touchtone telephone. To remove yourself from the question queue, please press “*” then “2.” We kindly ask to use handsets when asking questions. Anyone who has a question may press “*” and “1” at this time. The first question comes from Niccolò Storer of Mediobanca. Please go ahead.

NICCOLÒ STORER: Yes good afternoon, Laura, Matteo and Andrea. I have a couple of question on North America. The performance was negative impacted by FOREX but also in the press release, I read about the phase out of the

model. Can you please comment on this and on how this impacted negatively in terms of percentage points? And also remaining on the market clearly we saw a strong decline in production in the third quarter. What should we expect going forward, do you think that now the situation has returned to a kind of normality and so things can restart or still we should expect a kind of further destocking? And last question on North America, we read about problems with the ramp up of Tesla Model 3. How this is impacting your figures, thank you.

ANDREA ABBATI MARESCOTTI: Ciao Niccolò, this is Andrea. It's a clear question but with many aspects, so If I forget something, please remind it to me at the end. So the customers' sales are official, so everyone of you can see who did better and who did worse. Certainly Tesla is going on with its ramp up and in global terms our sales to Tesla, being the sole supplier, has increased, had a nice increase year-on-year. This is more than offset by the specific, I would say really specific, seasonal destocking of some customers to rationalize for this quarter the production of some models. I will not comment specific situation of the customers but they are official. It is absolutely in consistency with the market share we have, so no change in market share, if this is the question.

The market, in our understanding, will close at the end of the year something like -3% in sales, but if you go deeper and divide between the car sales and the pickup sales, within this number there is a very strong decrease in the cars, approaching or maybe even exceeding a 10% of year-on-year decrease in sales, while the pickup continue to grow, something like 6%. But the total market is decreasing something around 3%. In terms of mix, Brembo is a little more present on cars than trucks for the specifics of our product. So this kind of mix does not allow us to have the best result.

All the same if you look at the nine months we are more than consistent with our plans and with the performances expected by the market.

Already very early this year Matteo and I were recommending, that the best we should envisage for the North American market was a soft-landing, because having closed the previous year above 20 million (cars), the best scenario for this year and maybe the next couple of years is to stay nearly stable at these volumes. So we are not worried about the total volumes of North American market in a stable economical scenario. And so no changes in market shares, some customers doing worse, Tesla doing better year-on-year. Specific comment - your question - on Model 3: their limited delivery of vehicles to the final customers as of today it's not reflected on our numbers, because we have been delivered a remarkable number of components, but it is absolutely understandable that being them in a strong season of ramp-up, only a portion of this has already been delivered to the market, the other portion is still work in progress in their factories. We never give a forecast for next year but I can make an exception for this. The portfolio of Tesla Model 3 is a very good portfolio, so I don't see issues next year on the delivery of Model 3. I don't know how much in line with the total portfolio they have, but certainly it is a strong contributor for next year. Tesla has not such a long history in producing mass volumes so it is absolutely understandable that in their supply chain they themselves put strong care in the ramp up and in the delivery to the customer. So, it is certainly not the best market USA you could expect, but it is absolutely in line with our expectations.

NICCOLÒ STORER: Okay, thank you, but just a clarification. You were down roughly 9% in the quarter. You said no change to market shares but my understanding is that the market in terms of production was down in double digits some 12%-13%, so probably either you get some market share somewhere or probably Canada and Mexico have balanced the negative performance of North America.

ANDREA ABBATI MARESCOTTI: Yes, exactly. You need to look at NAFTA market as a whole. A significant portion of vehicles sold in USA has some production in Canada or Mexico. So if you already combine the two performances of Mexico and North America you come for a more reasonable number. I can really tell you Niccolò no change of any type in any kind of platform in terms of our participation from second quarter to third quarter; it is just a different scheduling of the production. Taking into account that the specific sport car model in USA are sold basically in the Sun season, and they don't see sales when it rains and that means that they are discontinual production. So the more we grow up with our alloy calipers in North America we need to get used to some stronger seasonality then we saw in the past.

NICCOLÒ STORER: Okay. Thank you. Thank you, Andrea.

OPERATOR: The next question comes from Andrea Balloni of Fidentis. Please go ahead.

ANDREA BALLONI: Hi, good afternoon everybody. Just a couple of question on my side. First one, if I look at your presentation on Slide 4 and 9, price trend has been negative in 9 month while it was still positive in first half of this year. Can you provide more color on what has happened in Q3, where do suffer from some price pressure? And my second question is about the full year target consensus for this year it set at 483 million EBITDA. Do you feel confident to achieve this target, how do you see profitability in Q4 compared to Q4 last year? Thank you.

ANDREA ABBATI MARESCOTTI: I am not sure I got the first question, can you repeat please?

ANDREA BALLONI: Yes, the first question is about the price impact showed in your presentation on the Slide #4, on revenues was negative and it was negative

also on the Slide #10 of trend of EBITDA, in both cases prices was a negative effect on EBITDA on sales trend while it was positive in H1. Just wanted to know if this is something related to some price pressure or anything else?

ANDREA ABBATI MARESCOTTI: Okay prices, that is very clear, this is a combination of three factors, change of prices with the customers, change of prices with our suppliers and within this the dynamics of the raw materials which are indexed, but the variation is recognized, both in increase or decrease, (depending upon the customer) in three/six months. The number is really negligible. Should I comment long term on dynamics, prices are in line with the agreements signed with the customers. Our suppliers are performing well, so as of today, the dynamic mainly goes back to the fact that the raw materials are generally increasing under a strong pressure of China - for discontinuation of its melder, reduction of resources and so on - which means that we are paying an increase of raw materials which will be recognized to the customer in some mid-term three or six months. So not really an issue. For the consensus, I leave it to Matteo.

MATTEO TIRABOSCHI: Thank you, Andrea. We said in March that the full-year would be growing compared to the year before, single-digit / high single-digit, and we can confirm the same position.

About margin, the first nine months are close to 20% of EBITDA, I think that it is quite complicated to maintain the same ratio for the full year, but I am confident that it will be something around this number. Regarding the investments, we invested in the first nine months more than €250 million and I can imagine that for the full year we are going to invest something around €300 million.

ANDREA BALLONI: Thank you.

MATTEO TIRABOSCHI: My pleasure.

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

MARTINO DE AMBROGGI: Yes, good afternoon everybody. The first is a follow up on the EBITDA margin and just to double check if I understood the message. Last time the guidance was around 19.5% or so flat year-on-year now you are confirming 19.9% of the first nine months?

MATTEO TIRABOSCHI: No, 19.5 is a correct number, I said that it's quite complicated to maintain the same speed also for the last quarter of this year, so 19.5 sounds good. I hope something more, but not 20%.

MARTINO DE AMBROGGI: Okay, 19.5 is confirmed, okay. The second is on the future in the sense you are not accustomed to announce new contracts for aluminum calipers but could you eventually share with us if you signed new contracts over the last few months obviously without the names, and if the environment in the aluminum calipers changed recently or there is always a dominant position with no big pressures from competitors?

ANDREA ABBATI MARESCOTTI: Yes, we signed new contracts.....

MATTEO TIRABOSCHI: Every month that we sign contracts..

ANDREA ABBATI MARESCOTTI: Every month we sign contracts and yes we cannot reveal terms of contracts and.....

MARTINO DE AMBROGGI: If I may, if I may Andrea. Are they substituting already existing contracts so you are on the new model or at additional?

ANDREA ABBATI MARESCOTTI: Fair question. In this season, we are basically negotiating and there have been important awards of contracts, which are either substituting preceding contracts, but with a significantly higher rate of adoption of alloy calipers which means that for a portion these contracts are incremental even if they are substitutive. And in other cases even new platforms which, as of yesterday where only floating cast-iron calipers will become aluminum caliper, so it is a season of very important awards. Of course these awards materialize with the timings of development of complex platforms which normally is three years. So I am telling you that you'll see the impact on the market three years from now, but it is a positive season in terms of market appreciation and work on new programs. Specifically worldwide, which makes us to be sure that our decision to make these heavy investments in China was really a good one.

MARTINO DE AMBROGGI: Okay, and could you sum up the amount of the contract...the additional business coming from these contracts?

ANDREA ABBATI MARESCOTTI: Well....., I can tell you that the Mexican plant is going to be fully saturated very likely by the end of 2018 and let's say early 2019 it will be at very full production versus the announced capacity and that very likely the Chinese investment will at least run 2 full shifts out of 3 by the end of 2018.

MARTINO DE AMBROGGI: Okay. Not easy to make a calculation for us, but.... And just another way to look at the same thing for CAPEX, 251 in nine months is a big number. You mentioned about actually 2017 were in excess of 300, for the next year have you already have an idea I know you are not accustomed to anticipate figures for the following year, but I suppose you are already prepared for additional outward capacity if required, so just to have an idea.

MATTEO TIRABOSCHI: This year is quite an exceptional year...probably the highest in the history of Brembo. Next year, I think that we will come back to the normal investment but that will be around 200 million, something like that I suppose.

MARTINO DE AMBROGGI: Okay. So can we separate the maintenance, how much is it?

MATTEO TIRABOSCHI: Now it is quite complicated because the industrial footprint of Brembo is very important. So in this moment, I have not a correct idea about this number.

MARTINO DE AMBROGGI: Okay.

ANDREA ABBATI MARESCOTTI: Martino, it's difficult to understand what is "maintenance" In our business, they say that normal level of maintenance is 6%...around 6% of the net capital employed, but with very significant succession of new platforms, if you are good and if you are in a season of increasing, you can try to combine the maintenance with the update for the new platform, so separating the pure maintenance becomes really difficult; you try to make maintenance in the moment you equip for the new business and new platform.

MARTINO DE AMBROGGI: Okay. Very last one, net working capital which was down 2% year-on-year, is there any factoring justifying such a performance or...

MATTEO TIRABOSCHI: Zero.

ANDREA ABBATI MARESCOTTI: Zero.

MARTINO DE AMBROGGI: Okay, thank you.

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

MICHELE BALDELLI: Hi, good afternoon to everybody. Just a curiosity on my side on China, given that if I am not wrong you are still shipping the products from Europe to China. Can we have an idea about 2017 in terms of sales how much euro million of sales of aluminum calipers you will be making this year in to China?

ANDREA ABBATI MARESCOTTI: We are not shipping from Czech to China finished calipers. The final assembly is basically done already in China so the figures that you see as China sales already encompass the sale of the final product to the final customer. Notwithstanding if foundry and machining is done in Ostrava or in China. Through the first six months of next year, they will be totally verticalized in China, which means that we will not see a change in sales distribution because what is China is China, what is Europe is Europe, but it will be fully on Chinese organization and cost base. All the same - because this is the reality of the account-, you will see a significant change in the volumes of China not because something has moved there but because important platforms - and some of them are public - are starting next year. The Chinese plant was built because there is an important season of further localization or production of our best customers of vehicles which apply allow calipers into China and this season is remarkable next year, so the face of China increase next year according to the saturation of the Chinese plant, as per I was commenting to Martino. Not because of movement of some sub-machined products from Ostrava to China, but because some platforms are being localized by our customers. To prevent your question: with no impact on our European sales because for what we see the progression of the platforms in Europe will more than offset the transfer of this product from Europe to China. To give you some numbers: in 2015 there were 600,000 vehicles produced

in Germany and exported to China. This year, this number is basically half so the vehicles produced in Germany for export to China were only 300,000 because the others were localized, by the way we have increased the sales, and very likely that the number will go on reducing in the next two, three years for what we see.

MICHELE BALDELLI: Yeah, sorry. Thanks for the comment about it but just to simplify then my question if you can give us some details otherwise it is not a big problem for me, but on 2017, around what level of sales of aluminum calipers you project in China of the Chinese sales?

ANDREA ABBATI MARESCOTTI: Sorry to say it but we never give a share of the sales of the country or whatever among the businesses.

MICHELE BALDELLI: Okay, fair. No problem. Thank you.

OPERATOR: The next question is from Lello Della Ragione of Intermonte. Please go ahead.

ANALYST: Hi, thank you for taking my question. Actually, one left on the implied EBITDA bridge of the third quarter. If I look at the, in particular, on the operation bracket we saw a decline in the last three months. I was wondering if this is linked to the NAFTA performance or there are some other elements playing a role there, especially I am looking on fixed costs if there is something or raw material elements which are not inducted that might also affect this other bracket. Thank you.

ANDREA ABBATI MARESCOTTI: The operation is the sum of significantly bigger numbers which are some very good season on the ramp up, because you know that last year we had higher ramp-ups because of the North American cast iron and the completion of alloy Mexican plant. This year, they are significantly lower so it is a positive result compounded with the fixed cost resulting from the new structures which were implemented in those plans. So I guess basically this is something neutral which will stay stable

for the future. We will not see various coming out of this. If possible, a marginal improvement.

ANALYST: Okay. So even though looking forward, if I link this with a statement that you made on the capacity utilization, especially North America which will achieve the full capacity by year end next year. These lines should not have any material impact so let us say you might have some solution quarter-by-quarter but at the end should be almost neutral. Is that correct?

ANDREA ABBATI MARESCOTTI: The total number will depend upon the absolutely expected improvement of saturation of many of the new plants and on the other portion on the startup costs of the Chinese alloy plants, which will be significant, and of the Mexican foundry. The Mexican foundry is making basically the first good pieces next week, so at the very beginning of the ramp up and the Chinese alloy plant will start effectively first quarter next year, so it will be the math of the improvement in saturation and ramp up of other plants but the first half of Mexican cast iron and Chinese alloy. Should I make provision in my opinion the plants which are ramping up will be able to cover the ramp up cost of the plants which are just starting. So, I don't expect a negative number let me say.

ANALYST: And in this case, if may add, I understand on China and on your track record on that, on ramp up costs and saturation, but looking at NAFTA for instance and the split and put it together with the comments on the split that you have in terms of market share between passenger car and light trucks or SUV as one to define, there is some risk that volume figure will not help you on the NAFTA side in ramping up all the operation on that site or you are flexible on that. I mean you have assumed a very conservative volume for the ramping up of the operation there?

ANDREA ABBATI MARESCOTTI: For rotors, there is not an issue because it's more than one-third of the rotors the ramp is not captive, it is from external supply; so,

we can absolutely leverage the internal production versus the external of supply. So, the ramp up is consistent is our decision, let me say, of course in the context of a reasonably stable market not collapsing but as of today we don't have the signals for the collapsing.

MATTEO TIRABOSCHI: And sorry to interrupt you, we are not completely captive in our product, this is important.

ANDREA ABBATI MARESCOTTI: So, there are many factors to smooth the small dynamics of the market - plus or minus 5% - and to do the ramp up on both foundries as we prefer. In terms of alloy calipers, there is not an issue because next year is a really full year because of Tesla Model 3.

ANALYST: Okay, okay. Brilliant, thank you.

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

MONICA BOSIO: Yes, good afternoon. I am sorry but I jointed the call a little bit late, so I apologize if I missed something. I know that you are used to give guidance or outlook for the next year at this point of the year. But, just your qualitative view. On 2018, if you have to tell us the major area of risks for revenues what would you indicate and I have understood that at the end of the day China will grow and that shouldn't be a problem at this point of the year in order to do not give guidance. But, would you feel confident in pointing for mid-single the digit growth even in 2018. And my second question is I don't now if you give the number, but you told before that the truck, the car sales production NAFTA was down by 10% pickup were up, can you give us an rough idea of your presence in car sales and in car production and in pickup so I can imagine that you are more exposed to pickup or not, just some highlights on this, thank you very much. And the last final question is about external growth. I imagine you do not have any

kind of news flow on a potential external growth in the aerospace and defense. Is it right?

ANDREA ABBATI MARESCOTTI: I am not sure that I will fulfill the major portion of your questions, Monica. I confirm with your view of the market of 2018, so China will have a nice small growth, so we feel China which could grow next year around 3%, in a stable market something like 3% for automobile market. NAFTA I see a market which could lose another 2% to 3% so still nearly stable; South America I didn't mention, but could go on with mild growth which in the end is good to us, Europe could go on growing some percent. As per our combined Brembo forecast, ask again when we talk at the beginning of next year. Cars and trucks market share in North America: basically there is not adoption yet of alloy calipers on trucks, that is what makes the difference. As of today they are only cars, while in terms of rotors we can equally compete on cars and on trucks, it depends on the specific decision of the customers.

MONICA BOSIO: Okay. And speaking about the aluminum calipers...can you just help us to have an idea of your presence in car and in let's define sports utility vehicles?

ANDREA ABBATI MARESCOTTI: Monica it is really too much detail, sorry. By the way it changes really very quickly the time depending adoption on a new customers or not. So, whichever number I give you, it will become old in six months.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: There is no dossier on the table at the moment.

MONICA BOSIO: Okay. Thank you very much.

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

ANALYST: Yes, a quick follow up, two questions, the first one is on aluminum calipers. You said before that, the intake momentum is quite positive but we will see these numbers in the three year time, at the same time you said that by the end of next year you will have a Mexican plant all saturated and China probably at two shifts. So, should we expect further capacity to be added in the coming quarters in order to have room enough to serve all the contracts that you are signing now? And the second question is on Latin America, it seems that the situation is improving, how is this impacting your profitability meaning is the region still loss making or something is moving in the right direction? Thank you.

ANDREA ABBATI MARESCOTTI: Alloy calipers. You read from our announcements that basically the economic minimal size for a good plant for aluminum caliper and we are running on the best level our plants when they are in the production of about 2 millions of alloy calipers. So if you make the math that we have Italy plus Czech, plus Mexico, plus China you can imagine that our capacity could deploy something like 8 million alloy calipers. At this level, it means basically 4 million cars; I guess there is still time before the world arrives to 4 million-5 million vehicles every year with alloy calipers. We are absolutely ready to add capacity in the moment it is needed, but I don't see it coming in the next two-three years and already this is a very good part of growth. Also because the more you apply calipers on smaller segments, smaller cars, the less kilo by caliper you have, which means that in terms of total number of objects with the same tons, we could produce more objects.

So our investments were approved under a volume scenario, which is confirmed, Italy and Ostrava are really running at full capacity sometimes extremely good capacity, Mexico will be full in one year, China as

forecasted in a couple of years, whenever it is needed we increase you know, that as per our habits, that the land area for Mexico is double, we could double any moment and the land area for Chinese is double, it could double any moment. So there will never be an issue in terms of capacity increase. I would really like to see that coming sooner than later, but already like this it is absolutely consistent scenario with our plans.

Latin America, you didn't see so much the numbers in terms of what in our results or when it is going badly, you will not see any specific change at the bottom line because of doing better, but since the last months Brazil is closing in black, which is very good news, and Argentina is in difficulty only because of the very small dimension of the automotive business in Argentina, but which implies that in terms of the impact on the bottom-line of Brembo is absolutely negligible. What is important in our opinion is to operate in all the countries to having positive results.

ANALYST: Thank you. Thank you, Andrea.

OPERATOR: As a reminder, if you wish to register for a question, please press “*” and “1” on your telephone. The next question is from Gabriele Gambarova of Banca Akros. Please go ahead.

GABRIELE GAMBAROVA: Yes, good afternoon and thanks for taking my question. Just one question on again on aluminum calipers in Mexico, did I understand well or let's say the perspective or ramp up rely on the model 3, essentially on the model 3 from Tesla?

ANDREA ABBATI MARESCOTTI: On seasonal effect Model3 has an importance because it is, but it is one out of six /seven customers, but in 2018, it is important. The more the other volumes localize grow up, the more it will become one of the seven, the beginning of 2018 makes sense, which by the way is absolutely sound because the portfolio of Tesla for model 3 significantly

more than 2018, will only depend for the capability to a normal production ramp-up, which will happen. So we could either find ourselves in the necessity to support Escobedo in volume production, if Tesla is outstanding at ramp up.

In an average scenario, our plan to be work very well, in the best scenario with Tesla, we could have an headache in making of the pieces there. So I'm absolutely certain that it will be a very positive year on that side.

GABRIELE GAMBAROVA: Okay. I was asking because the ramp up has been you know better than me,...has been pretty problematic. So I was wondering at a certain point.

ANDREA ABBATI MARESCOTTI: It is a transitory situation, which is normal for any good new investment, big new investment in a new country: they will solve it.

GABRIELE GAMBAROVA: Okay. So it's one out of six or seven clients.

ANDREA ABBATI MARESCOTTI: Yes.

GABRIELE GAMBAROVA: Anyway. Thank you.

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

MARTINO DE AMBROGGI: Yeah, sorry to come back to the subject but I missed the answer for the one-off impact in North America in Q3. So you are mentioning the problem that is out of model for a client, but could you remind me what is the one-off impact you expect and if it's just for Q3 and no additional negative impact in Q4?

ANDREA ABBATI MARESCOTTI: Martino we prefer not to say the specific comment on which is the platform and which is...?

MARTINO DE AMBROGGI: No, no. I'm not asking for the name of the client. Just to have an idea of the rough, very rough indication of what was the impact on sales due to this specific issue that you mentioned in the press release?

MATTEO TIRABOSCHI: Quite important, I can't say the exact number, but quite important.

MARTINO DE AMBROGGI: Okay. So and this...should this disappear in Q4?

MATTEO TIRABOSCHI: I'm not sure; probably better compared to 3Q but not completely closed.

MARTINO DE AMBROGGI: Okay. And another follow-up on acquisition because Monica asked for aerospace, but in the past, recent past you made acquisitions also in your core business. So just to double check if you are looking for anything else in...

MATTEO TIRABOSCHI: The answer is exactly the same: there is no dossier on the table for the moment.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: Ladies and gentlemen, there are no more questions registered at this time.

LAURA PANSERI: Thank you to everybody and goodbye.