

Brembo S.p.A

“First Half 2017 Financial Results Presentation”

Thursday, July 27, 2017, 13:30 ITA Time

MODERATORS: **MATTEO TIRABOSCHI, EXECUTIVE DEPUTY CHAIRMAN**
 ANDREA ABBATI MARESCOTTI, CHIEF EXECUTIVE OFFICER
 LAURA PANSERI, INVESTOR RELATIONS MANAGER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Brembo First Half 2017 Financial Results Presentation. After a brief introduction, there will be an opportunity to ask questions.

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 analyze Brembo Group's first half 2017 financial results. Today's call will be hosted by Matteo Tiraboschi, Executive Deputy Chairman and by Andrea Abbati Marescotti, CEO of Brembo. Due to time constraints, the call will consist of the Q&A session only, and will last approximately thirty minutes. The relevant materials have been made available on Brembo Investor Relations website.

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.

Q&A

OPERATOR: This is the Chorus Call operator and we will now begin the question and answer session. The first question is from Niccolò Storer with Mediobanca. Please go ahead.

NICCOLÒ STORER: Thank you. Good afternoon to everybody. Two questions, if I may. The first one is on your performance by geography. I saw that the second

quarter was not particularly strong in Europe, so if you can give us a little bit of color on the reasons of that. And maybe that is Easter holiday shift, have somehow impacted the number. And on the US, what are you expecting for the end of this year? The figures from the market are quite schizophrenic. Do you expect to continue to outperform the market throughout the end of the year? And the second question is on the EBITDA Bridge on operation. I saw that basically the operation item is close to zero in this release, so I was wondering if it was impacted by some positive one-off we should be aware of? Thank you.

ANDREA ABBATI MARESCOTTI: Thank you, Niccolò, ciao, this is Andrea. Okay very, very good questions. Performance by geography, Europe and USA. Now, European market is growing 3.7, we are growing better, so that is the market, we are growing something more than that, if you make the math. It is clear that with so relevant market shares that we have - nearly total on Calipers, very important on Discs, we are bound to do, at best, something better than the market, so we are already outperforming the market, for us it is very good. It is - wrong number - 50% of our sales, so the customers are doing well, some better some less, but basically that is driven by who has new platforms and who is going to launch new platform. So I am absolutely satisfied by the performance of these 6 months and I don't envisage basically differences in the second half, so basically what we expect out of Europe is nice stability also in the second half. It is not the region in which we expect double-digit growth - of the market I mean-, so absolutely okay. USA: as market the USA is losing a couple of points maybe even something more than a couple of points, as you see we are growing so the story is very nice. We expect the market to stay like this, so I should say nearly flat versus last year, losing marginally, which is very good because if you are selling in excess of 17 million cars in North America, I would sign it for the next ten years.

We are growing and we are bound to grow because the penetration of the calipers is increasing and the stability of this business is good. Again, I envisage a second half in North America very similar to this one. As you know, there is a very important launch of one of our best customers, so it could even be that our second half is something better in terms of total sales than the first half, because of the ramp up of volumes of Tesla.

Operations, that is a very important market for your forecast for next years and so on, because what we see in “operation” is basically neutral number, but it is a sum of different things. So we had plus or minus the difference of the ramp ups 2017 vs. 2016, which for us in this moment is, let me say marginally virtuous, because there was important ramp up in 2016. We are doing very well in 2017, our ramp up of the North America foundry, which is already delivering the positive results. We are not paying yet the ramp up of the plants which we start in 2018, so that is a portion of that positive contribution.

There is inside fixed cost of new plants which have to be paid but at the same time, efficiency on variable cost for saturation of plants. So, it is absolutely a number of our satisfaction; in our budget we planned a little higher impact, so this proves that as of today we are really able to lead our manufacturing practice at the right level.

NICOLAS STORER: Thank you. Thank you very much.

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

MARTINO DE AMBROGGI: Good afternoon everybody. I also have a question on the EBITDA bridge because the volume/mix this quarter had a much lower contribution than the usual they had in the past. So I was wondering if it's a trend that

will continue going forward should be aware or it's something non-recurring.

MATTEO TIRABOSCHI: There is a different mix compared to last year for the CCM modules; there are some platforms using CCM rotors that are starting now, last year they were sold during the first half, and this year will be in the second half.

MARTINO DE AMBROGGI: So in the second half this should come back to the normal operating leverage.

MATTEO TIRABOSCHI: Probably yes. Probably yes.

MARTINO DE AMBROGGI: Okay.

ANDREA ABBATI MARESCOTTI: You know, Martino that carbon ceramic applications are for major portion specialties, and the specialties are launched depending upon the marketing strategy of the customers in this season.

MARTINO DE AMBROGGI: Okay. And still on the bridge, because if I look at the scope line, which I suppose is referring only to Asimco. In the second quarter the profitability would be in excess of 40% in terms of EBITDA margin, am I right in making this calculation or there is something wrong?

MATTEO TIRABOSCHI: It is quite an easy calculation. What we said in the past was that Asimco have a profitability in line with EBITDA of the Group. We maintain this assumption; obviously also in China also in that market there is a seasonality. So in the first half the performance is better but by the end of year, you can imagine EBITDA of Asimco will be more or less the same of Brembo Group.

MARTINO DE AMBROGGI: Okay. And very last on the guidance because we discussed in the last conference 18...19% EBITDA margin was probably conservative, so following first half results, what is the new indication you have in mind.

MATTEO TIRABOSCHI: It's quite difficult. I think that in the end of the year EBITDA probably will be in percentage the same of last year, so something around 19.5.

MARTINO DE AMBROGGI: Okay. And the top line always in high single digit?

MATTEO TIRABOSCHI: Maybe yes. Yes.

MARTINO DE AMBROGGI: Okay, thank you.

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

MONICA BOSIO: Good morning everyone. Thank you Martino for the question on the guidance, and I would like to ask about the performance in Germany that seems to be flat 3.3%. Is it due to the difference start of the platform or is there reason why in your looking forward statement you highlighted a certain volatility of the market. I would like to have more colors on this and I would also like to ask if you are going to confirm the €300 million of CAPEX for the full year, because actually the net debt was better than what I was expecting. Thank you very much.

ANDREA ABBATI MARESCOTTI: Okay Monica, I will answer the first one and Matteo the second. Germany: by the way it happened that our performance in Germany is equal to the performance of the market increase in Germany, so 3% to 3%. All the same, that is not the comparison, because you know that Germany is - such as Japan - a hub also for export. It is really a mix

issue of the customer platforms, and so on; market shares are the same gorgeous market shares of yesterday - no change -. It is basically just a reflection of the specific productions plans of our customers.

By the way, at the levels at which we are, I will count in future if I can sign on a normal growth in Germany with a level of saturation we have; it cannot happen every year that you catch additional platforms and very likely not possible additional in Germany because of the absolute market share we have.

MONICA BOSIO: Okay.

MATTEO TIRABOSCHI: Regarding investments, more or less I think the CAPEX for the full year will be something around 300 € million, probably something more.

MONICA BOSIO: Okay. And what about the volatility you highlighted in your forward-looking statement?

ANDREA ABBATI MARESCOTTI: We have some customers doing better, some customers suffering a little bit. Even under torture, I will not say who..... The total since we are consistent, certainly there are a couple of customers which we need to target a little more to understand their real targets. It is not an issue of mid-term performance, absolutely not. It's just a matter of understanding which are the right programs for the next six months. You saw that we had some absorption in terms of cash in the working capital. So basically, I want to optimize my working capital by the end of the year, knowing their real programs, that's the real point.

MONICA BOSIO: Okay. Got it. Thank you very much.

OPERATOR: The next question is from Michele Baldelli with Exane. Please go ahead.

MICHELE BALDELLI: Hello to everybody. I have a couple of questions. One on the cash flow statement, cash flow bridge. I have seen that you had positive contribution of €28 million from others if you can elaborate on what are the drivers for this €28 million. Second question relates to, if you can provide us an update of let's say in June what is the percentage of the discs that in U.S. are now produced fully in-house instead of being bought by third-party foundries? Thank you.

ANDREA ABBATI MARESCOTTI: Sorry, can you repeat better the second question. I didn't get the correct word.

MICHELE BALDELLI: Yeah, it's the kind of understanding at what stage are you in terms of vertical integration or production in United States given your investment in the foundries....if we say let's say that the full speed is at 100% now you are at half way. So 50% of the total volumes of disks that are produced in let's say with your internal foundries or is less or is more, is it....

ANDREA ABBATI MARESCOTTI: Okay, okay. I got it.

MICHELE BALDELLI: When it will be completed. Yeah, thank you.

ANDREA ABBATI MARESCOTTI: Okay. So I don't know how to politely reply to the first question, which is others, others it is others. A lot of many different items,
...

MICHELE BALDELLI: There is not specific probably.

ANDREA ABBATI MARESCOTTI: No, not exactly. No specific points. So absolutely nothing remarkable or which you should plan for future.

So, vertical integration: from an operational standpoint, we are running two shifts in North America in foundry, with already very significant industrial performance. We are starting the third shift this month, so I would answer to you in terms of the projected vertical integration: let me say that through the second half of the year basically we will be able to produce something like two-third of the North American volumes vertically integrated, which by the way happens to be our long-term policy because we have a good North American supplier to which we guaranteed by contract the other 30% and we will honor our commitment, also because it is a very good supplier, and a strategic one. We will progressively saturate the remaining let me say 20%, 30% of capacity in the next years through catching the business.

MICHELE BALDELLI: Okay. Very clear. Thank you very much.

OPERATOR: The next question is from Jacopo Tagliaferri with Intermonte. Please go ahead.

JACOPO TAGLIAFERRI: Good afternoon. I have two questions please. One is on the cost of goods sold. I mean, it was lower in the first half 2017 compared to 2016. You already commented a little bit on efficiency on variable cost and now also an integration of your operation in the US. So it's reasonable to assume also in the second half that the CoGs will stay lower compared to previous years or do you expect some pressure in terms of raw materials. The second one is on the tax rate. I mean, if you are able to give us some indication on what might be the tax rate for the full year? Thank you.

ANDREA ABBATI MARESCOTTI: Cost of goods sold and of course the first answer to your question it is not an exact science because the impact of mix on cost of goods sold is of course very important. On the other side, the question is very good because in my experience in automotive that is the real

thermometer of how a company is going in future well or not. The fact is that, it's a combination of efficiency factors, evolution of the policies of prices with the customers and so on, capacity to catch the right efficiency along the supply chain and a not easy raw material season because - we are not mentioning it - but this is a very strong year for the raw materials, major portion indexed, but not 100% indexed. The fact that we are able in this season to defend our contribution margin is the real thermometer that this company is doing well and has got a brilliant future. So, I appreciate the question because that is a real result of the good joint work of our people and the base of our sustainable profitability.

MATTEO TIRABOSCHI: Regarding tax rate: well, first of all, it's quite complicated to make an estimation of the tax rate during the year. So, this one is just an estimation. And second one, we are very near to close all the tax parachutes that we have in Poland and, Czech Republic. In Poland, we are very, very close to a bsorbe 100%; We are working for the new investment to try to catch something more, but we are working on and in Czech Republic we have just few millions.

JACOPO TAGLIAFERRI: So, I mean, it means that we are approaching the underlying...

MATTEO TIRABOSCHI: The normal tax rate, yes.

JACOPO TAGLIAFERRI: Okay. Thank you.

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

LELLO DELLA RAGIONE: Hi, thank you for taking my question. Just a follow up on, if I understood correctly in the scope that's the only affect, so meaning means in the second quarter something close to 50 percent EBITDA margin was

achieved. But, if I understood correctly your statement this should reverse in the second part of the year with the overall full year margin EBITDA margin of Asimco close to the level of the group. Is that, I understood correctly or there are some other parts that are applicable?

ANDREA ABBATI MARESCOTTI: Exactly, let me tell you frankly. Of course in the scope there are also small things, which can influence the specific of the quarter. But, if you look at the first half, you have 24 million of scope in sales, and 6 million of scope in EBITDA, which gives you a math of 24 point x percent. Our total group is 20.2%, that tells you that provided there is marginal other things things that count to some hundred thousand, the marginality of Asimco is consistent with one of the Group.

LELLO DELLA RAGIONE: Okay. Thanks.

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

LAURA PANSERI: Thank you to everybody and goodbye.