

# **Brembo S.p.A**

**"First Half 2023 Financial Results Conference Call"**

**Thursday, July 27, 2023, 14:30 PM CET**

MODERATORS:           MATTEO TIRABOSCHI, EXECUTIVE CHAIRMAN  
                                  DANIELE SCHILLACI, CHIEF EXECUTIVE OFFICER  
                                  ANDREA PAZZI, CHIEF FINANCIAL OFFICER  
                                  LAURA PANSERI, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call Conference operator. Welcome and thank you for joining the Brembo First Half 2023 Financial Results Conference call. As a reminder, all participants are in listen-only mode. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "\*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Laura Panseri, Head of IR. Please go ahead, madam.

LAURA PANSERI: Thank you, good afternoon, everybody. Welcome to Brembo Group's first-half 2023 earnings call. Today, Brembo's Executive Chairman, Matteo Tiraboschi, will open the call with his introductory remarks. After that, he will be available together with Brembo's CEO, Daniele Schillaci, and the CFO, Andrea Pazzi to answer questions from analysts.

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

I turn the call now to Matteo Tiraboschi. Thank you.

MATTEO TIRABOSCHI: Thank you Laura, and good afternoon to everyone connected. We appreciate your presence here today. This first half of the year has been marked by important achievements for Brembo, and I am pleased to share the good results of our semester. Revenues reached almost 2 billion Euros, reflecting 11.6 percent growth compared to the same period last year. Our margins also reflected a double-digit growth. These figures demonstrate the

resilience and strength of our business even in the face of challenging market conditions.

But before getting into more details, I would like to address an important development that has taken place within Brembo: the proposal of our Board of Directors to relocate Brembo's registered office to the Netherlands has been approved today by our Shareholders' Meeting.

The relocation of our registered office to the Netherlands allows us to strengthen Brembo's international drive and have a solid basis for the Company's further development at global level. This strategic decision benefits all shareholders and ensures that Brembo will have higher flexibility in pursuing growth opportunities, without incurring financial burdens.

Furthermore, I want to clarify that the decision to move the registered office to the Netherlands has no connection to Pirelli. As you know, Pirelli represents a long-term investment in a Company whose history, brand, leading position and innovation-oriented approach makes it, just like Brembo, an excellent and particularly significant company in our industry. Having said that, there is no project or intention of merging with, neither acquiring Pirelli. I would also like to add that we do not currently have any immediate targets for a major M&A transaction. While we continue to closely monitor the market, we do not currently have any concrete projects in this regard.

However, by relocating our registered office in the Netherlands, we are prepared for such an occurrence. This is crucial, because a well-managed company must have all the tools in place to seize the right opportunities. As we have always done, we strive to create more value for the company and all shareholders. Whatever potential operation we pursue in the future, it will be aimed at creating long-term value for our shareholders. I want to reassure you on this: it will not be dilutive.

Now, let's turn our attention to the results. The first half of 2023 has been remarkable. This broad-based growth is a testament to the contribution of all our business segments. Almost all of them have

achieved double-digit growth rates compared to the same period last year.

Our revenues have grown also across all our main regions. Germany, a strategic market for us, delivered strong growth of 19.2 percent compared to the first six months of last year. Our performance in North America, our largest market, has also been noteworthy, with revenues increasing by 12.5 percent and exceeding half billion euros. I would also point out how China has also contributed positively, despite the challenging beginning of the year. The Country has delivered a growth of 2.6 percent in the semester compared to the same period in 2022.

These results highlight the effectiveness of our global strategy and our ability to cater to the needs of diverse markets.

Looking ahead, Brembo's commitment to growth remains unwavering. Our strategic investments will continue to reinforce our global presence and enable us to meet the evolving needs of our customers. As we said in our last call, we have exciting projects underway to expand our operations in Poland, Mexico and China. These investments reflect our dedication to providing innovative and high-quality products to the global market. A recent example I'd like to mention here is the brand new Octyma caliper, developed exclusively for the new Range Rover Sport SV.

I would also like to draw your attention to another key development that we recently announced: the launch of the activities of Brembo Solutions. Brembo Solutions is a new unit of our Group, dedicated to providing digital solutions derived from our extensive experience in applying artificial intelligence to the world of industry. It is an essential part of our strategic vision to evolve into a comprehensive solution provider beyond the automotive sector.

Brembo Solutions' offer aims to foster the adoption of more agile and innovative processes for companies across various manufacturing and industrial sectors. Our first customer is a noted company in the fashion industry. We recognize the growing demand in the market for digital transformation, and we are leveraging our knowledge and hands-on

approach to meet this need. With Brembo Solutions we accelerate our ability to deliver innovation even in the digital field.

In conclusion, I want to reiterate how Brembo is well-positioned for sustainable growth. We remain as always very much committed to creating long-term value for our shareholders and we confirm our guidance for the current year: for 2023 we expect a revenue growth of about 10 percent, with margins – in percentage terms – in line with the previous year.

Thank you all. I will now turn the floor back to Laura.

LAURA PANSERI: Okay. Thank you, Matteo. Operator, we can now open the Q&A session. Thank you.

Q&A

OPERATOR: Thank you. 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." We kindly ask you to use handsets when asking questions. Anyone who has a question may press "\*" and "1" at this time.

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

MONICA BOSIO: Good afternoon, everyone, and thanks for taking my questions. I have three. The first one, I would like maybe some more colors on the order intake trend, not overall, but in China. What do you expect for the Chinese market in the third and fourth quarter, and how is your order intake in the area?

The second question is for Europe. It seems that the demand in Europe keeps growing, but with some deterioration in the mix. I'm just wondering if this could limit the expansion of your addressable market in Europe. And the very last, and I come back to the queue, is on the FOREX. FOREX was quite negative in the second quarter. Your guidance is at plus 10%. Is it including the FOREX impact or not? Thank you very much.

DANIELE SCHILLACI: Okay. Good afternoon, everybody, and good afternoon, Monica. Regarding the order intake in China, if you remember last year, Q3 was very strong because of the recovery after the heavy lockdown that occurred in April and early May. So by definition, the market in Q3 this year will be below Q3 2022 levels, with a recovery in Q4 this year, because also the Q4 last year was impacted by a partial lockdown in December. Put everything together, the market on the second half in China is expected to be roughly -9% versus last year. Regarding Brembo, the order intake in China for us for the second part of the year is relatively solid because, of course, we have our traditional western customers, the transplant, that of course continue to sell in the market, but also we are increasing our market share with the local players. Hence, even if the market on the H2 is foreseen to be lower than last year in terms of order intake, thanks to our customer base, traditional and the new local brands, we see an order intake pretty solid for the H2.

MONICA BOSIO: May I ask you what is your share towards the local clients in China taking the revenues generated in China. How much of this revenue come from the local player?

DANIELE SCHILLACI: As you know Monica, we always give global numbers but we never disclose details relating to customers. Regarding Europe, honestly speaking, we don't see any deterioration in our mix. Europe for us is doing pretty well because also this year, Tesla sales are increasing in Europe but also BMW. So for us, the

demand in Europe remain pretty strong also in the second part of the year.

Regarding the Forex, maybe Andrea, you want to say something?

ANDREA PAZZI: Yes, as you have seen, the second quarter in terms of FOREX on revenue is negative, we have -€12 million, while in the first quarter it was positive for €4.8 million. Of course, for the rest of the year in our guidance, we consider the projection of the FOREX according to the main providers and so for us, everything is included.

MONICA BOSIO: Okay. Thank you.

ANDREA PAZZI: You are welcome.

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

MARTINO DE AMBROGGI: Good afternoon, everybody. My first question is on the start-up cost because we know you will suffer it a bit on this year. How much of the €34 million you had in the operations line is referred to the Mexican plant or other initiatives around the globe and what is embedded in your guidance for start-up cost for the rest of the year?

MATTEO TIRABOSCHI: Martino, you know that as far as start-up costs are related, we don't give any kind of indication because it is part of the normal life of our company. As announced, over the next years we will see the startup cost of the new plants in China, Poland and Mexico, but we don't provide the split.

MARTINO DE AMBROGGI: Okay. If I assume double what you had in the first half and probably not so wrong in making such a kind of assumption also because you are starting different plants around the globe?

MATTEO TIRABOSCHI: Maybe.

MARTINO DE AMBROGGI: Okay. And the second question is on M&A because you are now multiplying the voting rights in order to have a higher fire power for new acquisitions. It is clear you don't have anything in the short-term but what is your priority? Is it more on the technology side or on complimentary products like J.Juan and SBS. Or what else, I don't know?

MATTEO TIRABOSCHI: Both.

MARTINO DE AMBROGGI: Okay. And in terms of products?

MATTEO TIRABOSCHI: In terms of products, we can increase our verticalization in some business and in some areas; but we are also looking for something more digital, more software and so on. Like we said in the past, nothing new.

MARTINO DE AMBROGGI: Okay. And the last question is on prices because I saw in Q2 they were slightly down or basically flattish. Is that something that is going to be worse for the rest of the year because if I remember correctly, in the previous call, you mentioned that it should have been positive for the rest of the year but now it declined quite a bit in the second quarter, referring to the top line?

DANIELE SCHILLACI: Of course, you know, that the raw material prices are going down and we are giving back to the customers some pricing back according to our agreements, as you can see in the evolution quarter-by-quarter. When you look at the same impact on the EBITDA, though, you will see that our EBITDA is relatively positive and in the end, if you combine hysteresis factors with the trend occurring on the market, we don't see also for H2 any deterioration on our margins. On top of that, we are always extremely prudent in managing our fixed costs and this of course will contribute to maintain our profitability for the full year

in line with last year. The only factor that might be in H2 still a bit higher is the energy cost, but with the large majority of our customers, we have fixed the price for the year, so this is absolutely integrated in the forecast.

MARTINO DE AMBROGGI: Okay. And very last on the EBITDA margin which implicit in your guidance is going down not a dramatic decline, but it's going down by almost one percentage point in the second half. Is it due to maybe FOREX? You mentioned before maybe, anything else.

ANDREA PAZZI: The full year is expected to be similar to the previous year. The little deterioration is a mix of different events but not one in particular. The price reduction, the cost reduction, the volume mix, it's really a full mix of different reasons, but no one in particular.

MARTINO DE AMBROGGI: Okay, thank you.

OPERATOR: The next question is from Alexandre Raverdy with Kepler Cheuvreux. Please go ahead.

ALEXANDRE RAVERDY: Yes, good afternoon. Thank you for taking the question. I have a quick question on your organic growth in Q2 specifically. So, you have an organic growth of 13% which is a bit more than 2 points below global LV production. Just wanted to understand the key drivers for this underperformance which I think mostly comes from Europe and the US. So, just wanted to understand whether there was anything abnormal beyond let's say, high-comparison basis.

DANIELE SCHILLACI: Yes, if you combine this variance 2023 with 2022 you need also to understand that in 2022 we were increasing 2.5 times more than the market. And of course, the baseline in '23 is very high and the fact that that we are still increasing almost in line with the market, for us this is, honestly speaking, a good news. So, if you combine the last two years, you'll see that the growth of Brembo versus market has been

extremely high. So, it's true that in China, as I said before, the market this year is more stable than we expected, it could have been a bit higher, but in general our growth over the last 18 months has been extremely over-performing in the market.

ALEXANDRE RAVERDY: Understood, thank you.

DANIELE SCHILLACI: Okay.

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

GIANLUCA BERTUZZO: Hi, everybody and thank you for taking my questions. I am sorry but I missed the initial remarks and I don't know if you spoke about Sensify. So, can you give us an update in terms of number of customer programs or other elements we should know? And then the second one on the Pirelli stake. Given your ambition to go for large M&A deals, are you considering a cash-in of your investments in order to have higher financial resources? Thank you.

MATTEO TIRABOSCHI: Starting from the last question about Pirelli, there is no news about it. Our position is very well-known; we have this stake, it is stable, we don't want to increase, we don't want to sell, so, nothing new.

DANIELE SCHILLACI: Regarding Sensify, indeed, there are a lot of things that are happening. We are having an increasing number of customers that are asking for Sensify. Especially in the last couple of months, we sent some prototypes to a certain number of customers. As you know, we have anyhow, one big customer that's already agreed on adopting Sensify. So things are really moving in the right direction: a lot of interest, sending prototypes, making tests, ... So it's really in line with our plan.

GIANLUCA BERTUZZO: Okay, thank you.

DANIELE SCHILLACI: You're welcome.

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

ANTHONY DICK: Yes. Hi, thank you for taking my question. It was a follow-up on the question on growth. I was just wondering if you could provide some more details on how you expected growth and outperformance to evolve over the coming quarters and especially with the new footprint and expansion plans, how that should contribute to outperformance if any? Thank you.

DANIELE SCHILLACI: We will see the impact of the expansion of the new plants, not in the H2 but a bit later. As I said at the beginning, in Q3 last year there was a very strong recovery in China due to the COVID impact in April. So of course Q3 this year should see be in line with last year. Q4, if we look at our order intake, it is pretty solid. So, if nothing happens, we imagine to end the year exactly in line with what we said at the beginning, meaning a +10% growth versus last year, with margins in line with last year.

ANTHONY DICK: Great. Thank you. And just in terms of just as a follow-up, could you give us the exact phasing of the new footprint expansion ramp ups that you expect, I mean probably for starting 2024 and now I guess is it all H1 '24, H2 2024, is it coming at different...during different semesters?

DANIELE SCHILLACI: You can see the first impact of our expansion probably at the beginning of 2025.

ANTHONY DICK: Okay. Perfect. Thank you.

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

MICHELE BALDELLI: Yes, good afternoon to everybody. I have a couple of questions. So, the first one relates to the Mexican plant. During the quarter, we appreciated the integration of that plant. I was just wondering, in the numbers reported, did we see already significant numbers coming from that expansion of capacity or you were already in this test phase and therefore there was not that much contribution? Second question relates to the statement given before about the prototypes of Simplify, just to better understand the cycle of development also in this new product category? If you speak about prototypes today, does it mean that then there will be a development, a co-development phase with OEM lasting couple of years and therefore you are speaking about potential start of production not before the end of 2025 or is it possible to see it earlier the start of production for any kind of possible win? Thank you.

DANIELE SCHILLACI: Good afternoon, Michele. Regarding the impact of the Mexican plant you will not see the impact this year. This will be seen during 2024.

Regarding Sensify, when we make prototype, it means that we are making some tangible tests with your customers, during which our engineering team tune our products according to the technical specifications of the platform. This means that if the customer is very happy with the performance and if it improves the driving pleasure for the end customer, normally this turns into business very quickly. So, prototype doesn't mean that the business is signed; it means that we are making some tests with your customers and we are tuning the technology according to their requirements and platforms.

But of course, this is a very important step forward: normally when you engage in prototype, we have a high probability that this is turned into a contract. So, after having this very big contract for Sensify with a very big customer, over the last 18 months, a lot of contact has

occurred and now more and more customers across the globe - not only in one specific region - are asking to move forward, engaging us in the prototype phase. So, this is a very tangible sign.

We are seeing this also in our CAPEX, because we keep investing on R&D also for Sensify, and as I said before, this is absolutely in line with our planning to launch Sensify in the next future.

MICHELE BALDELLI: Okay. Thank you very much. Just another follow up on this. Can we say that we are speaking still about passenger cars in the premium segment, premium/luxury let's say?

DANIELE SCHILLACI: As I said, Sensify is meant to be a breakthrough technology for all types of segments, but it's clear that due to our DNA, the largest part of the customers we are talking to are in the premium market, absolutely.

MICHELE BALDELLI: Okay. Thank you very much.

DANIELE SCHILLACI: You're welcome.

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

LAURA PANSERI: Okay. Thank you everyone for attending our call today. We wish you a pleasant summer. Bye-bye.

MATTEO TIRABOSCHI: Bye-bye.

DANIELE SCHILLACI: Bye-bye.