

Brembo S.p.A

"9 Months, 2022 Financial Results Conference Call"

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MODERATORS: MATTEO TIRABOSCHI, CHAIRMAN
DANIELE SCHILLACI, CHIEF EXECUTIVE 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 9 Months, 2022 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

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

LAURA PANSERI: Good afternoon, everybody. Thank you for joining us today to discuss Brembo Group's 9 months, 2022 financial results. This call will be hosted by Matteo Tiraboschi, Chairman, and by Daniele Schillaci, CEO of Brembo. As usually, the slide presentation has been made available on our website, therefore, we suggest to go directly to the Q&A session.

During this call, we will discuss our business outlook and we'll make forward-looking statements which are based on prediction 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. Having said that, we can start with the Q&A. 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 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: Hi, good afternoon, everyone, and thanks for taking my question. I had 3. The first one is on the order intake trend. Can you comment on these and on the outlook ahead? My question is, are you seeing any sign of slowdown?

My second question is on 2023. I think that for the next year, the Group should benefit from the pricing actions implemented in 2022. How long do we [indiscernible] of the raw materials? On the flip side, the Group will have to face higher energy costs that I estimate in the region of 6% of the revenues and higher labor costs. The question is, do you feel confident in maintaining the same margins in 2023 or do you see some downward pressure? I know that it's early to ask, but I try.

And the very last is on the CAPEX, which rose a lot in the third quarter. Can you give us more flavor on this? And are you keeping your €250 million CAPEX guidance by year end? And should we expect a similar level for 2023? Thank you.

DANIELE SCHILLACI: Okay, ciao, Monica. Daniele speaking. In terms of both order intake and order bank, I must say that for the rest of the year the situation for us remains in line with what you have seen in the first 9 months. So, it's pretty solid in China, in US and despite the geopolitical issue in Europe, too. We don't see any big concern now.

It's clear, though, that with the inflation rate we are seeing and with the interest rates now increasing more and more, we might see a kind of slowdown in 2023, but mainly in Europe and probably more on the mass market segments. But on the premium markets, which is where we operate, the order bank for us is quite solid, so far.

Regarding the pricing actions we have been taking in 2022, for 2023 we will follow the same structural process that we have implemented this year. As I said during the last conference call, we have put in place a structural process with all our customers, to discuss the raw material and energy cost adjustments. This process is working pretty well, I would say, because for the first 9 months of 2022 we have essentially recovered all the costs, which is for us a very good achievement. And this is what will do also in 2023, hoping that some utilities and raw material now will come back to a normal trend; somehow we are already seeing it, especially for some raw materials like aluminium and steel, where prices are going down.

In terms of margin, it's too early to talk about 2023 because we are still finalizing our budget. But, if we follow the method and methodology that we have been following since 14-15 months now, we are optimistic that we can keep the current level of margins also for the future.

Regarding the CAPEX, I leave it to Matteo.

MATTEO TIRABOSCHI: Yes, thank you. About the CAPEX, during the last conference call, we said it would be something around €250 million. We confirm more or less the same number; if it is not €250 million, it could be €260 million, €270 million. For next year, it is too early to speak, but more or less, I think it could be a similar number.

MONICA BOSIO: Okay, thank you very much. Thank you.

DANIELE SCHILLACI: You're welcome.

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

MARTINO DE AMBROGGI: Thank you. Good afternoon, everybody. Last time, you talked about capacity utilization around 90%. In this quarter, you got €100 million of additional sales. So, first question, what's the percentage of capacity utilization in Q3? And what's the percentage of CAPEX, which is just maintenance? So...and the remaining I suppose will be for additional capacity. This is my first question.

MATTEO TIRABOSCHI: The maintenance capex it is something around €50-€60 million per year, more or less.

DANIELE SCHILLACI: And for the capacity utilization, we are still very close to full capacity, around 85%-90%,yes.

MARTINO DE AMBROGGI: Sure, more or less at the same level of Q2, despite a€100 million of additional sales, which is not entirely due to price effect.

DANIELE SCHILLACI: Exactly, yes.

MARTINO DE AMBROGGI: Okay. And for the additional capacity with the new CAPEX, is it still valid, the rule of thumb of €1 million CAPEX equal to €1 million additional sales in 12-18 months?

MATTEO TIRABOSCHI: No, probably today €1 million CAPEX brings something around 0.7 in revenues; of course after a certain period of ramp up.

MARTINO DE AMBROGGI: Okay, thank you. And the second question is on Sensify. I know you don't want to talk about it, but just maybe the flavor. So, the first client is adopting Sensify just for one model or is planning to adopt it for the whole product portfolio or at least a big portion of it?

DANIELE SCHILLACI: As you know, Martino, on Sensify, we are extremely disciplined in our answers. So, let me repeat what I said in previous occasions: in 2024 we will launch Sensify with a prestigious customer, but today, I cannot tell you if it's only on one platform or more.

MARTINO DE AMBROGGI: Okay. And maybe just a flavor on how is progressing the testing activity for new clients?

DANIELE SCHILLACI: It's proceeding very well; we are having a lot of test activities, not only in Europe, but in all the regions where we are operating, US, and China. By the way, at the end of July we had a very good event on Sensify in the U.S, and of course we are having some tests over there, too. So, I would say that the Sensify activity is a global activity across all the regions, with a lot of interest; we are moving on.

MARTINO DE AMBROGGI: Okay. Very last, you mentioned some weakness next year for mass market. Could you remind us what's the percentage of business more or less in which you are involved in the mass market?

DANIELE SCHILLACI: I would say that almost the entire business of Brembo is on the premium market and light commercial vehicles. Light commercial vehicles follow a totally different trend than the passenger car vehicles. On the mass market we have indeed some platforms, but in terms of percentage, it's pretty small compared to the entire business.

MARTINO DE AMBROGGI: Okay. Thank you.

OPERATOR: The next question is from Renato Gargiulo with Stifel. Please go ahead.

RENATO GARGIULO Yes. My first question is still on the order book. Some premium car makers, your customers are talking about a strong order backlog with visibility of up to 12 months. I was wondering what kind of visibility do you have? Is it...it's longer than usual?

Then my second question on energy, on logistics cost, an update on that. You were talking about your target to recover 80% of the cost up to the 100% by year end, if it's still...is it still the case.

And then on net debt, if you have any guidance for the full year, if you...in terms of extra stocks to better serve your customers what's your policy there, if you expect to continue to maintain this also with the next months? These are my questions. Thank you.

DANIELE SCHILLACI: Okay, regarding the order bank, we have a quite accurate visibility for the next 3 months, and this visibility allows us a good planning at production level.

In terms of price recovery, as I said, Q3 was particularly good for us in terms of price recovery: in the first 9 months we have recovered practically all the cost increase; our target, if you remember, was to achieve at least 85% of cost recovery, so we are above that target now. And we expect to maintain more or less the same ratio also for the rest of the year.

And regarding the last question, our guidance for the net debt by year-end, is around €500-550 million.

RENATO GARGIULO Perfect. Thank you. If I may, just a follow-up on your recent announcement of your new business unit, Brembo Ventures. Just if you can give us any more color on that and if you see opportunity for acquisitions?

DANIELE SCHILLACI Yes, the Brembo Venture has a clear target to accelerate the digitalization of our products, and also our initial process with regards to Artificial Intelligence. The purpose of these activities is to find start-ups that can help us in that very specific domain. For example, the 6.8% stake we took in Photon Path is exactly in that direction, and it is a good example of how Brembo Ventures will help us in the mid-long term. Let me add that also our Inspiration Lab in San Francisco goes in the same direction; you see how this company is trying to exploit all the levers and opportunities to accelerate our digitalization

process, because this is where the new world is playing and it is important for us to be there. So, it's just the beginning.

RENATO GARGIULO Yes, thank you very much.

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

ANDREA BALLONI: Yes. Good afternoon, everybody, and thanks for taking my question. My first one is on the outlook for the next year and on the car market production. It looks to me that even though sell-out for the next year could slow down as a consequence of a negative macro scenario, in any case, the inventory level for a car maker in the channel are pretty low. So, would you expect in any case a recovery of the production at least in H1 next year despite a slowing down trend in some relevant markets such as Europe or even in Nafta?

And my second question is on cost inflation again on 2023. I have understood that you are not in a position to give any guidance in terms of margin, but should we consider current level of raw material and the energy cost to remain unchanged in 2023? What incremental impact that you expect for the next year in term of cost inflation?

And my last question, I do apologize, I lost your answer on CAPEX and net debt on 2022 if you can say it again?

DANIELE SCHILLACI: So, on the first question regarding the market outlook for 2023, we see different trends region by region. If you take for example the US market, you have an inflation level more or less similar to Europe, but the nature of this inflation, as we all know, is different. When you look at the automotive markets in the US, what the specialists are forecasting, is a market either stable or slightly increasing versus 2022. It's also true that the dealer level of stock is still below historical standard levels; so combining the 2 factors - reconciling the stock level

and the market itself - it's most likely that the U.S market will be at least as in 2022, of course in case of no exceptional events.

China of course doesn't have the same inflation issue as Europe and the US, and the Chinese automotive market in 2023 is foreseen to be at least at some level or slightly above versus 2022. The stock level is in line with standards, for some brands it may be a bit higher. Hence, it's reasonable to say that the Chinese market will be at the same level of 2022 or even slightly higher.

In Europe, the situation is different. The dealer stock level as far as we see is okay, maybe slightly below the standard level, but okay. Here the topic is the access to the credit and the fact that, more than half of the cars sold in Europe are financed, and the interest rates had a really sharp increase versus only 4-5 months ago. According to what we are hearing, this may bring to some cancellation of orders in some areas, especially in the first part of 2023, that's why we need to be cautious for the European market. So, this is what I can say at a regional level in terms of market trends in 2023.

Regarding the raw material and the energy cost, as I said before, we are seeing some raw material prices going down, very close to the normal level. Other material remain high, like nickel and copper, for example; those most likely will remain high also in 2023.

Regarding energy cost, given the current geopolitical situation, our assumption is that it will not go back to what the normal word was; so we assume the energy cost still at a high level during 2023, we don't see today any big reason why electricity and gas should go back to normality levels, at least not in the first part of the year.

So, this is what we are assuming in our budget exercise. Anyhow, as I said before, we have a very clear structural process with our customers, to have at least 85% of the costs of raw material and energy recovered.

In terms of CAPEX, I will repeat, the CAPEX is foreseen to be between €250-€270 million, and in terms of net debt, we foresee to close the year at around €500 - €550 million.

ANDREA BALLONI: Okay. Thank you.

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

MICHELE BALDELLI: HI, good afternoon to everybody. I have several questions. The first one is related to your presence in the United States. I was doing some calculation on the possible expectation for this year, and it seems that you may reach a level of [indiscernible] in the passenger car, so that is probably the same or similar or even above the one that you do in Europe passenger car, and even in Europe also the...

LAURA PANSERI: Michele, sorry to interrupt you. Can you hear me? But we can hear very badly. So, can you repeat and maybe slowly? Thank you. Because the audio is very bad.

MICHELE BALDELLI: Now, I was just doing some calculation on your trends in the United States, and the fact that the sales for the year and passenger cars for...in a year may be at the same level of sales that you're doing in passenger cars in Europe. And please correct me, if I'm wrong, but let's say we want to meet you to try understand how did you increase so much the sales in United States it's an agreement of share. So, basically you are increasing share strongly, and in what kind of, let's say, products in particular. If you can give us some color, just to understand, let's say, what's your, let's say, current status in the North American market?

DANIELE SCHILLACI: Okay, let me reply on the US market. In general, the good performance of Brembo in the first 9 months, and also in the third quarter, is due to a very solid volume and a model mix increase. Of course, we managed to recover the costs as we said, which is of course very important, but the strong performance comes from the business growth in terms of volume and model mix. This is a general comment that is really important to note.

In the US we had the SOP of 2 very important, high-volume platforms that started some months ago; this, combined with the good volumes of our customers in the US, led us to have a very good performance in the US market, and most likely to have it also for the months to come. Also, consider that in the Nord America region, we have a 2 main areas of production, which are the US and Mexico, and our operations in Mexico are running really at full capacity.

MICHELE BALDELLI: Yes, the second questions relate to the trend of the days to pay on the receivables. I saw that the amount of receivables increased quite nicely, and I just wanted to have a sort of, let's say, color on the trend. What to expect if, let's say, the current level is now at maximum or there is still some upside to go because you're giving more, let's say, freedom to your customers, maybe a bit later. So, what's your let's say, gut feeling on the these trends, please?

DANIELE SCHILLACI: Okay. Well, the audio is not perfect, but I think we understood your question. So first of all, when you increase the revenues - and this year as you can see, we had a very sharp increase versus last year - it's quite natural to see the value of receivable and payable increasing accordingly.

On the receivable side, indeed in Q3 we are a few days above last year; we are monitoring a couple of our customers that for whatever reason are postponing their payment, but net this, our receivable situation is basically in line with last year, despite the big volume increase.

MICHELE BALDELLI: Okay. Thank you very much.

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

GIANLUCA BERTUZZO: Hi everybody and thank you for taking my question. The first one is on the fourth quarter. Historically, your business had similar seasonality across quarter, but your guidance implies a weaker fourth quarter sequentially. Can you elaborate a bit on that?

And second question is again on the order backlog, I was wondering if you can tell us if it has increased, remained stable or decreased compared to last quarter?

And last question is on the drop-through of volume and mix. We saw a slowdown in the third quarter compared to what was the level seen throughout the last few quarter. Is there any specific reason or something else? Thank you.

DANIELE SCHILLACI: You know, the last quarter is traditionally a bit shorter than the other quarters because of the end of the year, especially in the western part of the world you have companies that stop production already by mid of December. But honestly speaking, we don't see from outside any impact on our performance in Q4. The only thing we are monitoring now, is of course what's happening in China, with new partial lockdowns, but so far we don't see any major issue.

LAURA PANSERI: Can you repeat the second question, please?

GIANLUCA BERTUZZO: Sorry, the order backlog is increased, remained stable or decreased compared to last quarter? Compared to what was at the end of Q2?

DANIELE SCHILLACI: Yes, ok. If we look at the end of Q2, the level of orders projected over 3 months, we are totally in line. The seasonality in China in

November/December is quite high, you know, and if you compare Q2 with the results of Q3, we are entering into Q4 with a very homogeneous order bank level. I repeat, now we are monitoring the Chinese situation, but there should be no reason, not to deliver a good performance in Q4.

Your last question...sorry, there was a last question on the slowdown?

GIANLUCA BERTUZZO: Yes, on the volume mix in the level of the drop-through: why it declined sequentially.

DANIELE SCHILLACI: Yes, this is mainly due to the comparison base, let me say; if you remember, in Q3 21 the market was down significantly because of the chips shortage, but Brembo was very positive. This year the global production increase in Q3 was very high due to a favorable comparison base; also Brembo grew, but given the good performance of last year, our increase percentage-wise may seem a bit lower than what the market did.

GIANLUCA BERTUZZO: Very clear. Thank you.

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

ANTHONY DICK: Yes. Hi, thanks for taking my questions. I have 3. The first was on the performance of the passenger vehicle in Q3. It outperformed the other divisions. So, I was just wondering if there was anything specific there, on the contracts [indiscernible]?

The second question I have is on the Euro 7 regulation which is set to be released tomorrow I believe. There has been some [indiscernible] in the press about the potential regulation concerning the braking pad [indiscernible]. I was just wondering what was your take on the potential impact of that regulation, I know you got some more green-oriented products. So, I was just wondering if you could share some

details about the commercial traction you are having on these products and more generally the impact of this potential regulation?

And lastly, I also saw an article with some concerning one of your customers...and US Californian customer that would have allegedly switched from your braking solutions to another brake, another supplier to one of his cars. So, I was just wondering if you could comment on this or more generally the attraction in the EV space? Thank you.

DANIELE SCHILLACI: Okay, regarding the Q3 performance, as I said, it was driven by strong volume and model mix, across all the regions, with the US particularly strong. This was due to the good trend of our customers and also to some SOP (start of production) that came into force at the beginning of Q3. Please remember that we have also other business units; for example the motorbike business unit in Q3 showed a very good performance, as well as our aftermarket business. So, the good performance was really across all regions and all business divisions.

The Euro 7 Regulation: first of all let me tell you that Brembo is part of the European Commission roundtable, discussing this topic since many years now.

As part of our strategy, we always try to anticipate let the future trends. In fact, we didn't wait for the Euro 7 regulation to launch some products that are drastically reducing the dust of brakes. For example, the Greentive disc, that we launched at the Frankfurt Motorshow a couple of years ago; The Enesys spring, that more and more customers are adopting, that reduces a lot the drag torque; and the Greenance kit that was presented at Automechanika in Frankfurt last month, with a big success in terms of press coverage.

And also, after the new acquisition we did in Denmark with SBS, we have just launched the green pads for the motorbike. So, our strategy is to try to reduce and eliminate the dust rather than to collect it, and

move the problem from one side to another. Hence we have a strong belief that if you want to anticipate the trend and to have a green braking system, you need to have a combined strategy between disc and pad. So, you have to see the picture in a “holistic” way, not only by single product. And this is something on which in Brembo we are working a lot, by developing our Greentwin strategy, where we try to identify segment by segment, based on the weight of the car, the type of the car, what is the right material for the disc and for the associated pad; this is the way for us to drastically reduce the emission of the braking system.

So, we are working really hard on that. As I said, we have already some product on the market, and this is an exciting challenge that we are now undertaking.

LAURA PANSERI: We lost your third question, the audio was very bad, sorry. Can you repeat it?

ANTHONY DICK: Yes, the last question was on some reports after the summer that one of your customers Californian EV player has switched supplier and some vendors and others supplier for one of its cars. I was just wondering, you know, what could be the potential impact for you from that changing contract, and if you could comment on more generally your traction within the EV space?

DANIELE SCHILLACI: Well, as you know, we are working with that customer since many years, but this might happen, it's part of the competition, you know. In any case I don't have in mind any drastic change in the product rate for that customer.

ANTHONY DICK: Okay. Thank you very much. Thank you.

DANIELE SCHILLACI: Thank you.

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

GABRIELE GAMBAROVA: Yes, good afternoon. And thanks for taking my questions. The first one is on Slide#8. I was wondering if you could explain a little bit more the dynamics of the operation item minus €40 million, and I think minus €14 million in Q3, I would say flat versus Q2, and only a touch not basically inline also with Q1. So, I was wondering, this item what does it relates to?

The second question is on labor cost, I guess, if you believe or I mean do you believe that this item will represent, let's say, an headwind in 2023, and if you could give us some more color even on this?

And the third one is on China. I would say not...let's say under the industry standpoint, but I wonder if you have an...I would like to understand your thoughts on this market, let's say, in the broader perspective. I saw that Stellantis Fleet has shut down its joint venture, Iveco sold his joint venture to, I mean there was...there were important political steps in the country. So, I was wondering if you perceive, if you see any change in...let's say the country's attitude that works, let's say, international companies investing in the country, so the climate is still very supportive, very good or if you see any kind of deterioration of the margin? Any thoughts you have on this...under the standpoint would be interesting? Thanks.

MATTEO TIRABOSCHI: I'll take the first question, about operations; honestly, there is not particular dynamics in that item, quarter-by-quarter. In the first quarter, it was something around €12 million, in the second quarter €14 million, and the third quarter is €14 million, in line. That's the consequence of the growth of the revenues, since we increased the cost of operation in our plants.

GABRIELE GAMBAROVA: No, I was wondering, I mean, this relates to some kind of inefficiency because of ups and down and volatility. I was interested in understanding the nature of this item?

MATTEO TIRABOSCHI: The nature is related to the increase of revenues, when you grow your activity, your business, your revenues, the cost of the activities increase: more people in the plant, more automation, and so on.

GABRIELE GAMBAROVA: Okay, thank you. My second question was on labor cost. If you see it growing...possibly growing in 2023, it can be a relevant I expect?

DANIELE SCHILLACI: For sure with the inflation rate that we are seeing in many countries in Europe, and also in the US, the labor cost is foreseen to increase, and in Brembo we are monitoring this trend country-by-country and will act in consequence, but yes, there will be an increase.

GABRIELE GAMBAROVA: And the third one was on China, basically a flavor on...let's say on...I mean, I would say on the government or the political, let's say, attitude towards business. If something has changed, if there is any kind of...okay.

DANIELE SCHILLACI: No, honestly speaking we haven't seen a different attitude towards the business in China, compared to few months ago or one year ago, absolutely no. The situation is ongoing, we are growing...so I would say the situation is fine.

GABRIELE GAMBAROVA: Okay, yes. Good to know. Thank you.

DANIELE SCHILLACI: Thank you.

MATTEO TIRABOSCHI: Thank you.

OPERATOR: Ms. Panseri, there are no more questions registered at this time. I turn the conference back to you for the closing remarks.

LAURA PANSERI: Okay, thank you. And apology for the bad quality of audio in some moments. Thank you for attending our call today, we wish you a pleasant rest of the day. Goodbye.

DANIELE SCHILLACI: Bye-bye. Ciao.

MATTEO TIRABOSCHI: Thank you.