

# **Pirelli & C. S.p.A. 1H 2018 results**

## **Conference Call Transcript**

*August 7, 2018*

### Marco Tronchetti Provera – Executive Vice Chairman and Chief Executive Officer

Good evening, Ladies and Gentlemen, and thank you for joining our conference call Today. Let me cover 3 summary points on slide 2:

First half results confirm that Pirelli's High Value business model has proven to be resilient in a volatile environment (exchange rates, raw materials, tariffs). In Particular, the High Value Market – our true North – is growing faster than expected (+10%). Pirelli is gaining Market share in the High Value thanks to the very effective homologation pull-through. Apart from volume, we have also been «best-in-class» in Price/Mix improvement and these factors have led to a solid Ebit margin improvement (+1.5 percentage points reaching 18%), the highest improvement amongst Peers.

In terms of High Value programs underway, we are both intensifying and accelerating our thrust: We have launched a major High Value tyre homologation program, collaborating with local Premium Chinese, Japanese and Korean OEMs. We are also accelerating our product innovation in specialties, very much sought after for electric vehicles. Taking into account both robust High Value Market future demand in Europe and China and a possible complex tariff barriers' play, we are adjusting our «local for local» capacity in China. Our new Integrated organization, with Mr. Casaluci as General Operations Manager, is bringing more speed and inter-functionality to our digital transformation programs. Finally, in terms of 2018 outlook, our key value drivers (Price/Mix and High Value volume growth) are steadily on course, in line with our guidance top line organic growth is expected to be 7%, considering the accelerated reduction in volumes of Standard lower rims products, Profitability and Cash Flow targets confirmed and supported by higher Price/Mix contribution and lower cost impact.

Let's now briefly review our first half performance and the delivery of our strategy. We recorded a sound organic growth of revenues, +5.5%, supported by a further strengthening of our positioning in the High Value segment, which now accounts for approximately 64% of sales. In the face of a tough external context, characterized by mixed market trends, currency and raw mat volatility, we proved the resilience of our business model by posting a significant profitability increase and achieving an EBIT margin of 18%. Our solid operating performance combined with a strong reduction in the cost of debt boosted our Net Income that grew almost 3 times versus the first half of 2017, reaching 7% of sales. Finally, Net Debt reflects the usual seasonality of the working capital, which absorbs cash in the first half and returns it in the last quarter of the year. Mister Sala will add some more color to that.

Let's now move onto regional performance, starting from High Value Regions. They now account for 79% of the Group Sales of the first half and 93% of High Value revenues.

In Europe, we reinforced our leadership in High Value, with a market share gain of 1.5 percentage points in Car tyres 18 inches and above. Our wide and rich homologation portfolio placed us in a better position than our peers to capture the demand for Original Equipment, which was stronger in the second quarter (+12% in the second quarter vs. +8% in the first quarter). In the Replacement channel, we benefitted from the pull-through effect and our greater presence in the car dealer channel. In the Standard segment, we keep pursuing a proactive reduction of exposure to the less profitable products, making 18 inches and above our top priority in terms of capacity and sales. The Mix improvement was the main driver of a year on year profitability increase of 2 percentage points with an Adjusted EBIT margin in the "Mid- Teens" range.

In NAFTA, we keep growing High Value Sales, especially in the Replacement channel, driven by the success of our Regional All-Season products and the more pervasive distribution retail network. In the OE business, we keep on expanding our homologation portfolio including new partnerships with local car makers. In addition to this, to meet the growing High Value demand, we are also upgrading our Brazilian plants. Profitability, in the High-teens, was impacted by the weak Dollar in the first quarter with a partial recovery in the second.

APac is confirmed as the Region with the highest growth and profitability. The sharp execution of our strategy put us in a favourable position to intercept the opportunities offered by the High Value Market (+14% year over year growth in the first half). In this context, we recorded a 25.7% organic growth in High Value sales as a result of:

- a strong performance in the O.E. channel where we further consolidated our leadership by expanding our client base to local and ground-breaking car makers; and
- a better positioning in the Replacement channel where we increased our market share through a robust pull-through effect and a wider distribution network.

The reduction of standard tyre sales is attributed to lower O.E. volumes in 17 inches, in favour of bigger rims, and reduction of Aeolus brand sales, with the conversion of its capacity to Pirelli standards. The increasing weight of High Value contributed to improve our profitability year over year within the “Twenties” range.

Standard Regions account for 21% of our Sales and 7% of our High Value revenues. In Latin America, we keep focusing on mix improvement, reducing the exposure to the less profitable segments and upgrading our Brazilian plants of Bahia and Campinas to High Value production for the local, as well as North American markets. The Region discounted a tough economic environment and a market slowdown. In the second quarter, in particular, a transport strike stopped the entire economy in Brazil for 12 days in May. The situation gradually returned to normal with the recovery of car production already occurring in June, while tyre sales in the Replacement channel remained weak until the end of the quarter. This event caused a €10 million EBIT loss for Pirelli; we promptly reacted by initiating cost recovery measures. Despite this event, the Region recorded a year-on-year improvement of profitability with a “Mid Single-digit” adjusted EBIT margin.

In MEAI, despite exchange rate volatility (mainly related to the Turkish Lira) and the macroeconomic slowdown in the Region, we increased our High Value weight on sales to about 60% of the regional revenues. This has been achieved through our dedicated marketing and trade actions, with a careful channel mix management. Finally in Russia & CIS, our focus on the most profitable segments and a still favourable market environment, allowed us to grow both sales and profitability, with an EBIT margin reaching the High-Teens range.

The strengthening of our main pillars advanced as expected:

- We are widening our portfolio reaching 2,350 homologations, 88% of which High Value;
- We added 1.5M pieces High Value capacity in Europe, NAFTA and LatAm; High Value accounts for 58% of our total capacity as announced last week;
- We are strengthening our “local for local” High Value capabilities in Apac, looking at the long term;
- We continue increasing the weight of distribution channels over which we exercise a better control, now accounting for 55% of our sales.

Worth mentioning within our smart manufacturing and flexible factory programs:

- the development of Global and local digital applications to monitor and improve processes. Through these apps we share the best practices and halve the time devoted to problem-solving;
- the introduction of augmented reality tools and 3D printing technologies to better manage maintenance and cut 80% of development time.

These improvements allow us to increase the flexibility of our plants to better meet High Value product demand and manage the complexity related to the high mix (wider assortment of products and small lots).

On Prestige we have strengthened our leadership with a Mkt share above 50% in the O.E. channel. We are working on an advanced commercial approach based on geo-localization of the car park. A trial program is running in Germany with positive feedbacks and will be extended to Premium market.

The service level, measured as the Fill Rate for Tier1 Clients and Premium Car Makers, the crucial targets of our HV strategy, is 13 percentage points higher than the average market and steadily improving through our differentiated Supply Chain programs, through the increased availability of our Prestige product, as well as the new scheduling for plants, based precisely on the Prestige range.

Finally, on the last pillar, we trimmed approximately 2 million pieces of standard capacity mainly in LatAm, converting 30% of it into High Value.

A key lever of our High Value strategy is the close collaboration with Prestige and Premium Car Makers. These partnerships give us visibility years ahead of time over an increasingly predictable Replacement demand, thanks to the pull-through effect.

We are developing the 18 inches and above homologations at a faster run rate, adding almost 200 New Premium tyres, twice as much as in the first half of 2017. A relevant part of New Premium homologations is geared towards the new technologies: specialty tyres now account for 37% of first half homologations; we are progressing with our fittings on Electric Vehicles.

We are also addressing the future demand for higher rim sizes and the needs of our Prestige clients.

In APac, the fastest growing High Value region, we are developing partnerships with 19 local OEMs, based in China, Korea and Japan, working with them on electric and hybrid car projects.

As for marked tyres, we further consolidated our leadership by increasing our marked tyre portfolio by 25%, to approximately 2,100, with a significant gap versus our peers

The 2018 market outlook highlights the wider gap between High Value and Standard Segments. Our expectations on the global Standard Market were reviewed based on the macro-economic volatility in LatAm and in MEAI. We now expect flat volumes in the Standard segment with LatAm down to mid-single digit. The 18 inches and above segment is expected to grow by 10%, outperforming the Standard market 10 times the 3 High Value regions, accounting for 94% of the total High Value market, are expected to grow in line with the first half:

- In Europe, the growth is almost evenly driven by the Replacement and the O.E. channels;
- In NAFTA, we expect a high single digit growth, mainly driven by Replacement, while the O.E. market is recovering after the 2017 slowdown;
- In APac, demand keeps growing around mid teens thanks to sustained Premium & Prestige car park expansion.

This year, the car parc is expected to go up by 11% 18 inches and above market is indeed showing a resilient growth and Pirelli aims at outperforming it, in line with our mid-term targets.

Let's now go through our targets for 2018.

- We confirm our expectations on High Value with a volume growth of at least 13%.
- We accelerate the reduction of standard exposure with a volume drop of 9% (-6%, -5% in our May guidance).
- This will result in a flat trend of volume, (between 2% and 2.5% the previous guidance).
- Price/Mix is confirmed to improve in the 6.5% / 7.5% range.
- Hence, top line organic growth is due to be of approximately 7% (equal or above 9% the previous guidance).
- High Value will account for more than 60% of total revenues. Adjusted EBIT, before start-up costs is confirmed to be above €1 billion.
- The increased volatility of exchange rates and lower volumes will be compensated by:
  - a smaller raw material headwind (about €17 million); more details can be found on slide 21;
  - a greater contribution of price/mix (about €15 million), given the higher weight of High Value;
  - lower costs related to the rationalization of Standard volumes, mainly in S. America (about €20 million), i.e. industrial, SG&A and discretionary costs;
- High Value weight on Adjusted EBIT before start-up costs is expected to be above 83%.
- Adjusted EBIT is confirmed to be of approximately €1 billion, net of approximately €40 million start-up costs.
- Net Debt and CapEx targets are in line with the previous guidance and now I leave the floor to Mr. Sala for a detailed review of the first half results.

Maurizio Sala – Executive Vice President and Chief Planning & Control Officer

Thank you, Mr. Tronchetti and good evening, ladies and gentlemen.

In the first half of 2018, we recorded an organic growth of sales of approximately 6%, showing the soundness of our strategy. In High Value, volumes grew by more than 13%, in line with our 2018 target. Within this segment, the performance was even more pronounced in: Car tyres 18 inches and above, with a volume growth of 18% compared

with the 10.2% of the market; we are going faster with the reduction of the exposure to the Standard segment in the wake of markets trend. We are getting rid of less profitable sizes and in the first half standard volumes dropped by 11%.

We steadily improved the price/mix\* (+6.7% in the first half of 2018), by:

- increasing the weight of High Value;
- Improving the mix in both the High Value and Standard segments, and
- increasing prices in response to forex and raw mat volatility.

In more detail, the less consistent price/mix improvement in the second quarter reflects:

- the higher O.E. weight versus the second quarter of 2017,
- the different regional mix, and
- a tougher year over year comparison since prices were increased from April 2017.

The price/mix trend in the second quarter is consistent with our FY guidance. We expect a better trend in 2H due to a more balanced O.E. / Replacement weight breakdown, an increasing contribution from our winter products and new price increases in Emerging Markets.

Finally the negative FX impact (-6.9%) reflects the volatility of the Emerging markets currencies, mainly the Brazilian Real, the Russian Ruble, the Argentinian Peso and the Turkish Lira versus the Euro.

If we factor-in the impact of Forex and the new accounting standards, sales decreased by about 2%.

The quality of our top line drivers translated into a profitability improvement in the first half, more pronounced in the second quarter with the Adjusted EBIT margin before start-up costs exceeding the threshold of 18%. The profitability improvements in 1H were driven by our internal levers, namely:

- price mix more than offsetting forex and raw materials headwinds, as well as D&A and other costs, including those sustained for the high value growth;
- Efficiencies almost compensating for other input costs.

Net income, before discontinued operations, was almost three times that of the same period last year. This is the result of both:

- the improvement in the operating performance just discussed, and
- a better financial charge management with a gain of €108 million.

These items overcompensate for taxes. We remind you that our tax rate is currently 29%, twice as much as last year, when we enjoyed tax benefits on deferred tax assets. Excluding all the one-offs and non-recurring items, Net Income adjusted amounted to €233 million, vs. €159 million in the first half of 2017.

We closed the first half with a Net Debt of €3.9 billion. Proceeding by quarter:

- in the first quarter, we recorded a negative operating cash flow of €726 million driven by the usual working capital seasonal trend concerning trade receivables, payables and investments concentrated in the last quarter of last year and paid in the first months of 2018; this cash flow absorption was partially offset by the Mediobanca stake disposal;
- in the second quarter, the Operating cash flow posted a positive result of €137 million, although discounting: €94 million CapEx, in line with our High Value enhancing strategy, and €69 million working capital absorption related to:
  - the small increase in trade receivables, reflecting the late start of the summer sell-in season;
  - the increased inventory as a result of the improvement in High Value service level, Brazil truck driver strike and O.E slowdown in NAFTA.

We expect to end FY 2018 with a Net Debt of approximately €3 billion supported by a strong cash flow generation. In the second half, we forecast:

- a positive operating cash flow of around €1.1 billion, taking into consideration the usual release of working capital in the last quarter of the year when the cash-in of most winter sales is concentrated;
- a net cash flow of about €0.9 billion that will bring us to our Net Debt full year target.

Pirelli's Gross Debt amounted to €4.7 billion at the end of June 2018, with an average life of 2.7 years, as more than 80% of it is now due beyond 2019. The cost of debt on annual basis (last Twelve Month) is down to 3.93% from the 5.76% of June 2017. This result is mainly due to:

- interest rate reduction in Brazil (from more than 12% to approximately 7.5%);
- a more favourable year-over-year comparison because 1H 2017 results included €61 million of fee wash-down relating to our previous credit line reimbursed ahead of time in June 2017;



- lower level and cheaper cost of debt thanks to the capital injection made by Marco Polo in June 2017 and the refinancing of last year.

Please note that the above-mentioned 3.93% cost of debt is already adjusted for the accounting effects from the re-pricing of our main bank facilities occurred in January. This re-pricing produced a one-off benefit in January 2018 of €30 million, bringing the nominal cost of debt down to 3.4%. This benefit is being amortized during the life of the facilities. I now leave the floor to Mr. Tronchetti.

Marco Tronchetti Provera

This ends our presentation. We may open the Q&A session.

## **Questions & Answers**

Kai Mueller – Bank Of America Merrill Lynch

Hi, good evening, it's Kai Mueller speaking here. The first question is on volume trends: over the last couple of quarters you were beating on the High Value segments whilst more aggressively cutting on the standard segment, can you just a little bit outline the trend over the next couple of years? My second question is on Ebit guidance: you kept your EBIT guidance unchanged and one part is that you are seeing a benefit of about 20 million from South America, can you just clarify exactly what that means, and whether that's recurring or non-recurring item?

Marco Tronchetti Provera

Thank you. So, first of all I answer your second question, the 20 million of efficiencies will compensate the slow-down we have in Latin America and in Brazil due to the market condition and also to recuperate the loss of 10 million related to the strike of transport that has affected results of second quarter.

For what concerns the first question, our strategy is to accelerate the reduction on Standard when we can. In the First Half we reduce the standard because of the strike in Latin America, but the acceleration we have seen in the first half will not continue at the same pace in the next months. When there are the conditions we will make all the efforts

to reduce the low-end of standards, keeping the 17 inches as a target. The Full year guidance on Standard is a reduction of 9% on volumes, in a segment whose profitability is approximately 7% (EBIT margin).

Kai Mueller – Bank Of America Merrill Lynch

Yeah, if I look at your long-term plan is there planned at some point that the Standard will stay at the same level? Or we will be seeing continuous cuts as we move towards, you know, High Value becoming even a bigger part of the business?

Marco Tronchetti Provera

I think that looking forward we will face a change in which in a few years 18" will become standard, so there will be an upgrade on mix, a continuous upgrade on mix, in which we continue to grow, as it is proved by the number of homologation we are getting on High Value. We continue to grow in High Value double digit and on Standard 16 inches and below step by step will disappear. Then 17 and 18 inches will become the new standard, that looking to the next five years.

Kai Mueller – Bank Of America Merrill Lynch

OK, that's why your drop through on the price mix is also increasing?

Marco Tronchetti Provera

Yes, in the High Value the drop-through is increasing thanks to mix we are continuously improving, and so within the High Value there are the Specialties that are the driver of profitability also within the 18 inches and above. Our main scope is to continue to target where there is a technology requirement, electric, seal inside, run flat, noise cancelling system, this is what we are targeting.

Monica Bosio - BANCA IMI

Good afternoon everyone and thanks for taking my questions. The first one is regarding the weight of the Original Equipment in the second quarter, can you quantify, if it's

possible, the weight of Original Equipment in the second quarter and give us a rapid indication for the full year end. And I can imagine also that the weight of the Original Equipment is the reason behind the good price mix which has been, in any case, below the First Quarter.

I was wondering, can we assume that a second quarter price mix is almost totally mix rather than pricing? And very last question is on the joint venture in China, maybe it's too early to ask but can you give us some further information about the new joint venture in China in terms of capacity production, revenues and profitability? Thank you very much.

Marco Tronchetti Provera

Thank you. For the Original Equipment we had an increase of 3 percentage points compared to the first quarter and the second quarter. Mainly driven by the homologation we got in Europe and China, this trend will be a bit less in the second half of the year, when will we have a more rebalanced replacement compared to the Original Equipment. On the joint venture in China, we are preparing capacity for the coming years, we started a new cycle o homologation with the Asian players, Koreans, Chinese and Japanese that they will produce new capacity requirement in the Replacement market from 2021, 2022 on and that's why we are building new capacity with the partner, having a call option we can exercise by 2021 to 2025. Original Equipment represented, back to the first question, represented 28%, I mentioned 3 points more because average, as you know, is 25% the Original Equipment compared to the total of our sale was 28% in the second quarter.

Monica Bosio - BANCA IMI

And about price mix, if it's possible?

Marco Tronchetti Provera

Price mix, in second half we'll be mostly mix.

Monica Bosio - BANCA IMI

Thank you very much. Thanks.

Marco Tronchetti Provera

Thank you.

Henning Cosman - HSBC

Hi, thank you, I wanted also to ask about the price mix; you just said price mix in the second half will be mainly mix. I just wanted to understand again the drop through development, so according to my numbers the drop through has just gone from 65% to 60% in Q2 and I suppose you are implying it goes back to clearly above 70 in the Second Half. So, can you just remind us how the drop through works? Especially seeing that the mix will be the major portion of the price mix in H2?

Marco Tronchetti Provera

So, in full-year we'll go from 65 to 70% drop through. So that's the effect. So, we'll increase a bit.

Henning Cosman - HSBC

And can you explain a little bit how exactly that works? Because I would expect the drop-through as higher of course on the price than on the mix and it's just gone from 65% in Q1 to 60 in Q2. I would just like to understand these dynamics a little bit better, why the drop through is a lot higher in the second half than in the first?

Marco Tronchetti Provera

So in second half of the year, as you know there is the contribution of the Winter that on average has an higher drop through, is the Replacement, and so that's the reason why; also there will be a price increase effected in LatAm where there has been devaluation of of the currency. So, that's why Second Half will be higher the drop through.

Henning Cosman - HSBC

Thank you. And please can I ask on the change in your raw material guidance? I was a bit surprised to see your guidance becoming more positive, after your German competitor has just made their Guidance clearly more negative, so directionally exactly the opposite, can you talk a bit around the dynamics, how you are seeing that and, maybe in fact both around the raw material part itself and the volume part of the Guidance?

Marco Tronchetti Provera

So as far as our difference on volumes compared to our competitor is due to the business model, we focus more and more on High Value, 18 inches and above and this market has been steadily growing two digit and will continue to grow, we see the homologation growing so our portfolio is a stock for the future we have built in the last few years, we have a number of homologation that is outperforming our competitors, that's why the pull-through effect is protecting our business model. Standard is obviously a different market, in which competition is different, there is no pull through, so we have quite a nice visibility on our numbers, because we have the pull through effect. Considering raw materials effect, again, the fact of being less exposed to Standard make us in a position to be less affected by raw materials, that's why we are impacted less and we have also different geographical distribution, but considering our business model is reasonable that we have less exposure to raw materials.

#### Henning Cosman - HSBC

Thank you, and last question for me, just a comment around pricing. All of your competitors have discussed very challenging pricing conditions, so obviously seeing your premium exposure, I was wondering if you see scope for price increases in the near future not to compensate emerging market currency weakness but on a like for like basis, do you think with increasing raw material spot prices now, except maybe for natural rubber, is that an environment where you can raise prices.

#### Marco Tronchetti Provera

Now we don't see any need of price increase because the natural rubber, as you know, is flattish in prices, there are no major effects on raw materials. The only effect we had in the last few months had been coming from the oil price, so considering all in all we don't see any need of compensation with price increase, we see quite a stability.

#### Henning Cosman - HSBC

Thank you very much.

#### Marco Tronchetti Provera

Thank you.

Martino De Ambroggi - Equita

Yes, good evening everybody. Sorry, but I have a follow-up on the price mix on the price increases that you commented, in order to achieve the 68% drop through in the full year. Have you already announced them, are they already in place? Already decided? And I suppose for emerging markets you need high single digit if not higher prices in order to achieve the 68% drop through for the full year.

Marco Tronchetti Provera

Mr Casaluci, please.

Andrea Casaluci – General Manager Operations

Yes, good evening, thank you Mr Tronchetti. Yes, we have announced the majority of the prices increase mainly in Turkey and in South America, due to the exchange rate, we are still in the way to full capitalize the price increase in these regions, that will be fully capitalized in the coming quarter. As far as Europe is and the High Value markets are concerned I go back to the answer of Mr Tronchetti, so, we do see a quite stable price scenario for the coming months.

Martino De Ambroggi - Equita

Okay, thank you.

And on the free cash flow, typically, Q3 absorbs cash, last year you already generated more than 1 billion in the last quarter, if I remember correctly with a contribution of 200 or more million coming from factoring, is it the same case this year?

Is it the same case this year so the 1 billion I understand that the net working capital and several moving parts, but it is still with the same contribution of factoring?

Marco Tronchetti Provera

Mr Sala.

Martino De Ambroggi - Equita

For what concern the full-year guidance on cashflow, we expect to have 1.1 billion of operating cashflow, and 900 million euro of net cashflow, consider as you mentioned that

last year we had a positive effect in terms of net cashflow of around 960 million euro. For what concerns this year, this element is coming mostly from the improvement of the operating results and from the reduction of the financial charges that we are benefitting according to the new refinancing that we did at the beginning of the year, so these are two major elements that can compensate what we did last year in term of working capital management. But, in any case, so is based on operating results improvement and less financial charge. The same data of cash flow. Then should we encounter any opportunity to optimise the costs we will do all the best to improve our net financial position.

Martino De Ambroggi - Equita

OK. And on the financial cost 190 million is a reasonable figure?

Maurizio Sala

Our current Guidance for what concerns net financial charge is almost 200 million euro, because of the fact that we suffered, in the First Half, of certain position of receivables in Argentina that we fully managed at the end of the First Half, so, practically, at the end this will be the floor of our financial charge for the full year.

Martino De Ambroggi - Equita

Okay, and I have a very last question on the Pirelli Conesso. Any update on the possibility to become original equipment provider as soon as possible?

Marco Tronchetti Provera

There are a number of projects in which we are together with some outstanding carmakers, so the technology is developing and we are very positive on it, and we see that the joint development we have with this carmaker is producing interesting results.

Martino De Ambroggi - Equita

Okay. Too early to assume when a production could start?

Marco Tronchetti Provera

Something will be delivered already in the beginning of next year, in Q1 2019 and more will come in the following quarters.

Martino De Ambroggi - Equita

OK, thank you.

Marco Tronchetti Provera

Thank you.

Victoria Greer – Morgan Stanley

Yes, good evening, just a couple of questions please, firstly on how the changes you've seen in US distribution and furthermore importantly the Goodyear budget on JV, are you seeing anything changed by the US distribution landscape, and do you expect it to affect you for the remainder of the year? And then secondly on this Brazil loss, about 10 million you said in H1, do you expect to recover them in H2? Thanks.

Marco Tronchetti Provera

Mr Casaluci.

Andrea Casaluci – General Manager Operations

So, as far as the distribution in the US, the market scenario is stable for the time being and we see some opportunities coming out from this JV for us, because first of all we are not investing into the trade in the distribution and so for the independent players of the market we remain a favourable partner and being overexposed in the High Value segments with a natural pull through of the demand. We are also working together with the new JV that has to deliver service also into the High Value market; so all in all, for us these changes are representing a good opportunity to the development in the North American region.

In South America the lost related to the strike of truck drivers' in Brazil in May has been partially recovered in the sales of the coming months and what is not recovered in terms of bottom line through sales is recovered through the cost plan that was mentioned before by Mr Sala.

Victoria Greer – Morgan Stanley



Ok, so the 10 million should be a positive for H2. Or you had some impact in H1?

Marco Tronchetti Provera

No, we already implemented measures so all of this makes us confident that we will deliver the targets.

Victoria Greer – Morgan Stanley

OK, so you already recovered some of this in H1. Is that right?

Marco Tronchetti Provera

No, we are recovering the losses in Brazil, cutting costs, volumes are coming back but we started a plan of cost cutting, that will cover the differences. We mentioned the 20 million savings we are having mainly in Brazil.

Victoria Greer – Morgan Stanley

Ok, all right. Thank you.

Marco Tronchetti Provera

Thank you.

Andre Klotz – SC Lowy

Thank you, this might have been addressed already, I joined the call late, but just following on from the question on U.S. distribution strategy, just to be a bit more specific, are you looking to grow within the new JVs? Or are you looking to grow more within the independent wholesale distribution channels?

Andrea Casaluci – General Manager Operations

Yes, we are working in both directions, we are going to grow with the independents, because as I said before, not investing into the distribution locally, we are favourable partners for the independent distributions, both regionals and nationals, but also with the JV you already have interesting contacts and development, because with the equities of our competitors we work on a regular base not only in the US but all around the world,

having a natural demand in the pull-through, they need our products in the High Value mix, so we see opportunities in both directions.

Andre Klotz – SC Lowy

Sorry, one follow-up if I may, I mean how do you think about securing access to the market? I guess one particular player has been hit quite hard by these JVs, and the financial liability of that partner, I mean how do you think about potential plan B, or do you see this as an opportunity to grow volume without particular distributor.

Marco Tronchetti Provera

You are talking about ATD? Sorry, we couldn't understand very well. Are you talking about ATD?

Andre Klotz – SC Lowy

Yes.

Marco Tronchetti Provera

Yes, ATD is an independent player, in the market we are one of the supplier of ATD and we are going to see in the next months the evolution in the market.

Andre Klotz – SC Lowy

Ok, thank you.

Marco Tronchetti Provera

Thank you. So, thank you very much to everybody, thank you for the late hour and thank you also being here on the 7th of August and I wish you good holidays. Thank you.