

Piaggio Group

First Nine Months of 2017 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

Raffaele Lupotto – S.V.P., Head of Investor Relations

Hello. I'm Raffaele Lupotto, responsible for Investor Relations here at Piaggio. First of all, I would like to thank you all for taking your time today to follow this conference call on the First Nine Months of 2017 Financial Results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group's Chairman and Chief Executive Officer; and by Mr. Simone Montanari, Piaggio Group's Chief Financial Officer.

During today's conference call, we will use the presentation that you can find on our website. And as usual, I remind you that during today's conference call, we may use forward-looking statements that are subject to risks that can cause actual results to be materially different.

And now, I'm glad to hand over the conference call to Mr. Montanari.

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Simone Montanari – Chief Financial Officer

Hello, everyone. Thanks for attending the call. As usual, I'll start with the conference from page 3 by giving you a snapshot of the key demand trends. We ended the first nine months with mixed dynamics. Europe, keeping a slight negative trend compared to last year, while two-wheeler in Asian and in Indian markets speeding up, and light commercial vehicle, more importantly in India, bottoming out.

More in details; in Europe, as said during last conference call, after the negative start of the year with Q1 ending down by 2%, the market reduced the slowdown in Q2 ending down around 1% and finally slightly up by 0.7% in Q3, ending at the nine months at the negative 0.8% in the first month.

So, all in all, we can say that, as expected, the European market is recovering, although at a slower pace than previously expected, mainly on the back of positive dynamics in Italy, Benelux, and France. As highlighted in prior calls, the European scooter trend stemmed from diverging dynamics. Healthy demand for 50cc, which had ended up by 8% and the negative trend for the over 50cc, which ended down by 7% on a challenging comparison base as, if you remember last year, this segment has been boosted by the introduction of the Euro 4 engines.

U.S., on the different path, with demand edging down by 8% in scooters and 4% in motorbikes.

In Asia, two-wheelers, the positive demand trend strengthened sequentially in the nine months, boosted by Vietnam, whose market demand accelerated as the year progressed, followed by the Philippines and Taiwan, both up double-digits, while Indonesia demand ended flat with strong rebound in Q3.

In India, light commercial vehicles, the negative effect of demonetization that affected the first and the second quarter of the year finally vanished, and demand shifted to positive in Q3 with a plus 4%. This is very good news in our market scenario. And these bodes well for the Q4 2017 and the first half 2018, when we will benefit from an easy comparison base because as you probably remember, demonetization had been introduced in November 2017.

Indian two-wheeler kept on posting strong growth, with scooter demand up double-digits, thus confirming to be the fastest growing and the biggest market in the world.

Moving to page 4, we have a snapshot of Piaggio performance by geographic area. In Europe, our group confirmed its leadership, namely in scooter, with 10 percentage points of lead over the closest competitor. European selling volumes kept on growing mid-single digit, mainly on the back of positive performance in Italy, Germany and the Netherlands. It is again worth mentioning, our performance in the European 50cc market where our volumes grew double-digit outstripping market trends.

From a product standpoint, Vespa have been again the bright spot among scooters with volumes and revenues up double digits, while Aprilia boosted by its growth in Europe and U.S.

Asian performance remained weak, as the outstanding performance of Thailand and China was still unable to counterbalance the decrease of other countries, namely Vietnam, where reviving our sales is proving to be as challenging as it was expected.

Noteworthy, again, the good performance of Vespa that posted positive revenue trend in all the Asian areas. India, by contrast, was on a different path, posting an improving performance in all segments, starting from light commercial vehicles. Light commercial vehicle revenues shifted to positive in Q3 on the back of the improved market condition, and we expect now an acceleration on the positive trend in Q4 that last year had been hit hard by demonetization.

Two-wheeler's positive momentum strengthened in Q3, with volumes and revenues surging more than 100%, with sales that reached an all-time high in September. More importantly, these outstanding results stemmed from the strong acceleration of Vespa sales, again, as in Europe, by 70% up in Q3. That should pave the way for a medium long-term solid and sustainable growth in the segment.

Let's move to page 5 to have a quick summary of Piaggio financial performance in the period. As you can see, Piaggio – and as we had already said in the six months results conference call, Piaggio reached an all-time peak, both in terms of profitability and of cash generation I'm pleased to highlight that these outstanding results had been achieved even if we had to face an unsupportive demand trend, primarily in India and on a lesser extent in Western Countries.

EBITDA grew around €18 million, up to €160 million – €159 million, with a ratio on net sales that reached 15%, 1.3% point above prior year, the best performance to-date. As in prior quarters, this result stemmed from a significant improvement in gross margin combined with our ability to curb operating expenses.

More in detail, gross margin grew by €17 million, with a significant uplift on the ratio to net sales that reached 30.9%, that means almost 1 percentage point above prior year. Net profit grew by 13% to €25 million. And all-in-all, we achieved strong results in all key P&L metrics.

Even more importantly, I think, Piaggio generated €60 million of cash in the first nine months, an all-time high, that pushed the net debt down at €431 million that is significantly below September and December 2016 levels.

Let's move now to page 6 to have an in-depth analysis of the group trend by business. As you can see, overall volumes continued to trend up since the beginning of the year. We started flat at Q1, we went up 3% in Q2 and up 8% in Q3 to finish the first nine months up by almost 4%. This positive trend stemmed from different and in some way opposite dynamics with the two-wheeler volumes up by 12% and light commercial vehicles down by 12%.

Revenues followed the same specular trend, ending up plus 6% in two-wheelers, while down 5% in light commercial vehicles. More in detail looking at the two-wheeler business, the biggest delta in volumes came from India, whose performance had been fueled by the Aprilia SR sales and the outstanding performance of Vespa.

As you know, vehicles sold in India have a dilutive effect in terms of average selling price on our results and that explains the slight decline of the group average selling price in the two-wheelers. In Western countries, two-wheelers kept on growing mid-single digit, both in volumes and in revenues. The best performing countries had been Italy, the Netherlands and Germany.

In Asia, the outstanding performance of Thailand, that had firmly overtaken Indonesia, both at volume and at the revenues level, and China had been unable to fully compensate the prolonged weakness of Vietnam, which ended the first nine months down double-digits in volumes and revenues.

Commercial vehicles halted the slide in Q3, mainly benefiting from improving performance in India, where the negative effect of demonetization finally vanished in Q3. Again, this is the good news. Notwithstanding India first half adverse market condition, our average selling prices grew, justifying once more the group's sound price policy.

Moving now to page 7 to look at the breakdown of the performance by product. Overall, we grew by 12.3% in scooter and 13.2% in bikes, while decreasing in commercial vehicles has been still affected by the first half negative performance due to the demonetization effect in India.

Going into the details, I would like to underline again the performance of Vespa among scooters. And Vespa grew in all regions both in volumes and in revenues. In Western countries, it went up, Vespa sales double digits, both in the 50cc and the over 50cc segment. Similarly in Asia, where Vespa posted robust double revenue growth, beside Vietnam.

In India, as highlighted before, volumes and revenues surged around 30%, boosted by the strong pickup around 70% in Q3. Among other scooters, I would like again to highlight the healthy performance of Beverly and Liberty, both up in revenues and around 20% in sales in Europe. In bikes, two-wheelers, Aprilia had been

the main driver of the revenue growth, mainly benefiting from the volumes and revenue increase of the models Tuono, Shiver and Dorsoduro.

Moving now to page 8, we can have a look at the EBITDA bridge. As said before, we achieved a record EBITDA results in the period, primarily on the back of the outstanding performance at gross margin level, notably, the cash gross margin grew by 0.8% above prior year, leading to €16.6 million of positive effect. As you can see in the chart, the positive results is evenly split between the volume and the pure gross margin effect, which justifies both our ability to deliver efficiency and sustain the firm price discipline. Lastly, a great effort has been done to keep operating expenses below prior year level, despite heightened marketing expenses.

Going to slide 9, we can see how the improvement in EBITDA of around €18 million more than offset the growth of the D&A, essentially linked to the increase of amortization of intangible assets coming from past year investment. And these led the net result significantly above prior year, plus €6 million, that means 0.5 percentage point on sales, after higher charges from taxes coming from an higher earnings before tax result.

To sum up, we can move to slide 10 to have a recap of the group financial highlights. Net sales from €1,032 to €1,057 million, up 2.5 percentage point or plus 2 percentage point if we exclude the ForEx positive effect that is mainly linked to the Indian rupee revaluation. Gross margin from 30%, up to 30.9%, that means almost 1 percentage point higher than previous year. EBITDA margin grew from 13.7% up to 15%, up 1.3 percentage point, while the EBITDA operating result grew from €60 million, up to €69 million, that is plus 14%, with the margin on sales up 0.7 percentage point from 5.9% to 6.5%. Net income grew from €19 million of last year up to €25 million. That means plus 31.2%. Furthermore, you can notice the strong performance at the cash flow level, which led the net debt €39 million below September 2016 and €60 million below December 2016 levels. On the next page, we can have a better look at the evolution of the net debt.

Let's move to on page 11, where we can see the net financial position evolution who's benefited from the improvement in all key drivers. Operating cash flow grew more than last year on the back of higher gross margin, coupled with flat operating expenses. Working capital positive contribution, slightly higher than last year, coming from a lower absorption of VAT receivables and payables. Capital expenditures has been lower than last year on a favorable comparison base in as in nine months 2016 have been affected by the investment for the completion of the new European painting facility. The change in equity led to a lower cash absorption mainly benefiting from a zero buyback compared to €5 million spent in 2016. As a result, we generated €60 million of cash compared to the €29 million of last year that has been the best performance to date and who's passed down the net debt down to €431 million.

QUESTION AND ANSWER SECTION

Raffaele Lupotto – S.V.P., Head of Investor Relations

So I think that now we are ready to answer the question you may have. Okay

Renato Gargiulo - Intermonte

Yes. Good afternoon to everybody. Well, my first question is on Vespa. We have seen the continuation of a very strong trend, especially in India, but also in Europe. I was wondering if you can give us – you tell us what are in your view the main drivers behind this performance, in particular, the strong acceleration in Indian volumes?

And then second question, also related to this one, is on mix. Could you give us an indication about your current mix? Meaning that clearly you should have a positive impact from the sound performance of Vespa, likely partly offset by some of the new models, Liberty and Beverly. So the net impact you are experiencing is positive or not.

And that's all for now Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Gargiulo. And I start from the first question, Vespa. Well, Vespa has different assets on which we leverage. In Western countries and all around the world, the brand Vespa is still very, very strong. I think it's one of our most powerful brand. In particular, in India, where the growth has been so important, we are leveraging on an improving and on increasing in the dealer network in India. We opened almost 50 more dealers in India. Also, thanks to the fact that, at this moment we have more extended product range compared to last year and, again, with Vespa and Aprilia. And so thanks to these, we are able to deliver these results in the India two-wheeler business.

In terms of mix, if you refer basically to the contribution of Vespa and then the Liberty and Medley, as we said before, to our mix and so to our average price, the answer is yes, they contribute a lot to maintain the average price at the same level of prior year, notwithstanding the fact that the 50cc scooter market and our market share in this segment is outstripping the higher than 50cc market. So, we are counterbalancing this effect with selling the high-value and high brand and high price positioning product we have in our range. The only dilutive effect that you can see in our average price, in our average group results, is coming again from the increase of the Vespa in India.

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Renato Gargiulo - Intermonte

Thank you. If I may, just a couple of follow-ups. The first one is on Foton. You recently announced a new strategic partnership for light commercial vehicles. Could you provide us any more detail about that, especially in terms of potential cost savings for the production for light commercial vehicles for the European market? And the second question is on Asia, if there are any changes – a more general question, if there are any changes in strategy, given the recent, I'd say, shuffle in management? Thank you.

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Simone Montanari – Chief Financial Officer

It's very early to comment on Foton because we are still in our pre-developing phase. I can remind you that we are referring to a segment that in our P&L 2016 has been around 4,000 unit, putting together the Porter and the Quargo vehicles. Keeping this in mind, and thanks to the agreement with Foton, I think that we should

increase four-wheeler sales significantly, also thanks to the expansion of the addressable market, starting from the end of 2019 and then going forward.

Furthermore, I can highlight again that the one of the benefits and the asset of this deal – this potential deal is that we will be limiting the capital expenditure for the development of the new product range, while simultaneously delivering important product cost reductions.

As for Asia, as you mentioned, we changed the CEO some months ago. So, again, it's very, very early to comment on the new performance. We are satisfied. Our expectation for the coming year is that Asia should increase compared to the level of 2017.

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Monica Bosio – Banca IMI

Good afternoon, everyone. I would have three questions. The first is my usual question. It seems to me that the third quarter results are outstanding, with the EBITDA, which is above the consensus, slightly above, but on top of this, the net debt is much better than expected. So, I was wondering if you would feel confident for a guidance, qualitative guidance, soft guidance, in term of EBITDA, slightly above €190 million for the full year. And what can we expect for the net debt side, which seems to me better than initial expectation?

And the second question is again on Foton, I apologize, I know it's really early, but according to my model, if we start from a volume base for Foton of 4,000 units, the performance will improve this 4,000 up to 10,000 in the next four years. Am I wrong?

And the third question, if you can give as an indication about the D&A by year-end? Thank you very much.

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Simone Montanari – Chief Financial Officer

Thanks, Ms. Bosio. So, let's start from your usual question, the first one, full year 2017 guidance. All in all, well, I expect to keep on growing on the Q4 2017. I believe that we are well positioned to achieve in the Q4 level or EBITDA at least in line or slightly above last year and this confirm that the guidance we gave – I gave last conference call are reaching the €190 million is definitely achievable.

Coming to the net financial position, the cash absorption in the last quarter of the year should be at least in line with the one we had in 2016, leading to a net debt full year December 2017, that may be around €450 million. That's €10 million better than the last indication and the consensus expectation.

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Monica Bosio – Banca IMI

Sorry, can you repeat €250 million? No. Sorry

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Simone Montanari – Chief Financial Officer

450 million. In the last conference call, we were forecasting €460 million for the net financial position. Now, I can see a €450 million.

Coming to Foton, okay, very early. You suggesting, is it a reliable hypothesis if I forecast 10,000 vehicle in the, let's say, three year from now, starting from the 4,000 of today? Yes, I think that is something that we may rely on. The third question, it is D&A full year 2017, we will be in the range between €120 million and €123 million

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Monica Bosio – Banca IMI

Okay. If I may, another follow-up. Do you have a flavor on this registration or sell-out for the scooter market in Europe in October? And what do theoretically expect for the full year in terms of volumes?

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Simone Montanari – Chief Financial Officer

Very, very, very, very, very early. We do not have any number, a reliable number at European level. I just have the Italian one. I can see that, at this moment right now, the 25th of October, Italian registration results are positive and increasing compared to last year to something in the region of 10%.

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Michele Baldelli – Exane BNP Paribas

Yes. Thanks for taking my question. I have got a couple of questions that relates the European market. First of all, I was wondering if you can confirm to me sort of data that I took from the ACEM press release. Is it going in September down double-digit Europe or how much was it down Europe in September that you will for registration?

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And the second question relates to the cash generation. If you can provide us the sort of idea of how much of this cash generation was probably driven by higher level of securitization or reverse factoring, if there was any of this is a reason?

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Simone Montanari – Chief Financial Officer

Thanks you, Mr. Baldelli. Starting from the European market, double-digit decrease seems to be a very, very strange number to me. That is in our data source, nine month results, overall, European market is going down by 0.8%. I saw the ACEM result yesterday night, they are picturing market going down by 1.2%, 1.3%. So, basically, we are in the range of a decrease of 1%, not double-digit . Again, what I was looking it was, for example, I was mentioning to Ms. Bosio the data on October and the data of October are positive.

The cash flow generation, I come to the question to the cash flow generation. Let me give you before starting a brief comment on the working capital. The working capital has been further reduced by €20 million compared to the end of 2016. The breakdown of the increasing of the working capital is mainly a receivable increased by €28 million, inventories increased by €29 million. On the other side, we had payables increase by €60 million and the other asset decreased, thanks to the action we took in order to lower down the VAT receivable and payables.

Factoring on receivable has been around €95 million. That is slightly higher than the same period 2016, in which it has been €85 million. So we are talking about €10 million higher. I think – I'm sure, this is mainly linked to the volume effect of European sales. In fact, as you've you seen, we posted a robust growth in Western countries and this is the geographic area in which we use more the, the factoring on receivable.

If you refer to the reverse factoring in your question, the factoring on payables, it was basically in the same level of 2016, actually €10 million lower than 2016. And again, I remind you that all the numbers referring to the reverse factoring have been already included in the commercial payables that you see in our balance sheet. So, you do not have to add these reverse factoring data to the commercial payer that you see in the balance sheet. So, all-in-all, the factoring on receivable has been increased by €10 million and it is linked to the higher European sales. This reverse factoring on payables have been reduced by €10 million and the results you see already in the balance sheet.

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Mr. Niccolò Storer – Mediobanca

Yes. Thank you and good afternoon, gentlemen. I have two questions. The first one is on the European two-wheel market, which are in our view the reasons behind this weakness on the scooter side. Meaning, it's true that the market is recovering, but recoveries seemed totally driven by motor bikes at the moment. So, I was wondering if you have any kind of clue on what's going on in the market

The second question is on India. I saw from the slide number 4 that volume of Vespa are doing pretty well. Are these volumes totally driven by internal market demand or inside these figures we also have exports to neighboring countries? And if yes, can you please give us a breakdown of internal versus external sale? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks. Thanks for your question. The first is quite difficult as a question. Two-wheel market. You properly underline that we do have different trends in scooter compared to bikes. Bikes is already recovering at the pace that we were expecting, scooter still not. Inside Scooter, we do have two different trends, the higher than 50cc and the lower than 50cc. The lower than 50cc market is recovering yet. The higher than 50cc is still not there. I think that it is also due to a different comparison base because the 2016 market higher than 50cc benefited from the introduction of new Euro IV regulation. So, I think it is due to the different comparison base.

Coming to India, volume in Vespa, the answer is yes. We do include in the results that we publish also the Vespa produced in India, but sold in the export market. We do not give in this moment, the details of the data on the export and on local market. What I can say is that – by the way, also in export, but also in local, we are increasing.

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Mr. Niccolò Storer – Mediobanca

Thank you. Thank you. Maybe as a follow up, which are in our view with the drivers of this rebound in the 50cc market. I mean, is there any particular driver or trigger behind the reported growth or is it just

broad market recovery?

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Simone Montanari – Chief Financial Officer

Both, it is both. It is a market recovery plus I think the preparation or the new Euro IV regulation that will happen in the first – starting from the 1st of January 2018. And so, in the last month of 2017 we may benefit a little bit of these

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Filippo Prini – Kepler Cheuvreux

Yes. Good afternoon. Two questions, if I may. The first one is on raw materials. Do you feel, going forward, some pressure from raw material that could affect your €8.3 million gain that you achieved? I think there is a gain also from raw materials in the first nine months. And the second question is on India commercial vehicle. Given the level that you achieved again of this year, do you envisage for next year a growth of volumes and then revenues, if you want, versus this level? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Prini, for your question. Starting from the first one, raw material. Well, I can say that the result of 2017 in terms of gross margin has been quite extraordinary, very, very positive. It came also thanks to the fact that we worked a lot, we would benefit from material cost, but we worked a lot also on our purchasing department in order to have a group view of all our purchasing. What I can see going on is that very likely, the potential improvement compared to this starting point is not so huge as it has been doing 2017. So if the question is do you see any further potential on gross margin, I think that we are starting from a very, very high point. Do you fear any pressure on material prices? A little bit, yes, but I think that we will be able to counterbalance them with our new purchasing department approach.

The second question was on India, light commercial vehicle. If I remember well, expectation for 2018, the answer is yes. I see that there are potential improvement in 2018 in the India light commercial vehicle market and our group sales.

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Operator

No more questions at the moment.

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Raffaele Lupotto – S.V.P., Head of Investor Relations

Sorry. I think that now we can stop the call. So thank you very much for attending the conference call. As usual, if you need further info, you can call me later on this evening, also during the weekend. Thank you very much. Bye.