

Piaggio Group

First Half of 2023 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ALESSANDRA SIMONOTTO – CHIEF FINANCIAL OFFICER

RAFFAELE LUPOTTO – EXECUTIVE VICE PRESIDENT, HEAD OF INVESTOR RELATIONS

Operator

Good morning. This is the Chorus Call Conference Operator. Welcome, and thank you for joining the Piaggio Group 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.

At this time, I would like to turn the conference over to Mr. Raffaele Lupotto, Executive Vice President and Head of Investor Relations. Please go ahead, sir.

MANAGEMENT DISCUSSION

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Thank you very much. Hello, everybody. And welcome to our first half of the 2023 earnings call. Joining me today are Roberto Colaninno, Chairman and Chief Executive Officer; and Alessandra Simonotto, Chief Financial Officer.

You can access the slides supporting today's call on the internet at the Piaggio Group website. As you may expect, before starting the presentation, I need to remind you that during today's conference call, we will use forward-looking statements based on Piaggio's current expectations and projections about future events. By their nature, forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to be materially different. Also, I remind you that the press has been invited to participate in this conference call in a listening-only mode.

And with that, we can now turn the call over to Roberto Colaninno.

Roberto Colaninno - Chairman and Chief Executive Officer

Okay. Good morning to everybody. I've just finished the Board of Directors, where I described the results of Piaggio first six months of '23. Just to be synthetic, Piaggio was able to achieve record results in every sector. That means sales, gross margin, EBITDA, EBIT, net profit and debt. We have never been able, since I'm involved with Piaggio, to achieve such results. Why are we able to achieve these results? Well, the organization of Piaggio around the world has achieved the possibility to be a big player in all markets. But

what is more important is that we are able to be in line with different requests of these markets. And Piaggio was able to be a big player in all markets as EMEA, Italy, United States and India, where the market is beginning to react in a positive way, especially on three-wheelers and especially on the request on electric three-wheelers. Regarding Vietnam, Indonesia, generally speaking the Southeast of Asia, we see that Piaggio was able to maintain and to increase the results, financial results of '23 on '22 and was able to absorb some negative impact of some markets without increasing in a substantial way the prices.

In other terms, the results of Piaggio over the first six months are achieved mainly for the productivity activity where we are able to gain some important point that impact positively on all the results of the company. And this is done without increasing price in each country, or without increasing the price in a substantial way. This gives us the possibility to look for the next six months with a possibility to achieve the results as we have in our plan and we believe in a positive way the results to the end of the year.

This result is because we were able finally to introduce the productivity management system in each area, production, engineering and sales. To be able to increase productivity is not so easy for Italian companies, because productivity means to be able to adapt the company to the customer requirements and customer care. So for instance, we have achieved very good results on spare parts. We are very satisfied in the transformation of the company to become an important actor on the electric market. We were able also, with the investments in new products, to maintain and we will maintain on the last six months of the year the ability, let's say, to satisfy the customer requirements, especially in the motorcycle and especially in the bigger scooter size products.

I want to remark that regarding the motorcycle, Guzzi is coming with a very unexpected results in terms of quantity and in terms of sales in the first six months. And as we have decided, we proceed in the new restructuring of the company, of the factory, let's say, beginning by the end of the year to follow the trademark Guzzi as the market requirements.

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Generally speaking, the results will be achieved based on the validity of the trademark of Piaggio that is leader in all the markets. Aprilia, Vespa, Moto Guzzi, Piaggio, and let's say not only the two-wheeler but also the three-wheeler and now in Italy and in Europe, we are working to be ready to develop an electric version of four-wheeler commercial vehicle.

We are working hard with our supplier and our partner to be able to achieve the results on this market that we consider very important. But I want to underline that the ability of the company to reduce the cost of production and to control all the general expenses give the results that we are showing today. We expect not to be finished on the second six months to increase the cash control, especially to reduce the stock and specially to reduce the credit exposition and to maintain the leadership in Europe, Italy, Spain, United States and to follow again what is the India three-wheeler trend.

We consider the results of Asia very satisfying in the terms of the results because it's much better than last year, let's say, in terms of EBIT and on top of everything, the EBITDA.

EBITDA at the group, we expect it to be able to go in the same way of the first six months and to maintain the same level of EBITDA on the year of '23. So, in our vision, despite all the problems around the world, Piaggio today is in a position from a strategic point of view to be able to control all the situation that can be a situation can cause problem on a different market.

We don't expect that, that to have a problem on the quality of the products. We don't expect to have a delay on the new products launches planned before the end of the year and we expect to be able to get the opportunity emerging in Indian market where we were able to wait and to trust in the potential of the market because the terms that we have is a positive evolution on the famous three-wheeler, let's say, traditional and electrical. With the cash flow and with the investments, we have the possibility to control this and we expect that the debt is going down as it's down until today on the same way.

So generally speaking, we see positively the results of Piaggio today, that aren't fortuitous, but are results based on the general organization of the group, the capability of the group to control productivity, to control production, to control the fixed costs that are generally expensive. And to follow what the market in terms of sales required to us. So we don't expect to increase price for the next six months in a substantial way. We expect to reconfirm the positive trend of productivity. We confirm to be able to do better on the cash point of view and to be able to reduce the financial cost due to interest increase on all over the market.

So more than this, I don't know what to say more than this. I hope, but now we are sure, to achieve all the target that we have explained, that we have described in our strategic plan. That means again margin, that is EBITDA, that is EBIT, to reduce financial cost and to increase cash flow.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay, thank you very much. So, we are ready now to answer the questions that you may have. Thank you.

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QUESTION AND ANSWER SECTION

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Monica Bosio – Banca Intesa San Paolo

Yes. Good afternoon and thanks for taking my questions. So I have three. The first is on the second part of the year and on the current consensus. In the first half, the group delivered an improvement in the EBITDA in comparison with the first half of 2022 of roughly EUR39 million. The consensus is expecting for year-end an improvement in the EBITDA in comparison with the full year 2022 of EUR31 million. So, I'm just wondering, how do you feel? Do you feel confident with the consensus or maybe even better? Nothing seems to deteriorate over the second part of the year. There is room to do something better than what the market is expecting.

My second question is on your expectations for the European two-wheeler market in July, and what do you see for the APAC market in the second part of the year?

The third question is on the new products. Thanks for introductory words. Are you planning to launch some electric two-wheels for Europe by the end of the year? Thank you very much.

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Roberto Colaninno - Chairman and Chief Executive Officer

You have a very long list of questions. I hope to be able to satisfy you and reply correctly to your questions. Starting with the last of your demands it is very easy to respond. We believe to launch before the end of the year the new motorcycle version of 400 cc made in India with the name of Aprilia. And this, I would say that, first prototype is already done and satisfied very much all us about the design, about the results and about the cost of this product.

Why India? Because this type of product is new for us, so the size of 400 is a product that is required by all world market and naturally quality and price is the two win-win condition and I believe that India is able to satisfy these two conditions. Then we begin to work, as I said, on the new electric porter that should be ready next year, around the middle of next year. And I want to underline to you how we have changed the mentality of Piaggio Italy that was, as you know, a thermic company producing diesel and gasoline engine to a company that produces electric vehicles and we started with the four-wheeler, with the new commercial vehicle, where today we are very successful, with the thermic engine, and we believe that this electric version will be very welcome from the market.

In terms of scooters, I think that we are working now very hard to reinforce the mark -- the trademark of our products around the world. So with a very specific strategy in communication, where we have a new one idea and despite the traditional advertising, the newspaper and the magazine, we have an idea in terms of how to develop the requirements of the people with our products. In other terms, Vespa will be our product where we work in order that the market can appreciate more and more the design, the technical performance and all the style that this type of product is confirmed to be a leader in the market, not only in Italy and Europe, but also in India and China and in the United States.

The demand regarding how we see these results of the six months. Our idea is that the EBITDA will remain between 15%, 16%. This is based specifically with the new productivity system that gave in Italy, in the company in Italy and in the other company around the world a very unexpected result in positive terms.

So productivity, new advertisement, new products and to be more close to the quality, to the customer and to be able to satisfy the quality care system to be able to be in a better condition than our competition and to keep the price as it is, without increase and in the meantime to have the advantage on the point that we gain on the productivity level.

I believe I forgot to respond to other questions.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Maybe, because Monica, you are very good in asking four, five, six questions in two questions. One was the demand in Europe in July, if I'm not mistaken, right?

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Monica Bosio – Banca Intesa San Paolo

Yes

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. According to our data, demand growth accelerated in July in terms of demand, trending up overall, I would say, high-single digit. Notably, as of yesterday, Italy was growing 18%. At the end of last week, Spain plus 17%, Germany plus 11%, France plus 2%. These are the data that we have now. Clearly, very precise concerning Italy. And with that, I think that we answered to all your questions.

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Monica Bosio – Banca Intesa San Paolo

Maybe on the second part in APAC, because APAC is being penalized by Vietnam. So what do you expect for the second part of the year?

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Roberto Colaninno - Chairman and Chief Executive Officer

As you know, it depends how you look the results of Vietnam. Financial results of Vietnam, the first six months of the year are just fantastic and have been achieved even if the market is not so brilliant, let's say as last year on the second part of the semester. But this, I think, is normal because if you are present worldwide, it is difficult to say that all markets move on the same way on the same time. In Europe we have a war. In Vietnam, we have a problem in China, but for instance in a country like Thailand, the situation is much better.

In Indonesia, where we have just opened a factory, the result is much better than what it was Indonesia before we started with a new plant. And you see Vietnam is just in the middle of Thailand and Indonesia. So why Vietnam this year, the market of Vietnam is not so brilliant. I say that we are looking at that and we want to revamp this situation to our customers. But we never forget that the result of EBITDA, EBIT of Vietnam. So the terms and conditions of different markets when you are working internationally and when you are working more close to be a multinational than just a national company, that exports in the other countries, you have to be able to move on in order to solve the problem, in order to guarantee the results and to improve the financial results. And what is naturally at the end of the story, when I look at the net profit, when the EBITDA EBIT, when the margin, industrial margin is better than last year, much better than last year, okay, we will move on in order to be able to bring more customers from our competitor to us, moving on with the new products, with the new color, with the new proposal to the market. It's a normal dynamic that is all in the country. If you look at the banks, they have completely different dynamics, even working in the same market. Everybody moves on in different way.

Now we are not afraid of our situation in Vietnam. It's normal. India for instance, nobody believed that India started again with positive demand of the three-wheelers and with the electric three-wheeler market. And in the last three months of the year, India is moving well in this type of market. If this trend is confirmed India demand should reach the same numbers of pre- COVID. India is a huge market. In the meantime, we are not able to keep the risk direct to Africa. This is not because the Africa isn't important. It's that we don't want to have risk and export where customer could not be satisfied with our product and so on.

So I hope to be able to give you a feeling that Piaggio today is not a national company. It's an international group, active in the different markets with products, with the capability to produce, to sale, and to have that capability to understand the markets, how they are moving, and which are the problems that we need to solve.

Niccolo Storer – Kepler

Thank you. Thank you for taking my questions. The first one is again on Southeast Asia. If you can maybe elaborate a bit on the Q2 drop in particular, very sharp on the one hand. On the other, basically, Vietnam probably alone cannot explain such a drop for the overall area, considering the broader market figures, the broader market decline, which probably has been not as bad as yours. So if you can detail a little bit more of what drove the performance of Southeast Asia in Q2 specifically. And looking ahead, if you are seeing some problems emerging in Thailand when we have read about some political turmoil.

The second question is on margins, in particular the improvement in gross margin reported in Q2, which was exceptional. And so, which were the drivers behind this improvement? And do you think this improvement can be maintained throughout the year? On the other hand, OpEx, on cash OpEx, we have seen a significant increase also in Q2 after the big jump in Q1. What should we expect on cash OpEx going forward? Should we expect some savings because of some expenses brought forward or should we keep expecting growth? Thank you.

Roberto Colaninno - Chairman and Chief Executive Officer

Let me begin. When you try to introduce the productivity concept in Italian companies, it's quite difficult. And I understand why, because the productivity system is not so familiar for Italian companies. And when you begin to work hard in this way, you begin to see that the results of this organization is incredible because to reduce 2 or 3 points on the production cost and on sales without increasing sales price and this will give you a big jump in profit, because 2% or 3% of cost margin improve is a big number at the end of the day. And this means productivity does not mean that the people have to work more, have to work better and the system to work better is just a question of the system of control and the system how you make your project of your products, means what is your partnership in terms of supplier system. Means to control the OpEx. OpEx is quite easy to control, but is also easy to spend much more of what is necessary to spend. So I want to say that this is a new system for Piaggio, let's say, I don't know the other company, where we see that this year, where we begin to see the final results of this system introduced last year and the year before, beginning to deliver the results that was not so easy to think of before. Organization is key. If you are able to organize the company on the productivity concept, you will see that your result is much better than you expected in this way. We have a question now to analyze what happens in Vietnam. Well, I'll respond to you in the other way around. We started to be in Vietnam with new investments in the 2008, 15 years ago. When you look the number Vietnam 15 years ago, and you see number today, you believe that you speak about another company. But it is not the same one. The trend of this company during this year was just impossible to think in the day that we had decided to make this investment in the southeast of Asia. And do we see that there's a bridge to the other company around Vietnam. Asia for us now includes for instance: Thailand, Indonesia, the Philippines and that is a huge market and before was only controlled by Japanese companies.

And now we are one of the big companies in this area. Piaggio is a big company in the Asian area and this means that if in one year we have something that is not in line with the increase of sales of prior year, well, it happens. There is no disaster around and it is not that this changes something in a dramatic way. It's the market that this year thinking to buy more of some products than other products. We have launched

products that have a price in line with products that are more close, high level products and we see that customer are happy with that.

What happens in Vietnam. It's a normal cycle of the market that this year is in Vietnam, last year was in India, the year before was China and then Italy and then France. The market is not working the same way in all the world. The cycle of the market are different and the position of the customer are different, it depends on many things that sometimes it is difficult to understand.

We compete with big companies, let's say, Japanese, Honda and Yamaha and now some products coming from China, but naturally we don't want to begin to accept the competition from China products in that country. We keep our product as it is, so we don't see a dramatic situation. This is very positive instead to be able to reduce and increase productivity in Spain, in Italy, in Europe, in the United States where the market and where the competition is much stronger than the market of Southeast of Asia.

Let's say this is my vision, or it is wrong, I don't know, but now based on the results we have achieved, we hope to be able to maintain these results for the rest of the year.

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Emanuele Gallazzi – Equita

Yes. Good afternoon, everybody. Thank you for taking my question. I just have two questions left. The first one is if you can give us a sense of the current level of stock in Europe, because it seems to me that it is somehow lower now. And then on the U.S., if you can just provide an overview of your performance there, and what do you expect for the coming quarter or the second half? Thank you.

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Roberto Colaninno - Chairman and Chief Executive Officer

Starting on United States. To understand how it is moving it is necessary to understand the philosophy of the United States market that is quite different from the philosophy of the European market and the rest of the world. It's necessary to have a real background to be able to manage the business in the United States.

The United States is based on capacity to improve productivity in order to guarantee the price level, for instance. They want a product quality that is not in discussion. The quality is quality. The legislation in the United States for commercial activities is quite different from Europe. And if you don't understand these types of things, it will be very difficult to be successful in the United States even if your product is fantastic.

Let's say to manage the United States, you need to be in line with the system of the United States and to know how this system is moving to satisfy the customer and to have the customer that follow your plans. This is regarding the United States.

Regarding the reduction of the stock, we see that first we have a lot of things to do in order to have a better performance on our cash flow, and we are able to achieve that and we are lucky to have the possibility to work and to achieve same results that have consequently a cost reduction on interest and a cost reduction on capital invested regarding the stock, regarding the credits and regarding the investments done, where to keep our credit line free and not depending so much from the situation of the market, with today's high interest rates. So let's say that we have a lot of things to do in the next six months in order to have a better situation on cash flow and to have very positive results on our costs.

Gabriele Gambarova – Banca Akros

Yes. Thank you for taking my questions. One, a couple of questions on India, because I saw that in Q2, your sales grew by just 5%. They were up 36% in Q1. So, I was wondering what is happening, what could we expect for the rest of the year. I think the market is up nicely.

And same question for two-wheelers. They are down 30% year-to-date, so I understand that there is, let's say, it is just about just a decision for Piaggio to reposition the brand probably. So I was wondering what the strategy there and what's your -- what are your expectations? And -- this is for India.

On Europe, I was -- I guess that the consensus is still expecting a minus 5% on volumes, so I was wondering if you agree with this view or maybe we could expect I don't know a flattish market for the whole year or even positive performance. So I was interested in understanding what's your view. And the last one is just a check, Mr. Colaninno, in your prepared remarks at the beginning of the call, you said that you are targeting to replicate the EBITDA performance of the first half across the whole 2023 year. So we should expect 15% EBITDA margin for the whole year, if I understood well.

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Raffaele speaking. Starting from your last question, I would say close to, not 16.3%, so close to 16%.

Then, concerning Europe, the goal is to have pretty much now volumes aligned with prior year. You are right, consensus figures, so some analysts are still expecting negative demand or volumes for Piaggio. As I was saying before, after a positive H1 in terms of demand, we had also very positive -- the first data that we have, July. So clearly, the picture is brighter if compared with the beginning of the year.

Concerning India, in light commercial vehicle, we were waiting for the homologation of a particular engine and now it's ready, that was hampering a little bit our sales, in order to give the explanation for light commercial vehicle. And for two-wheelers, as you said, and it's written also in our slides, we are changing the mix and that is shifting towards Vespa. So that's the reason behind these declining volumes. But clearly when we look at the performance and gross margin of India, this year is improving strongly compared to last year, both in two-wheelers and light commercial vehicles, okay?

So, if I can add a little bit of color, we have the gross margin that you will see when we will publish the results by geographic, by Cash Generating Unit, that is on the rise in all geographic areas?

Gabriele Gambarova – Banca Akros

Okay, just a follow-up, if I may. Yes, thank you. Just a follow-up on India. Do you think that the export perspectives from India can improve? I mean, once upon a time, export was a major, let's say, revenue sales driver for India. Now it's almost non-existent or so.

Roberto Colaninno - Chairman and Chief Executive Officer

We respond in this way. I believe if the Indian market, not export, confirms the trend of the last three months, I would say that we have all production dedicated to this improvement of the market because it is a big number. And in India if we are able to control better our dealers and our customers, it is quite easy to do that instead to try to develop some African market, because of the export to India to Africa is very dangerous, it is high risky and I am not so in favor to improve the exports to India to Africa. The export for India instead to South America, it's quite good. There's a lot of products that are imported from South America country from India. But I want to say something that is very important. We have received finally the approval of three-wheeler diesel engine that before was not done for us. And this is very welcome from the market. And this is the reason why the three-wheeler jumping up on the last three months, because Piaggio was able to receive the qualified certificate on diesel engine on the three-wheeler for Indian market. And then the demand begins to be strong also in the three-wheeler electrical version and we look at that as the future of the market in India.

Now as you say, I told you that we are producing the motorcycle 400 in India with the Aprilia trade name. And this we expected a big result on that new product for us and for India. And the first prototype, I want to guarantee you that this is a product that from the design, from the quality and from the cost, it is an exceptional one. So I would say India is a huge market. We are able to not to make a mistake, to follow dangerous situations, but to be concentrated in how the market moves, how the market moves on the products and price and quality and distribution. And we see that this new three-wheeler diesel engine approved by the government has a big, big demand, so big results And this, I think, is a project that can develop in the future in an interesting number, let's say this.

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Sebastien Lemonnier – INOCAP

Yes, hi. Good afternoon and congratulations again for the results and strong margin. Two questions. One very quickly, which may be a bit of paradox with your previous comment. Isn't it the time to sell the commercial business in India, given the focus on mostly like a scooter and bike and try to make the group more stable? That is first question.

The second one, if I look at the free cash flow and if I try to normalize basically on what you described, given the quite strong EBITDA margin, which is today to reflect also all the productivity improvements since the last years. I think that the free cash flow is quite attractive. And when I look at the valuation of the group, I know you paid today good dividends and the dividends are very attractive. Shall you consider at one time to implement any share buyback? Because net debt to EBITDA should de-leverage quite rapidly in the coming three years. Current situation is already quite healthy basically. I'm not sure you need so much CapEx going forward. So could it be something that you may consider at one time given the low valuation of the Piaggio share? Thanks a lot.

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Roberto Colaninno – Chairman and CEO

I'm totally in agreement with you that our cash flow can be improved in easy and a big number before the end of the year and we work on that. But we see that is an area where it is very important and I totally agree with you, because this can reduce the cost of the money, can give us the possibility to utilize the cash for different investments, products or credit line to, for instance, invest for new products and then to invest for new technology.

So I am totally in agreement with you. We work and I want to stress people at Piaggio Group to improve the cash flow, to reduce the stock, to reduce the cost of design and to have a cash for investments in new products, cash for technology and cash to be able to develop other markets and other investments in advertising and how we can improve the value of the trade name or the mark, how to improve Aprilia name, Vespa name, how to improve Moto Guzzi name, how to improve all these trademarks.

You mentioned what we are thinking about commercial vehicle in India. We think that in India where the three-wheeler is today, it is not how it will finish in a short time. It has to be adapted to the market that use three-wheeler today and in the past as a commercial vehicle and then we work and we begin to think what we do, how to improve this market, that is very important and will be very important also for the future.

So let's say, you and ourselves have the same concept, cash flow improvement, reduce financial cost, to look at the opportunity for Indian market and to improve the new product strategy with the new idea of advertising and to follow up and to increase better the customer care. We have to develop our customer care. This is a real big value, but let's say we have to express the value again in Piaggio.

In other terms, we have a lot of reserve to work on and to have a good result back from this investment.

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Sebastien Lemonnier – INOCAP

Just to get back to one of my questions, so that means that at one point you may consider doing share buybacks, because -- the free cash flow is quite attractive, especially if you consider the upside on the free cash flow that you mentioned. And today, given the valuation of the share, I think that could be a way to show the fact that the group is turning off any contest with quality. That's why I'm asking if it could be part of the option.

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Roberto Colaninno – Chairman and CEO

Well, number one, it's very easy for me to respond. The financial regulation in Italy is quite severe about the buyback of the share in the market and we are not able to do what we want. We are obliged to follow the law and to follow all the, let's say, regulation that is quite restricted and quite severe to companies that want to have a buyback. Naturally at the price of today, it can be very important to buy because the price is low. I consider this price can be better in this way. Naturally we are limited in our action because we don't want to have any risk from legislation point of view to not satisfy and not to respect what the law says to us what we have to do. But this I want to say is a good price to buy.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. There are no more questions, so I think the last answer draws the call to an end. If you need more info, you can call me this afternoon. Thank you, everybody for attending this conference call. Bye