

Piaggio Group

First Nine Month of 2023 Financial Results

CORPORATE PARTICIPANTS

MICHELE COLANINNO – 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 Nine Months of 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

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yes, hello. Thank you very much. Thank you, everybody, for joining us today to follow the follow this earning conference call. Today's conference will be hosted by our CEO, Mr. Michele Colaninno; and Alessandra Simonotto, the Chief Financial Officer. You can access the slides for the today's conference call on the Internet at the Piaggio Group website.

As you may expect, before starting the presentation, as usual, I need to remind you that during today's conference call, we may use forward-looking statements that are subject to risks and that can cause actual results to be materially different.

Also, I remind you that the press has been invited to participate in this conference in a listen-only mode.

With that, let me turn the call over to our CEO, Mr. Michele Colaninno.

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Miche Colaninno - Chairman and Chief Executive Officer

Hello. Thank you, Raffaele. Good afternoon to you all. I would just quickly describe and introduce you what happened in these nine months of 2023, so to describe the results that we have achieved until now.

As you have seen, we have stated the best ever results in EBITDA and EBIT margins and values, establishing 16.6% margin at EBITDA level. That means that we have been able to reach, through productivity management and through the dealers' distribution network management, an increase in our returns and to

fulfill the gap that we have in some markets around the world where we have declining revenues and margins.

At the beginning of 2023, we forecasted a bullish market until we realized that starting, let's say, April, ASEAN markets had a reverse factor due to cooling down of the economy. This is most relevant in Vietnam and China. If you look at numbers where we have shown key market demands, we have stable single-digit growth in Europe. We have a stable-single digit growth in US and South America. We have plus 9% in ASEAN and plus 6% in China. And I want to just give you the sense of those numbers. If you look Asia and China, the market has grown mostly, let's say, more than 80%-85% in cheaper products. So, the market Piaggio is referring to, these are high end, let's say, premium -- between premium and luxury markets. Vietnam and China have declined. This is due, as I said, mainly to, you know, political situations in the area and due to a cooling down of the internal market and internal financial situations. Given that, we decided not to push too much into sell-in so to have under control 100% the dealer stock. This is to say that it's better to focus on margins, instead to manage high level of stock and to be obliged, as the competition is doing quietly all around the world, to enter a high discount price for customers. We want to give to our customers the perception that the value for money of our brands are not related to discounts. So that's why we will continue to maintain the price point and to be 100%...to pay attention to the dealer stock.

We are controlling the margins, both through productivity and working capital management. And I think that the whole 2023 has been, until now, a fantastic year. What we foresee for the end of the year is not a rebound in Asia. We think that the slowdown of the entire economy, so not just the two-wheel vehicle markets, will continue. But at the same time, we will continue to maintain the margins. And I think this is a key point, both for 2023 and for the upcoming years, where we have, you know, political disruption so high that it's quite impossible to forecast if the stability will turn on the markets. We have war every three months, and it is obviously an unknown positive situation. We have interest rates that since July '22 until now has grown from 0. percent to 4% as a stable interest rate, and the forecast for the coming years has been changed from a, you know, declining curve into a stable curve of the interest rates. So, this is to say that the cash flow is the king for 2023 and 2024, and margins are more important that perhaps losing some revenues in some part of the world. As you know, our strategy to be quite all around the world with different products has been a safe strategy until now, because it shows that even if we have some decline in areas, for instance, ASEAN until now; we have growing areas, for instance, India this year. So, it's quite an hedge of the productions that we have in global economy.

We reached the highest level of net result, and I think that this is a fairly an interesting number, given that we have a strong competition around the world. But this is the – you know, this is the payback of the investments on the brand equity that we have done in the last five years and that we will continue to do in the next years. So, our brands must maintain the value for the customer. The product must be updated every year with new technologies because the customer is more and more demanding on the markets and digitally connected. So, it is important to, you know, have in-house some core and key technology, as we have, both for safety, both for technology and digitally world.

The cash flow is important to maintain the level of the CapEx we have. We are investing in new products. We are investing in maintaining the facilities we have around the world. We are investing in renewing some facility we have, such as Moto Guzzi. We are investing for new product line if we need, and we are investing also in green mobility. So, let's say, we have a good balance between brand equity and technology and new products.

As you know, it is important to notice next year, 2024, is a key year for European market as new regulations are coming since January 1st, both on two-wheel vehicle markets and four-wheel vehicle markets. So, we will have just to be able to fulfill the new regulations in CO2 emissions, cybersecurity, active and passive safety. We will. So, I don't have any doubt that the CapEx can continue, even though some markets will continue not to have, you know, fantastic performance as it was in the last years. I'm thinking about China for instance.

Next year, it will also be, you know, important for some big political issues. We have elections in India, we have elections in United States. So, it will be a year that is not 100% safe, as I think that we will have to face salary increase, cost increase, and interest rates cost increase. That's on numbers that we are showing today. But I'm also sure that we will be able to maintain the margins that we have achieved today.

You know, the global economy is slowing down a little bit. It's normal, nothing strange. It will recover. Yes. It will take three months or six months, I don't know, but it will recover for sure next year. So, we will continue to sustain the value for our brands and to be resilient to markets that can show some declining momentum for the upcoming months.

More and more people are buying two-wheel vehicles around the world. That means that the mobility of the future tomorrow, let's say, will be higher than today for the two-wheel market. We will not invest in mass market production and cheap products. We will continue to have our brands growing in brand, value, and equity. That is to say that, through, you know, marketing activities, the Motoplex distribution network, and the technology we are planning to install, I am quite sure let's say, quite sure that we will maintain our market share around the world.

Obviously, we will have declining markets. It's normal. We will have growing markets, and that's normal too. But we are well-balanced in the world, so to be ready to be in line with the growing opportunities, I'm thinking about India next year, and to be resilient and cost effective, managing logistic costs and working capital, as I said, so to maintain the cash flow. Let's say that the nine months are also important, because we secured, through the mission of the new seven-year bond, a five-year maturity on our debt. That is very important. It is important, because we can be safe on the capital expenditure side for the next years. We have reached a good, well-balanced profile on the debt.

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Our strategy is concrete for the time being, as we have good results and we have achieved, as I said, the best ever margins. We do not forecast a rebound in the Asia market by the end of the year and perhaps for the next three months to six months. But we will see a continuous, even slightly growing market, in Europe and United States. I repeat, next year -- we are starting today to be prepared for next year regulations and you know better than me that it means that you have to manage sell-in of new products; the sellout of the old one, given the regulations; we have to invest on safety; we have to invest on technology. So, it is a given strategy that we want to continue to maintain the numbers and the profile of the debt, so the net financial position that we have today.

If you ask me which is the strategy on the green mobility, because I'm sure you're interested in, we are investing in electromobility. We are investing in new technologies that we are, you know, testing some way so to be able to give to the customer what he wants. You know that we don't have any regulation that oblige us to have a precise deadline as the auto business has, but the customer is aware of the problem. So, we are happy to say to our customers that we are investing in reducing pollution, and it's a natural investment that we are doing, not because of regulations, but because we think that we have to fulfill the customer needs.

So, the internal combustion engine and the electric engine will be a parallel technology for the next 10 years, because you know better than me that the electric vehicle needs an infrastructure that doesn't depend and belong only to the OEMs, but it is a growing market, slowly growing around the world, and we are ready. So, we will have new vehicles in electric mobility, we will have also new vehicles in internal combustion engine mobility, giving attention to ESG and giving attention to, you know, a digital growing market. That is to say that we continue to test and research for new features to add to the vehicles we are selling, both in two wheel and also in four wheel. As you know, we have the Porter that is a short-haul distance delivery of goods.

We are also looking to Africa, but, you know, we don't have any precise strategy for the time being. But we know that is an interesting market in the future. We export from India up to now, and we satisfy, you know, growing demand in the country, but not, for the time being, thinking of, you know, opening new facility in Africa.

If you look at the evolution by business, we are fairly satisfied both on scooters and bikes. We see growing demand for the Moto Guzzi brand. We see a flat demand for the Aprilia brand that we know, we are still working on it. It's a competition between sporty bikes, where the market is, you know, continuously putting new vehicles. So, it is quite interesting for us to spread the brands around the world. As we know, we launched the new 457 Aprilia bike in India, because we think that India and Asia market, and also United States, by the way, are interesting for those low displacement bikes, and the strategy to being able to, you know, being able to be ready without being obliged to have taxations, import duties, and too high logistic costs from Asia to Europe, from Asia -- Europe to United States. So, you know that we have facilities in India and in Asia, and it's a question on which is the right time for us to expand the brand and the vehicles we localize in markets that -- it's not delocalization from Italy, I have to say and be clear. It's just to be where the market are, without having, you know, import duties or other taxes that can impact the margins and the price list. So, I think that the strategy up to now is right. Financial instruments that we have are sufficient to maintain the capital expenditure we forecast for the coming years. And I think that the maintaining of the results on EBITDA margin and EBIT is the key to have success also in 2024, let's say, and I hope in 2025.

I'm open, with Alessandra Simonotto, to reply to your questions if you have, remarking once again that the nine months of 2023 are very satisfying.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. Thank you. So, we are ready to start the Q&A session.

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QUESTION AND ANSWER SECTION

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Monica Bosio – Banca Intesa San Paolo

Good afternoon, everyone, and thanks for taking my questions. The first is on 2023. Basically, the third quarter has seen a weaker than expected topline, but margins, which are much better than expected. The consensus for 2023 is pointing to an EBITDA at the absolute level, between EUR330 million and EUR340 million. I'm just curious if you feel comfortable with this level, given that the company is releasing much better margins notwithstanding a weaker topline.

The second question is on the third quarter figures. I'm just trying to do my math, because the presentation reports only the nine months results, but we are focusing on the third quarter results. If I look at the volumes evolution and if I look at the sell-out, the demand, and your sell-in, it seems that maybe there is a mismatch between sell-in and sell-out in Europe over the third quarter. I'm just curious if you can clarify on this and if we will see a further mismatch by the end of the year, maybe because you are going to control the stocks.

And the very last question is on 2024. You have been very clear in your statement: the Group is keen to keep this high level of margins. But how do you see the topline? Is it possible that in 2024 the topline could decline year-on-year in comparison to 2023? Thank you very much.

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Michele Colaninno - Chief Executive Officer

So, thank you for your questions. Quickly replying to the first one on the EBITDA level by the end of the year, we can say we are working to, you know, fill and reach the numbers you told us. So, it's in around EUR330 million. Given that we want to maintain the margins, even the revenues could decline a little bit. So, you're right, we had a decline in volumes sell-in compared to the market, just because we want to control the stock into our dealerships. We could push to have good results in revenues, but then you have to destock. And so, revenues are not 100% relevant when you have a coming year with new regulations. It's better to have a safe dealer distribution financial statement instead to be obliged to discount the vehicles on the market and create confusion to the customers' perception of the brand. Even you have to take in consideration that the dealers today are paying 9% on their stock. So, it's not easy for them to reach numbers that perhaps you have to push when you do just the sell-in. So, I think it's safe here what we have done in the third quarter, given that the market has just grown 4% until now in Europe and US. So, it's not a 20% growth. I prefer not to have a 4% growth in revenues, but to have safe dealers that we money and we order the vehicles next year.

2024, well, I don't know, it's difficult to say if the revenues would grow. Let's say that if markets will rebound in Asia, yeah, we will see a growth. If markets will continue to be flat, minus something, it's, I repeat it's safer to have dealers that can sustain their job instead of pushing too much with the sell-in. If you take China, for instance. If you look at the China market, there are brands that belongs to the imported brands, as we are with the Vespa for instance, or the Moto Guzzi or the Aprilia that are discounting their vehicles 30% on the market. For me, to be obliged to discount 30% the price list would be disaster. So, I don't want to go into the price competition with discount -- just with the discount. Let's say that we could see a 2024 that can be flat compared on 2023 on revenues in some markets. I also think that we can increase our market share. It's not -- we are not obliged to see just growth if the market grows. So perhaps we could see flat markets, but we'll push on, you know, gaining same zero "virgula" market share.

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Monica Bosio – Banca Intesa San Paolo

Okay, thank you very much. Very clear. So, but in any case, do you feel that a 16.6% EBITDA margin is fully sustainable, isn't it?

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Michele Colaninno - Chief Executive Officer

Let's say that we will be in 16 around.

Emanuele Gallazzi – Equita

Yes, good afternoon. Thank you for taking my question. I have two questions. The first one is on, India. If you can just provide more color on the divergent trend between you and the market in terms of volume and which is your view on this market also from a strategical point of view, looking at 2024?

And my second question is more related on the dealer stock. You mentioned that in Europe the dealer stock is low given the different trend between sell-in and sell-out. Can you just give us a sense of the current level in APAC?

And my last one, sorry, if you can just provide any comment on the pipeline of new product, so motorbikes and scooter expected to be launched in Europe? Thank you.

Michele Colaninno - Chief Executive Officer

So, India. India has not recovered as it was in 2019. But it's a growing situation. If you look well let's, consider the two-wheel market and the three-wheel market. Two-wheel market you see declining numbers for us because we have done some mistakes, and we are correcting the mistakes. And we will restart in the coming month with a new strategy. We have fired people on the two-wheel management people. We have to renew the dealers distribution network and concentrate in the richest areas of the country. So, we have the ideas to fix the problems. It happens. We have done mistakes, nothing serious. Three-wheel vehicles, growing market, especially on LPG market, passenger downtown. As you know, we are leader in the diesel, that is more rural and not obliged to fulfill CO2 emissions regulations also in India. We are investing in vehicles for the LPG transportation for downtown. Another question is that in big cities such as Mumbai, Delhi or Bangalore, if you take the three biggest cities in India, you know that they belong to the trade markets, and you have traders that sell the plates for LPG passenger transportations in those cities. So, the main competitor of us is Bajaj, that has been ever stronger than us with passenger vehicles downtown. We are slightly recovering in market share plus 1%, plus 2%. So, nothing big. But we are there. Another question is that in the past we have accelerated too much on the three-wheeled technology. And we thought that consumer business in India would have been more interested in new technologies that are digital technology instead of being interested in paying a cheap vehicle. India three-wheel vehicle end-market is still a cheap market. So, you have to compete on price list. And we have launched the new diesel vehicle April this year. We are launching a new LPG vehicle in the coming year, so to, you know, being able to satisfy the customer demand.

The second question was on dealer distribution network in Europe. I don't say it is low, I will say it is safe. We don't want to push, but we don't also want to destock too much. So, we control the dealers' situation, not to have problems. But the dealer stock is normally managed by the Piaggio company all around Europe. As far as APAC is concerned, we do not have any information and declare an information about the dealers' distribution network stock. Last question, new products. Well, in one week, there will be the EICMA fair, where we launch what the customer is expecting. Everybody knows of the Stelvio, everybody knows of the 457, but nobody knows of other interesting products that we are thinking to launch and technology we are thinking to launch. So, if you come to the fair, you would see.

Gabriele Gambarova – Banca Akros

Yes, good afternoon and thanks for taking my questions. The first one is, I'm afraid again on the level of inventory across Europe. Do you think, I mean, I wanted to focus on Q4 basically. Do you believe that the de-stocking effort or the reduction in the stocks is almost over, so you are fine with it? Or do you think that we will see again, let's say, a strong, I mean, a much more negative production vis-a-vis the sell-out in Q4. This is number one.

The second one is on pricing. I mean, you mentioned some competitive pressure. You also remarked that you have a very strong brand equity. That's for sure. I was wondering, what would we expect for the coming year 2024? What do you envisage, what do you assume?

And the third one is a little bit more strategic, if you want. You have a very, I think a strong, let's say, offer in terms of battery electric vehicles. But it does not seem to me that this market is so strong so strong as one could have expected, because you have a so, you've done your electric mobility, and I think an electric scooter is a perfect solution for that. So, I was wondering if you could share your thoughts on this aspect, because it's a little bit surprising to me. Thank you.

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Michele Colaninno - Chief Executive Officer

Well, it's like kicking a penalty for me replying to the last question you have on the electric market. No, we forecasted that the market would not have been so strong, and we invested carefully, but correctly on the vehicles. We are also investing in the technology of the swapping battery system that I think is intelligent for two-wheel vehicles. But I think, and I continue to think that the market of electromobility will grow for sure. It is an interesting mobility technology, but it takes much more time compared to what someone forecasted in the last two years. So not having pushed too much on capital expenditure for new vehicles, that it's not the technology, but it's the vehicles, I think as, you know, it has been convenient for us and intelligent. We will have vehicles coming on the market for sure, because I repeat, we are investing in electromobility in Italy to have new facilities and to produce and develop what we think is the core, is the heart of the vehicle. So, the engine, the software and the battery system and the vehicle management system. It takes time, it's nothing complicated, it's a changing technology as it happens in the past. Not having have any obligation by law in Europe, we don't have a rush. So, I hope to have replied to the question of the battery technology.

Pricing, I don't see any necessity to reduce price or go into discount. As you know, we didn't increase price too much or we increased very slow page even though the inflation has been 10% higher in the last year and this year. That's why because I think that you can increase by 30% your price list, but the value for money must be transferred to the customer. So, we will increase price as we have done in the past 2%, 1%, 3%. It depends on the product that we are touching with the price list, it depends on the competition that we have. I don't see any problem in increasing somehow the price of the Vespa, for instance, that I think it's a non-competitive scenario for the brand. If you take the bikes instead, you have a fair competition from the Japanese brands and the European brands. So, you have to maintain the price list, align with them. Even they are discounting, we are not. And I don't see any hike in price list next year for the brands that we manage. I don't know the competition, what they are doing.

Inventory and Q4. I just give you a reply, we want to reach and we work to reach 330 around EBITDA. And I think that's the best reply we can give you. It means that we will not push too much in sell-in, but we will continue to maintain this level of end of the year EBITDA.

So, it's a question of managing the sell-in and sell-out in a correct way, it's nothing strange, it's nothing serious. We don't have to push on revenues, I think. It's not the time being to push for revenues, and then go on discount price fight. The EBITDA is the result of the correct sell-in that we have, that obviously, we have to have the right sellout. But the EBITDA is the sum of the part, revenues and being cost efficient.

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Gianluca Bertuzzo- Intermonte

Hi, everybody, and thank you for taking my question. A couple of questions on the level of investment for this year and on net working capital, where do you expect them to be at the end of this year?

And last question is on, you know, as the new CEO of the Group, do you, where is the area where you expect a discontinuity compared to the past or the strategy hasn't changed? What are the areas where Piaggio can improve the most? I'm curious to know about your point of view on that topic. Thank you.

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Michele Colaninno - Chief Executive Officer

Well, I reply to the second question because it's more personal than the first one. And then I leave the stage to Alessandra to reply to you for the CapEx and obviously the generation of cash that the CapEx has in implicitly. I don't think we have to discontinue nothing. Unfortunately, my father passed away in August, as you know, obviously. And it's my duty to continue what together we have done in the past. We started working together in Piaggio in 2003, and we share every strategy and every momentum of the company, good and not good, positive or negative, whatever it is in the past, whatever it has been in the past. I think I just have to continue what we have started in the past years, and I will.

Alessandra Simonotto – Chief Financial Officer

Okay, about the CapEx of 2023, as you have seen in the slide of this today result, they are in line with prior year, and in line with our full year target. That will be more or less not so far from the one that we had accounted in 2022. So more or less the CapEx will be about 160, 170, but more or less in line with what we had already done last year.

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Gianluca Bertuzzo- Intermonte

Thank you very much. And on net working capital, if I may?

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Alessandra Simonotto – Chief Financial Officer

About the working capital. The working capital will be in line on what we have done in September. And we looked that at the end of the year, it will be more or less in line with 2022. There is no different curve on our working capital.

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Niccolo Storer – Kepler

Yeah, thank you. Good afternoon and thanks for taking my questions. The first one is on Asia-Pacific. Apparently, it seems your performance is much worse than that of your reference markets because if you consider that you are not just Vietnam and China, the performance seems soft. So, I was wondering if you can elaborate a bit on the reasons behind this drop. If this drop was driven mainly by the very strong performance of H2 last year, if it was just because of the idea of keeping inventories at dealers more under control or what is that? At least if you can explain us why such big difference between market performance and your performance?

The second one is on EBITDA performance, very strong. If we look at Q3, we've seen on the one end a gross margin back to pre-COVID levels. So, the first question is, do you think that this level is now sustainable going forward, or do you think that there might still be room for further improvements as certain maybe cost items still have to decline? And related to that, I've also noticed the sharp decline in OpEx. We have had a big increase in H1, now in Q3 minus 14%. What should we imagine going forward? Is this minus 14% a one-off rebalancing after the strong expansion in H1, or is there anything structural behind that? Thank you.

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Michele Colaninno - Chief Executive Officer

Thank you for your questions. I reply to, you know, ASEAN market. Perhaps I've not been very clear at the beginning of the presentation, has been my mistake perhaps. The ASEAN market has grown in numbers. If you look at Page 11 of the presentation, we see a plus 9% in ASEAN 5 and a plus 6% in China. But I said most of the increase was on \$300 street price vehicles. That is and will never be our market. If you take Vietnam, that has declined 14%, and you can see in Page 11, it means that the market that has declined is the premium market where we work and we fight. The same happened in China. The premium market has declined as the luxury market and the consumer business has declined. So, we are maintaining market share, we are controlling the dealer stock, but the market is declining. It happens. It will rebound. Yes. When? I don't know. Next three years, next six years, but it will rebound because the growing economy is still growing. It is just cooling down for three or six months due to geopolitical situations and due to the fact that China and Vietnam were based on export economies that in the last six months has declined in the GDP declaration of the two governments. They will recover, in my opinion, yes, because they are so big and young countries that will be around an increase of the same that we had in 2022, but not tomorrow morning. As a value, we have lost roughly 70 million until now in the ASEAN markets. And this is just because the market we are referring to has declined. It's not related to a situation that we are losing market share. We are maintaining the market share, so it means that we are following the market. If you look at the financial institutions that are announcing their results for the nine months, you see that every luxury brand is fighting with the declining market. And that's life, it happens. On the other questions, I think Alessandra can reply.

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Alessandra Simonotto – Chief Financial Officer

Okay, if I remember, the first one is, NFP at the end of the year. So, we believe that we will work to get more or less the same result that we had in at the end of September. Having in mind that our cash flow in the fourth quarter is the lower than we have normally during all the year. About gross margin and OpEx, we are working now to get the best result of the last four years, and we will continue in both the gross margin and also for the OpEx to get the same. So, we will not expect nothing different from what we have already done

till now working on productivity, working on saving on OpEx, working on doing the best we are able to for having this result.

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. So, I think there are no more questions, so this answer draws the call to an end. Thank you very much for attending this conference call. Bye