

Piaggio Group

First Nine Months of 2015 Financial Results

CORPORATE PARTICIPANTS

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GABRIELE GALLI –GENERAL FINANCE MANAGER

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Hello. Thank you everybody for joining us today to analyze Piaggio Group First Nine Months of 2015 Financial Results.

Today's conference call will be held by Mr. Roberto Colaninno, Chairman and Chief Executive Officer of Piaggio Group, and Mr. Gabriele Galli, Piaggio Group General Finance Manager.

In today's conference call, we will use the material you can download it from our website. As usual 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 would like to hand over the conference call to Mr. Gabriele Galli.

Gabriele Galli - General Finance Manager

So, good afternoon, everybody. As usually, we will go through the slides you can find in the website. So, starting from slide number two, we can have a look on the market demand. As we saw in the past months, the European demand has been increasing a little bit, but this increase has been offset by the increased weakness of some emerging markets.

The European two-wheeler demand gained momentum. Today, the demand is up by 5% versus previous year, with bikes which are up by 10% and the scooters which started to grow starting from June, and today they are up 1%.

Asia Pacific is still affected by strong weakness in the market and only Vietnam is, today, up single digit.

The three-wheeler market demand in India accelerated in terms of reduction in Q3, we are comparing versus a very strong third quarter last year, but in any case today, the number is up to minus 7% versus Q3 last year. The four wheeler are going down double-digit as in the last quarters, and the scooter market is still very strong.

Moving from the market demand to Piaggio highlights, we can say that the performance in Western Country was good also thanks to an improving European market scenario. We are, of course, still leader in the total two-wheeler market and absolute leader the in the scooter market. The volume are increasing especially in Italy, finally, after more than six years of market decline; in Netherland, in Germany and in Spain, while we are facing some difficulty due to market condition in France. The performance in bikes has been very strong both in U.S. and in Europe, also thanks to new product launches and with a very good 30% revenue growth across the different markets. The Spare Parts and Accessory business grew double-digit, confirming that we are focusing on this lever of very strong profitability. And also in terms of average price, also excluding of course the ForEx, we can sign an increase, showing that we are focusing on premiums markets. As a total result, the revenue are up single-digit with a good performance in Italy, Germany, Benelux up double-digit, and France is still a drag affected by negative market conditions.

In Asia Pacific we had a weak performance in the quarter. Vietnam was, in the third quarter, negative, reflecting a very strong competition we have against other players such as Honda and Yamaha. The Q4 is expected to be better than previous year, also thanks to the launch of the new scooter. If you look at Asia Pacific, excluded Vietnam, we can see a positive performance despite the very high market volatility. The performance is still good, up by around 4% in terms of volume and around 24% in terms of value, so turnover, and is positive of course also excluding the ForEx effect. As a total result, also thanks to a very strong contribution of ForEx. The revenues were up double-digit, sustained also by a performance – good performance in Malaysia, Taiwan and Thailand.

Moving to slide number four, we move to India and the Indian performance has been hit by a strong market deterioration. The three – four-wheeler market share has been pretty constant in the country, but the market went down by around 7%, so our performance has been affected. We showed resilient performance in the Cargo business, where we are undisputed leader of the market. While we had a negative performance in the passenger market especially because a negative performance in the Pax market in the rural areas, where we are undisputed leader, and less negative performance in the cities where Bajaj is the leader. So putting together the performance of these two segment, the overall performance has been negative. Vespa, most stable, a little bit increasing, but as you know, at the moment, the number of Vespa is still small, and in terms of prices, also in India, we had a good performance also without considering the ForEx effect, which was very strong.

So moving to financial highlights, we can say that net sales were up by around 7.7% or €72 million. The performance at constant ForEx was plus 0.5%. The EBITDA was slightly up versus previous year, the net profit was lower than previous year by €3.6 million. Looking at a different line, we had a positive contribution in terms of gross margin plus €9 million even if with a lower ratio 29.6% versus 30.9%. And, as you know and as we explained in the last conference call, the entire effect is due to the movement of ForEx, which is boosting the revenue by a certain factor and since we buy some components in dollar-linked currencies, this cause a dilution in terms of gross margin. The effect of the ForEx is around 1.4 percentage points. And Since the, I mean, total variation is 1.3 we can say that it is fully explained by the ForEx impact.

The OpEx were higher compared to previous year and that the main component were the increase of depreciation, the increase of marketing and the increase of racing expenses. Of course, ForEx played a negative contribution also in terms of increasing them by around 8 - 9 million euros.

Financial expenses were lower compared to last year, both on the recurrent side, because we negotiated, last year, the new bond, the new credit line facility with the lower interest rate, and because, last year, we had a one-off item, which were there – around €3 million paid to buyback the bond.

In terms of CapEx, we spent around €68 million, which gives an increase of around €11 million versus previous year. We can say that we are in-line with the schedule of around 100, or probably some €2 million, €3 million higher CapEx this year. And this CapEx has been made to sustain the deep pipeline of product in 2015, some scooters and some new motorbikes and also new painting facility able to put us at the top of technology in terms of painting.

The cash flow generation was healthy. In the Q3, it was around €40 million and it was boosted by good operating cash flow and strong containment of inventories and receivables.

Moving to slide number five, we can have a look at the P&L. So the total revenues were up by around €72 million or plus 7.7%, excluding the ForEx, as we said before, it would have been plus 0.5%. The gross margin was increasing with a dilutive ForEx effect by 1.3 percentage point. So last year it was 30.9%, this year it is 29.6%. The EBITDA was slightly higher compared to last year with a lower ratio to sales explained by the same ForEx movement, which explained the gross margin. The depreciation was strongly up compared to previous year. Last year, it was €66 million. This year, around €78 million, so plus €12 million. Out of which, a part around 3 million is due to some ForEx –effect and remaining €9 million is due to higher CapEx during last year. The increase in depreciation led EBIT at €58.1 million versus €69.6 million last year, minus €11 million. Then we had this decrease in both recurring and non-recurring financial expenses. The recurring were down by €2.7 million, while the non-recurring were down by €2.9 million, leading the income before tax up to €30.5 million versus €36.5 million, so a minus €5.9 million. After tax rate similar to previous year of 40%. The net income is €18.3 million versus €21.9 million last year. In terms of Net Financial Position, the number is €496 million of net debt versus an initial €493 million. With worsening of €3 million in this year also after the payment of dividend for about €26 million.

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Moving to slide number six, we can have a look at the volume sold by Piaggio Group. The volume were down by around 5% to 396,000 units versus 417,000 units. The Indian Commercial Vehicle, which compared versus a very strong Q3, were down by around 10% to 135,000 versus 150,000 previous year. The Commercial Vehicle in the Western Countries were up by around 40% from 7,000 units to 9,800. The Vespa in India was up by 9.7% from 19,800 to 21,800. The Asia Pacific performance, as we said, was negative also because some destocking of old Liberty to allow a better introduction of the new vehicle launched at the beginning of October, and the decrease was around 9.8%. So from 64,000 last year to 58,000 this year. Finally, the Western Countries performance was down by 2.3% from 175,000 to 171,000, after some few thousand units of destocking in order to prepare for launch of new vehicle here in Europe at the end of this year and the beginning of next year and also in order to reduce the pressure on dealers. The positive data is that when we met last time, the Western Country were down by 4.2% in the quarter. The performance was up by 2.4% leading to a total minus 2.3% but with a positive sign in the last quarter.

Moving from volume to sales, to slide number seven, we can see the very positive price/mix together with ForEx effect. So, the total volume were down by 5%. The total revenue were up by 7.7%, and excluding the ForEx effect, it could have been up by 0.5%. So the spread between minus 5% to plus 0.5% shows the positive mix and the positive pricing policy, which is true at the group level, but also true at the single cash

generating unit level. For example, India was down by a 10.2% in terms of volume. In terms of the turnover, it was up by 18%, excluding the ForEx, down by 7%, with a, let's say, total contribution of mix pricing able to increase from minus 10.2% to minus 7%, so a contribution of 3 percentage point. The Commercial Vehicle were up by 20.7%. There is some dilution versus volume increase also because we are exporting some Indian vehicle from Europe to Latin America. The Indian two-wheeler was up 32.2%, plus 13.9% excluding ForEx, versus volume increasing by 9.7%. So there's a further contribution of mix price by around 4 percentage point. The Asia Pacific was up by 9.7%, minus 4.4% excluding ForEx, versus volume minus 9.8%. So the price/mix effect counts for around 5%. And similarly, in Western Country, the total turnover was up by 5.1%, plus 2.9% excluding ForEx, mainly U.S and UK. This 2.9% compares with minus 2.3% of volume, showing that the effect was around – the price/mix effect was around a positive 5% also in Western Country.

Moving from slide number 7 to slide number 8, you can have a look at the turnover evolution in terms of products. So the Scooter were up by 0.7% from €472 million to €475 million. The Bikes were up by 33%. Aprilia was up by 42%; Moto Guzzi was up by 35%. And then there is some decrease in Derbi and Gilera. The Commercial Vehicles were up by 9.3%, Spare Parts and Accessories were up by 12.7%.

Moving from turnover evolution to EBITDA, so slide number nine. Last year, EBITDA was around €135 million. Then we had, the increase of net sales boost in the gross margin by around €24 million. The dilutive effect of COGS decreasing the gross margin by around €12.9 million and then OpEx effect increasing by around €11 million, out of which we said ForEx is accounting by €7.5 million and racing plus communication for the remaining part. So the OpEx are up by €11 million leading to an EBITDA of €135.7 million.

The following slide is about the net results. So the change in EBITDA was €0.3 million, as we said before, on top of last year result, which was €21.9 million. We had an increase in depreciation by about €11.9 million and then saving financial expenses by about €2.7 million plus €2.9 million in recurring and non-recurring expenses and reduction in taxes by around €2.4 million, leading to a next result of around €18 million.

Moving to slide number 10, we can look at the cash flow. So the initial net financial position was around €493 million. We had an operating cash flow increasing by around €4 million versus previous year, €91.3 million versus €87.1 million. Then we had some generation coming from working capital, which is lower compared to last year, last year, the generation was around €18 million, but, as we will see later on, is very positive, because it's mainly focused on reduction of inventory, able to lead the profit, more probably next quarter, to a much better result compared to what was Q4 2014. We will comment it later on. Then we had some increase in CapEx around €11 million and negative contribution coming from change in equity and other by €26 million versus minus €10 million last year and the difference is made by €26 million on dividends and with the opposite sign, plus €10 million in other components. So the final next financial position is €495.8 million, so around €58 million worst compared to last year, but as you will remember, last year, we had a terrible fourth quarter and this year the expectation are much better.

Moving to slide number 12, we can have look at the balance sheet. So Trade Receivable are up €110 million. We absorbed due to seasonality around €38 million versus beginning of the year. Last year, the absorption was €15 million. So we have absorbed around €23 million more. We are working hardy in other to reduce it especially in India, Vietnam and U.S. And as you remember in – at the end of Q2, the difference was plus €34 million of absorption versus previous year. So, in these three months, we set the direction and we have been able to reduce by around €11 million.

Inventory performance was astonishing because, I mean, we started the year with €232 million. Today, we are at €231 million. Out of this movement, €5 million is an increase coming from ForEx. So it means that apples with apples, we could have had a reduction of around €5 million of inventory despite a very strong seasonality which, last year, caused an absorption of €59 million. So we can say that what we did in May and June in order to reduce the purchasing and in order to reduce inventory or finished product and what caused a very important absorption – under absorption, sorry, of fixed cost because we manufactured around 10,000 units lower compared to previous year to reduce the finished product inventory, gave this result and is expected to give this result in the last quarter in terms of cash flow generation. And in fact the following figure, which is the commercial payable, clearly show the trend. This year, we have been increasing, again, thanks to the seasonality, the debt versus the supplier by €23 million. Last year, it was €98.6 million. And this is due to the fact that during these three, the last three months, sorry, the last six months we have been reducing production, we have been reducing the purchasing. And so keeping the same DPOs or days payable, we have to reduce the commercial payable proportionally. And this reduction in commercial payable proportionally will be the main difference in the fourth quarter in terms of cash generation. So lower debt to supply lower payment, higher cash flow generation. Moving to other assets and liabilities, last year they caused an absorption of €6.5 million. This year a reduction of €15 million. So the reduction is almost entirely due to some recovery of VAT in Vietnam, India and also in Italy and some reduction of custom duty deposit in Vietnam.

As a total result, we had working capital reduced by €0.7 million which is lower than the reduction obtained last year, but I would say we did much, much better composition in terms of components. Moving to tangible plus intangible, there is a movement – last year, they absorbed €8 million, this year, they reduced €3.8 million. But I mean, this is very much due to translation of ForEx. Actually what we said is that we invested €10 million more and we amortized €10 million more. So excluding the ForEx, the difference is pretty zero in terms of cash generation and cash absorption. The financial investment are very much in line to beginning of the year and previous yearend this is the same in terms of provision. The big difference is the evaluation of TFR, the actuarial evaluation of TFR which is a non-cash item.

Everything put together, we have net invested capital increased by around €48 million versus previous year covered by some higher debt and some lower equity. The equity is at €410 million versus €420 million last year. But as we said, the reduction is usually due to the payment of dividends made in April.

So I believe we are done

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Raffaele Lupotto – Head of Investor Relations

So, we're ready for the Q&A session. And please limit the number of questions to a maximum of three per person, please.. Thank you very much.

QUESTION AND ANSWER SECTION

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Ms. Monica Bosio – Banca IMI

Yes, thanks. Good afternoon, everyone. I would have two questions – three questions, let's say.

The first one is on Europe, you highlighted that the Europe is gaining momentum leading to a 5% growth year-to-date, I was wondering if you have some, most updated figures for October for the two-wheel segment and for the scooter segment, and if you have any idea of the full year growth rate in the two-wheel European market?

Second question is similar, but as for the Indian market. The Indian market is strongly deteriorating. Do you have an idea of the amount of the deceleration, of the amount of the contraction for full year for the end of the year.

And on the back of the weakness of the emerging markets, not only in India but also the Asia-Pacific excluding Vietnam, would you see a feasible – a full year EBITDA in the range of €160 million, €165 million, which is more or less aligned to the consensus that you have published on the website? Thank you.

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Gabriele Galli - General Finance Manager

Okay. So starting from Europe, also, I mean October is having, I mean, a mixed performance in different market. So the Italian market is nearly flat, let's say, with some decrease, let's say, minus 1%. The German market, the Spanish market, the U.K. market and the Dutch market are increasing, let's say, from 2 percentage point in Holland and Germany to 7 and 8 percentage point in U.K. and in Spain. While the French market is in some trouble, with the decrease of around 10% to 15%. Of course, I mean these are broadly estimate also due to different number of working day in the month. I mean the registration are made only in working days, so the fact that there is some lower working day, usually one but, for example, in Spain, two, may be one of the reasons behind this reduction of market. So, we are positive. After years, we think that the market is increasing. The important point is that, I mean the market for motorbikes are the better performer than the scooter one. And so these really didn't help 100% Piaggio because, as you know, we are a much better market share in the scooter market. But the fact that the scooter market also started to grow from beginning of June, and the third quarter was finally positive is, in any case, a very good news for us, because we will be able to leverage the market recovery.

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Ms. Monica Bosio – Banca IMI

Okay. So, would you have an idea of what could be the final growth for the scooter market in Europe, plus 3%, plus 4%?

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Gabriele Galli - General Finance Manager

At the end of the year, so today, we have a total, September, a total market for scooter plus 1.2%. So, I mean, if we add another three months at 3%, 4% probably the total growth will be around 2% if you make the average of the third period.

The motorbikes are still, I mean, performing in line with the first months. So Italy, Germany, Spain, UK and Holland are positive and the similar effect is, negative effect in France. So I would expect the total market growing up more or less in line to what happened during the first nine months of, say, 10% or 11% something like that.

In terms of EBITDA, I'm talking about EBITDA of the group. So our EBITDA is in line with the consensus. So I think around anything from €160 million to €165 million should be the final number. So today we are slightly up compared to last year, €0.2 million, and we plan to have some higher EBITDA in the Q4 compared to last year. So we will finish from plus €1 million to plus €3 million, €4 million, €5 million.

In terms of India. India, I mean, the performance is also conditioned, the comparison in terms of growth, by what happened last year. So last year was very negative first quarter, slightly positive second quarter, very bullish third quarter and then the fourth one was average around 0%, slightly positive. So today the market is at minus 7% and our expectation is that since, I mean, we are going to compare with a much easier quarter and the first days of the market are not so negative, there should be some sort of reduction in this decrease. But we already saw the first three quarters at minus 7%, so I can tell you minus 6% average. So we do not expect plus 20% in the Q4. But the good point is that last year Q4 was not so strong as the Q3, which was the real difference through the year.

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Ms. Monica Bosio – Banca IMI

Okay. Thank you very much. I really appreciate. Thanks.

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Mr. Niccolò Storer – Mediobanca

Yes, good afternoon to everybody. I have three questions.

The first one is related to the figures that you posted in Europe. Even stripping out the ForEx effect, the price/mix has been quite strong. So my question was, which is the effect which could be attributable to the pricing and which the portion to the mix? And within the mix, which portion driven by motorbikes and which, on the contrary, driven by Vespa?

The second question is on the mopeds market and, in particular, was interested in understanding which is your overall market share in the European market.

Last question, on India, first of all, if you could gently comment more on which have been the drivers of the poor performance. I guess monsoon could be among them. And on the Vespa side, if you have come up with kind of new ideas for the development and the commercialization of these vehicles in the region considering that the installed capacity is still much higher than the actual production rate. Thank you.

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Gabriele Galli - General Finance Manager

Okay. So we said that in the Western Country market is we said before, the price/mix effect was the difference between plus 2.9% and minus 2.3%, so it's around 5 percentage point. So this is due to, I would

say, 1% to 1.5% to price, because, on average, at the beginning of last year, we have been increasing the price/mix by around this amount. So the variation coming from the price increase is very much aligned to this number. I would say plus 1.5%. Another plus 0.5% or something like that is related to the increase of spare parts and accessories, which increased more than I mean the actual volumes of vehicle. And the remaining part is due to the price/mix effect. The price/mix was, sorry, it was mi, the mix effect. The mix effect was strong, I would say, especially because we had a much higher increase in bikes than in scooter. As you see, I mean, the bikes, slide 8 went up by 33%, out of these total number, the biggest part of the bikes have been sold in Western Country, both Europe and U.S. So I would say that I mean the real positive mix was due to this effect also because Vespa kept similar share that we're having last year, MP3 was more or less aligned to last year in terms of contribution. So, I would say that the switch to bike is the biggest effect – is claiming the remaining 3%.

Then talking about European market share. Here European market share is around 25% both in the mopeds over 50cc and in the over 50cc, and that is very much constant in the past years.

Then India, poor performance, I mean the market was very negative this quarter, especially the rural market. So while the Cargo suffered but not so much, the Pax suffered very much and especially it suffered in the rural area. As you know, I mean, we are undisputed market leader in the rural area, while we just entered these cities the past last year with the new vehicle, the Ape City Pax. So the fact that the rural market reduced the volume much more than the city one, together with the fact that we are over 50% market share in the rural area and much, much lower in the cities, of course, add more negative effect on Piaggio compared to the total industry. Going on, we are not negative in the sense that as we said before, last year the first two quarter were low or very low the first one, as I say, a little bit low in the second one, while the third quarter was very strong. And also this kind of comparison really has been made versus the stronger part of the year in 2014. Today, after almost one month, we can say that the market is performing a little bit lower than previous year, but with much smaller differences compared to the Q4. Vespa is very difficult topic, of course, in India, because, I mean, the volume are low. We are increasing month-after-month, as I say, all the times, I mean, in terms of cash flow generation, we are talking about an item not so important as Ape or not as important as MP3. We are monitoring and trying to put in place solution, and that solution may involve the launch of some new product and, of course, the continuous improvement of the operation. It seems that, today, the dealer, which is one of the main issue in India, are experiencing a positive situation. They are, all of them making some small amount of money, which is good in terms of retention of them, and so they are positive because in month-after-month they saw their P&L increasing and they are more willing to stay with us.

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Mr. Niccolo' Storer– Mediobanca

Okay. Okay. Thank you. May be a very last question, very brief, on the new product pipeline. Is it correct to say that probably the new product launch will be more skewed towards scooter rather than motorbikes, talking about Europe? Thank you.

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Gabriele Galli - General Finance Manager

No, I mean, this year, we launched more motorbikes than scooter actually. Next year, there would be some new important entry in the scooter part. And also some important entry in the motorbike, especially, beginning of the year, some new Moto Guzzi. But next week – next week there will be the EICMA motor show, so there will be unveiling of three very important new product launched from now to March and then there is the bike, of course, sorry – the electric bike which has been presented last year, and would be actually launched in November, December and so in 2016, it will be completely in the market.

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Mr. Filippo Prini – Kepler Cheuvreux

Good afternoon. One quick question from me. Could you tell us how much of the increase of OpEx has come from your spending for racing compared to 2014? Thank you.

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Gabriele Galli - General Finance Manager

Okay. So these increase in racing after the nine months is around a couple of million euros.

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Mr. Filippo Prini – Kepler Cheuvreux

Just for racing...

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Gabriele Galli - General Finance Manager

Yes just for racing

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Mr. Gabriele Gambarova – Banca Akros

Hi. Just a question on the net financial position by year-end. You spoke about the free cash flow and its trend during first nine month, I was wondering where the net financial position may land by the end of this year?

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Gabriele Galli - General Finance Manager

Okay. Usually, during the last quarter, Piaggio has, let say, an increase of net financial position, which is around €10 million, €15 million, €20 million. Last year, the performance was much worse, as you remember, and this is due to fact that we had a lot of, let say, production, then there was a drop in the market, there was a lot of inventory at the end of September with a lot of payables, and of course, this figure had to be reduced by the end of the year. And so this caused a worsening of the net financial position higher than €50 million.

Our expectation to be in line with a normal year, so, let's say that an average of this number will be around €15million worse than today. So around €510 million of course, I mean a lot of different items may improve a little bit or increase a little bit. And there are some very important items, one; we have to recover VAT credit, usual VAT credit in India. If it will be paid before end of the year, it will contribute positively. If it will land in January, it will be improving during the first quarter of 2016.

Just coming back to the question I received before on new models, actually I mean the pipeline of completely new models, I say two scooter and I confirmed two scooter. And then we have three bikes, I was talking about in one, but there are other two bikes, so three bikes, one, couple at the very beginning and then one in the middle of the year, and then of course there is the e-bike.

On top of that, we will have new model year, so on and so forth, and a completely new model on two scooters, three bikes, one e-bike.

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Mr. Gabriele Gambarova – Banca Akros

Okay. Thank you. And if I may, very last question on the Liberty in Vietnam, you said that you launched it at the beginning of October, if I am not wrong. And I was wondering how was the market acceptance?

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Gabriele Galli - General Finance Manager

Yeah. We launched at the beginning of October, if I remember the 5th or 6th October, something like that. The vehicle has been very appreciative from the market, because it has a lot of technological improvement. And let's say, also in terms of price, it has been affected in terms of price and quality. For example, we have ABS and you can imagine that this feature is not existing today Vietnam, because also Honda uses the different technology which is lower than the ABS, but we wanted to be the first one to launch ABS in Asia in scooter such as I mean Liberty. We have a new engine. So, I mean the engine has more power, it's smoother, lowered consumption, reduction of noise, improved also quality. And then I mean in terms of overall scooter, it's richer in terms of feature and higher degree of quality. So it has been very much accepted now, I mean, from product expectation from press, from dealers and from everybody, we saw it. The point is to increase the sales and, I mean, we are watching on that and we are at the very beginning of the market.

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Mr. Raffaele Lupotto – Head of Investor Relations

Okay. So I think that the time is up now and so we have to close the call now. So thank you very much for attending the conference. As usual, if you have further questions you can call me later on in the following days. Thank you very much. Bye.