

Piaggio Group

First Half 2016 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

GABRIELE GALLI –GENERAL FINANCE MANAGER

RAFFAELE LUPOTTO – S.V.P., HEAD OF INVESTOR RELATIONS

MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Hello. Good afternoon, everybody. Thank you for joining us today to analyze the Piaggio Group First Half 2016 Financial Results. Today's conference call, we'll have Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Financial Officer; and Mr. Gabriele Galli, General Finance Manager.

During today's conference call, we will use the presentation. You can download it from our homepage. And I remind you that during the conference call, we may use forward-looking statements that are subject to risks that can cause actual results to be materially different.

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

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Gabriele Galli - General Finance Manager

Good afternoon to everybody. We will start, as usual, with the slides with the presentation on the numbers.

So starting by slide number 3, we can have a review of our market demand. The market demand had a positive start during the year and positive start strengthened throughout the semester. Looking at Western countries, we had positive demand stemming from dual speed performance. The European market demand continued to go up during the second quarter. The total number was plus 5% with bikes up by 9% and scooters up by 2%. Italy and Spain grew double-digit while France and Germany were pretty even with increase in motor bikes and market pretty flat in terms of scooter. In North America, the market were down especially in scooter and it had an important effect on our performance, as we will see later on.

Asia Pacific, as a good market, with a progressive increase across the quarter. Vietnam had a growth single digit especially pushed by the growth in automatic scooters. Asia ex Vietnam had growth in all the key markets, apart from Indonesia.

The market in India had a positive momentum with an acceleration across the semester, with particular the 3-wheeler was up by 22%, with City Pax alternative fuel growing by 46%. The 4-wheeler went up by 5%, while the scooter market went up by 20%, with the strong boost in Q2 when the demand went up by 27%.

Moving to slide number four, we can have the performance of the market. So, the European market has a very good performance, which was partially offset by the weakness we had in North America. We confirmed the leadership in the two wheeler market with a gain market share by 1.2 percentage point in scooter where we grow from 24.8% to 26.0% in terms of market share. The volume was growing driven especially by the performance in Italy, The Netherlands, and Germany. North America, as we said before went on a different path, with volume going down double digit especially due to the decrease in the market for scooters. In terms of segment, the High-Wheels segment was very good in Europe during the first half of the year, and we have a very good success of our new product, Medley. The Vespa sales were good during the quarter.

The average price went a little bit down due to the different market sales, due to the various strong sales of the liberty. The total revenues with respect to countries revenues went up mid single digit with Italy and Germany going up double digit. As a total Europe went up by around 10%.

In Asia Pacific, the business performance was weak, Vietnam was negative year-to-date, but during Q2 had a positive performance in terms of volume around plus 4%. Asia excl. Vietnam was slightly down versus previous year, with very good performance in some countries such as Indonesia and Thailand, overridden by some volume decline in other countries such as Taiwan and Malaysia. These regional prices were very much in line with previous year, despite a negative ForEx effect.

In India, we had a stable performance despite some market difficulties in export. In terms of 3/4 wheeler, we had a market share loss, mostly due to the unfavorable product mix. As we said before, the market for Ape City Pax grew by 46% and as we know the market is dominated by Bajaj. So they could have very good advantage in terms of different dynamics of the market coverage. The total Light Commercial Vehicle volume was slightly up, with sales -- domestic sales having a positive trend more than offsetting the declines encountered in Nigeria and Sri Lanka. The volume of Vespa was in line with previous year. In terms of price we had average price increasing if we exclude, of course, ForEx which had a negative impact. As a total result This is absolutely given it was little bit versus previous year. As a total result, the revenues were slightly down versus the previous year with an increase by 3.5% exclude the ForEx impact.

Going to slide number five, we can have a view of the financials. We had a very strong cash flow generation, driven by both the operating performance and the discipline on working capital, as a total resulting net debt was very well below 2015 levels both end of the year and June last year.

In terms of sales we had an increase by around €13 million, plus 1.8% or plus 3.8% if we exclude the ForEx impact. The EBITDA was up by €6 million, plus 6.7% or 7.6% of constant ForEx with an increase on ratio on net sales, going up by around 0.7 percentage points.

The net profit was up by 3 million and 20%, with a ratio on net sales increasing by around 0.4 percentage points.

The gross margin increase by around €12 million with an increase of ratio by 1.2 percentage point from 29.5% to 30.6%, proving that we are going on with our discipline on pricing and with our cost reduction.

The OpEx increased little bit mainly after a little bit higher in OpEx some new initiative and the increase of the depreciation and amortization.

In terms of financial expenses we had a better results compared to last year.

CapEx at €47 million which is around 5 million higher than 2015, but our target of closing 2016 at €100 million is of course still in place.

In terms of the cash flow generation, we reduced debt to €480 million which is €55 million better than last year in June and €18 million below December 2015.

Moving to the slide number 6 we can have a look at the P&L. So as we said before the turnover was up by around 1.8% or 3.8% excluding the ForEx. The gross margin percentage rollout from 29.5% to 30.6%. Net EBITDA was up by around €6 million, which is around 7% with an increase from 13.7% to 14.4%. Depreciation slightly increased from 52 million to €53.7 million with an impact on EBIT increasing by around 4.8 million from 42.9 to 47.8, which is the 11.3%. Financial expenses decreased by €0.5 million from 18.3 to 17.7 and tax rate to the same 40% with net income improving from 14.8 to 18.0 or 21.9%. Net financial position we already said from 498.1 to 479.9 at June and cash flow during first half by €18.2 million versus an absorption of 42.5 last year, posting an improvement of around €60 million.

Moving to slide number seven, we can look at the volumes. The volumes were up by 2.6%. The Western Countries were up by 6.9%. Europe growth inside the western countries was up by 9.5%. Asia pacific was down by 5.2, India two-wheeler was up by 0.5. And I remember that starting from August will be in the market with a new product, which of course will be added to the performance of Vespa in the two wheeler segment. Western countries commercial vehicle was up by around 8 percentage point while Indian commercial vehicle was up by 0.2, excluding the export, the performance of domestic market and was up by 5.4%.

Moving to slide number eight, we can have a look at the net sales. Net sales were up by 1.8%, could have been 3.8% excluding the ForEx effect. Europe – sorry, Western Country was up by 4% and inside western country Europe was up by 6.9%. Asia pacific was down by 6% excluding the ForEx would have been 4.3%. Indian two-wheeler was up by 7.5% and would have been plus 15% without the ForEx effect. Western country commercial vehicle was up by 18.3% and Indian commercial vehicle was down by 3.6%, would have been plus 2.7% excluding the Indian rupee devaluation.

Moving to slide number eight, we can look at the sales performance by sale of product. So scooters were up by 2.1 percentage point. Bikes were up by 1.3% percentage points. Commercial vehicles were down by 0.8 and also in this number the negative ForEx played of course a negative role. Mostly – most of these sales are done in India. Spare parts and accessories were up by 3 percentage points.

Moving into slide number 10, we had look at EBITDA evolution as you see we were up at €95.1 million or 13.7%. We had a positive contribution in terms of gross margin from increase of sales the contribution €4.1 million. We had positive contribution on gross margin coming from cost of good sold reduction and this contribution was plus €6.8 million and then as we like – going up by €4.4 million. EBITDA as we commented before is €101.5 million or 14.4% on sales.

Moving to slide number 11, we had a look at the net results evolution but still we were around 14.8. We had a positive contribution of EBITDA of 6.4 million. The negative contribution of increase of depreciation and amortization by 1.6 million, an improvement in terms of financial expense is €0.5 million and of course

increase taxes coming from higher paying before tax of €2.2 million leading to an overall net result of €18.0 million, an improvement by €2.1 million versus last year.

Moving to slide number 12, the evolution of the net financial position, so we started the year at 498.1, we have the positive contribution coming from the operating cash flow by €76 million, which is an increase of around €12 million compared to €64 million of previous year. We had cash release from working capital of around €15 million and last year it was absorption of 33.8 million. So the net difference between the three is -almost €50 million. In terms of CapEx, we invested a little bit more. This year it was 47 million versus 43.5 million last year and in terms of change in equity and other, which is net conversion reserve, dividend and buyback. We had an absorption of €25.7 million versus €29.1 million last year. The buy back this year was around €5 million, last year it was zero.

Last slide, the balance sheet. So the most important part as you can see here is the working capital evolution. As we said before last year it absorbed 33.8, this year it released 14.9. So we had a very good performance in terms of accounts receivable despite increase in net sales, we have been able to reduce the total trade receivable from 158 million last year to 118 million this year with a release of around €40 million of cash. In terms of inventory, we had a slight increase, €11 million from 246 million to 257 million. This is due to higher flow of product going from one plant to another continent. In terms of commercial payable, we had release of around €40 million. Last year commercial payable were around 440 million. This year we are up 480 million, due mostly to increased volume of sales, production and purchases. In terms of other liabilities, we have increased from around 53 last year to 69 than to this year. Apart from working capital, tangible and intangibles stood very much aligned. Last year we were at €989 million, this year we are up €182 million. Financial investment and provisions are very much aligned. So in terms of net debt of capital, we are decreasing from 945 million last year to 873 million this year. This reduction in net invested capital went through reduction in net debt as we commented before by around €65 million, and also we had the reduction in net equity which comes from ForEx. Last year we were at 410, this year we at 393. In terms of net debt to equity, we have the significant improvement. Last year we were up 1.3, this year we are at 1.22.

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So with that I think we can start with the question.

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QUESTION AND ANSWER SECTION

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Ms. Monica Bosio – Banca IMI

Good afternoon, everyone. I would have a few questions. The first one is, if you can just give us some highlights on the volumes trend in July for Europe, Asia and EMEA? I am just wondering there, if for Europe now things that we continue to maintain sound in the first half for the volumes were up by 9.4%, and what do you expect by year end? My estimate, personally takes into account a little bit higher growth? That's for Europe.

And the second usual question is on the guidance. The consensus is at now at €180 million for EBITDA, do you feel comfortable with this level, or do you see some downside risk from India maybe, or something else?

And yea, I would say that, the last question is on the net debt. Net debt in the first half was much better than market expectations. I was wondering if you figure out, if you can give us some indication by year end has the market is setting at €480 million in term of net debt, but that's maybe with the higher volumes in Europe and a positive effect on the working capital, I believe of cash, maybe things can go better? Thank you very much

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Gabriele Galli - General Finance Manager

Okay. So in terms of our July sales, the market in Europe for us is going well. These the first days of July there was a little bit of reduction in the scooter Italian market, but we are performing very well in terms of market share, mostly, due to the new two vehicles we launched this year, so Medley and Liberty. So we are pretty confident that we are able to go on a good path here in Italy and in Europe. Moving to India, I mean, it was your question that there was a little bit of reduction of the growth in terms of market during the first days of July. Export is still difficult, because Nigeria and other countries really didn't start to perform very well, and that there are still further difficulties in terms of availability of dollars. So, India maybe aligned to last year during the month of July. As an overall performance, we believe that July can be better than June by around 3%, 4%, so a strong improvement compared to the current 1.8% over first six months. So in terms of EBITDA, to give a consensus, it is from €176 million to €180 million, we are pretty confident that this kind of number is achievable.

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Ms. Monica Bosio – Banca IMI

Sorry, can you repeat that?

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Gabriele Galli - General Finance Manager

Yes, pretty confident that we would be able to achieve this number. Today, if you look at the consensus we have somebody at €180 million, somebody at €176 million. So I believe that bracket of results, which can be absolutely ensured from here to the rest of the year. In terms of net debt, as you say, the performance was very good this year. And last year, we had second part – or second half where the performance was very much above the performance we usually have during the second half, because if you look at the performance in terms of cash flow generation in the past year, the second half usually generates from zero to an absorption of €10 million. Last year, we had a generation of €37 million and which coupled to the €18 million generation during this first half gave us a total to four months of €55 million. We are confident that we can improve the current level of net debt from the current 480 with some better result. Of course, we will not be able to generate €37 million as last year, which was, I mean, absolutely the top result that Piaggio showed in the last 10 years.

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Ms. Monica Bosio – Banca IMI

Obviously. Okay. Thank you very much.

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Gabriele Galli - General Finance Manager

480 of the consensus, I believe, is absolutely confirm, and we are working to beat it.

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Ms. Monica Bosio – Banca IMI

Okay. Thank you very much. Thank you.

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Mr. Nicolo Storer – Mediobanca

Yes. Good afternoon to everybody. I have three questions for you. The first one is related to the outstanding gross margin that you released. I was wondering, what drove this performance? Meaning, is that something dependent from the product mix from the raw material purchases or efficiency? So if you can comment a little bit on these and on sustainability of such a level into year end?

My second question is related to the trend in European sales and considering that you recently launched some new models, I was asking, which is these sell-in, sell-out balance, if you see inventories in good shapes or swelling?

And the last question is related to the launch of the previous scooter in India. I was wondering if you have any target in terms of sales, and if you can disclose if the prospected profitability of this model could be comparable to the one of Vespa? Thank you.

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Gabriele Galli - General Finance Manager

Okay. So in terms of gross margin, there was a contribution of some difference in parts.

So starting from India, where the gross margin has a very, very good increase, we had a re organization of the plants and re organization of the purchasing department, with some good results coming from due to operational lever. On top of that, we had also reduction in the raw material price, which was not followed by a reduction in price. Conversely, we increased the price. So, India was one of the lever.

In Europe, we had a better capacity utilization, of course, as we commented many times, although, market was down, we have been able to cut cost and cost cutting maintained the level of the marginality. Now, that the volume is increasing a little bit, so the capacity utilization was stronger, and so together with capacity utilization the cost of the product benefitted. On top of that, we are going on with the policy of,

price increase without making discount at all. In other countries such as Asia Pacific and U.S., the marginalities stood pretty constant.

In terms of trend, the number you see in terms of sell-in, where very much aligned with the sell out. During this month, we didn't increase at all the net stock. We reduced a little bit actually. And this kind of performance can be seen also in terms of accounts receivable. So the big reduction in accounts receivable, which was something common to Europe, U.S., Asia, India, you can imagine that the reduction in accounts receivable reductions was spread more or less 1/5 per different region. So in terms of stock I can assure that we didn't increase. We reduced a little bit proving that the sell-out trend is in line or a little bit better than the sell-in trend.

In terms of Aprilia scooter, it will be launched end of August. We plan to start with volumes aligned during this first month with volume of Vespa. So around 3,000 per month, leading to a target of 15,000 for the end of 2016. So the five months of 2016.

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Mr. Nicolo Storer – Mediobanca

Okay. Thanks. And maybe very last question on the Wi-Bikes. If you could tell us the number of units sold, in term of number, because I've seen the data in euro terms, but not in unit?

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Gabriele Galli - General Finance Manager

Okay. So, the Bikes are not registered, so the real number of sell-out is not available as for scooters. But in any case, there may be – the performance – it's a tough market, it's a tough market, so we are performing, but we expect to improve a little bit in the future, because I mean the competition is tough. We are talking about new channels, completely different distribution. So we have to find ways to make it work a little bit better.

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Mr. Jacob Confino– Whitebox Advisors

Hi, there. And just one question from me. I noticed that the gross amount payables is at around about €100 million from the 2015 year. And I'm just curious what amounts of the gross payables are currently covered by reverse factoring, or supply chain financing agreement? Thank you

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Gabriele Galli - General Finance Manager

Okay. So in terms of receivable factoring the numbers are absolutely aligned to previous year. In terms of of reverse, I don't understand very much your question because I mean reverse factor is not a reduction in debt, it is a way of adding some money which should be, some debt versus bank instead versus supplier. So I mean I'm not taking about something that can improve the number you can read in the balance sheet. But in any case, the number you will see in the balance sheet which will be published in detail in some days is this year €197 million which are intermediated through reverse factoring. In December this year, we were

at €147 million and in June last year we were about €151 million. So this is the number of commercial payable current manageable through reverse factoring. But we are talking about something material for the balance sheet.

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Mr. Jacob Confino– Whitebox Advisors

Okay. And could I do just a follow-up question? Can you just detail please how exactly the arrangement works in regards to the reverse factoring?

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Raffaele Lupotto – Head of Investor Relations

Sorry. Could you repeat the question? Sorry.

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Mr. Jacob Confino– Whitebox Advisors

Apologies. How exactly does the reverse factoring agreements work?

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Gabriele Galli - General Finance Manager

It was very simple because we have some money we should be paying to the supplier. The contract is given to a bank. And at the end of the period, the bank pays the supplier and we will pay the bank. If the supplier was to be paid in advance, he has the opportunity to make the reverse factoring. Also, it can be paid at instead of, let's say, 90 days; at 30 days and he pays for the interest. Then we had different kinds of reverse factoring. We have some supply chains closed in India, a supply chain in Vietnam, reverse factoring here in Europe. So in terms of details, there may be some differences. But the general process for reverse factoring is this one.

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Mr. Renato Gargiulo – Intermonte

Yes, good afternoon. My first question is on price mix. Could you please provide an update on the full year – do you expect some improvement for the second half of the year? Then my second question is a more general question on Asia. Given that you are still experiencing softer volumes in local markets, are you implementing some new initiatives or any changes in the local strategy for the next quarters? Thank you.

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Gabriele Galli - General Finance Manager

Okay. In total price mix, I do not expect any significant variation because the price mix is usually changed at the beginning of the year. Then if you launch some new model, you have some new class introduction or some price update. For example, if you launch a Euro4 model which have some more features, you can increase a little bit the price. But I mean, It's not a change in strategy. It is a change of some...some

adaptations let say. And in terms of product mix, all the main products are already in the market if we exclude the scooter in India. So really, from now on, I really cannot envisage some big difference. And I mean for Vietnam, as you said, that the performance is not so good. But we have to focus on how to compete against Honda which is pushing very hard in this kind of market. They are launching products which are premium. So I mean we are fighting directly against them. And we of course had some normal changes, but we are not talking about some big changes.

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Mr. Jacob Confino– Whitebox Advisors

Hello. Sorry, one follow-up question. I'm just looking at the days your payables are outstanding and it seems like it's quite a high number. I'm just wondering if you could clarify what are the days your suppliers usually allow. Thank you. The number of days.

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Gabriele Galli - General Finance Manager

Yeah, it depends very much on the geographical location of the supplier. So we can go from 60 days to 130 depending on the geography.

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Mr. Jacob Confino– Whitebox Advisors

Okay. But it appears you have about space of 160 days to 170 days currently. Should we be treating those additional days as debt as it's effectively cash owed to banks?

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Gabriele Galli - General Finance Manager

No. What we have in this €480 million debt we have is due to the purchase of raw material, purchase of components, purchase of investments, the purchase of all types of – purchase of all kinds of stuff. So I would like to add €150 million of DDO. But unfortunately, I do not have that. And again, these kinds of reverse factoring you see. So the number I commented before is the number transacted from reverse factoring companies. So I'm not talking about something which should be added to the balance sheet, of course.

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Mr. Jacob Confino– Whitebox Advisors

And is there an interest charge to the ...

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Raffaele Lupotto – Head of Investor Relations

Excuse me. Raffaele speaking. You can call me later or tomorrow and we can have an in-depth analysis of this issue otherwise we will spend all the conference call speaking about suppliers and payables. Thank you very much

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Mr. Jacob Confino– Whitebox Advisors

Understood. Thank you very much

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Mr. Nicolo Storer – Mediobanca

Yes. Another two questions if I may. The first one is on the North American market. The situation seems quite dire. So what's your view on this market for the second part of the year? And second question on Latin America, you signed a relevant agreement. So have you any kind of target and how do you think you can act in the region? You're planning to import vehicles from India, from Vietnam, maybe from Europe or maybe in the future to build a facility there? Thank you.

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Gabriele Galli - General Finance Manager

Okay, so starting from U.S. It depends very much on the situation of the market during the second part of the year. So as we said in the beginning, the scooter market suffers very much during the first half. And so our performance is mostly due in U.S. for scooter market because we sell bikes, but as you can imagine we are absolute market leader in scooters. Our market share in motorbikes is much more limited. And so the decrease of the market really affects us. So if the market goes on in this way, of course, our performance would be very much following the market. Otherwise, we can improve. In our view, there should be some improvement in the remaining part of the year. Going to Latin America, we are doing a new contract. As you read, we are doing something in Brazil and we are doing something in Argentina. And the kind of products we will use will be the most – the best products for the market. So we can decide to import vehicles coming from Europe. We can even decide to import something coming from India if it is the case. So we want to follow the customer. And we believe there is space for different kinds of products both European and coming from Asia

countries two-wheeler?

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Gabriele Galli - General Finance Manager

Yeah. It's included where you sell them. So, today, we started selling in Europe, so it's included in Western Countries two-wheeler.

Raffaele Lupotto – Head of Investor Relations

Okay, if there are no more questions, so I think that we can stop the call now. As usual, if you need more info, you can call me later on tomorrow. And so I thank you all for attending the conference call and I wish you a good afternoon. Thank you, bye.