

# Piaggio Group

## First Half of 2017 Financial Results

### CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

SIMONE MONTANARI – CHIEF FINANCIAL OFFICER

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

---

### MANAGEMENT DISCUSSION

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

Hello. I'm Raffaele Lupotto, responsible for Investor Relations at Piaggio. First of all, I would like to thank you all for taking your time to follow this conference call on H1 2017 Financial Results. This conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and Mr. Simone Montanari, Piaggio Group Chief Financial Officer.

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

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

.....

#### **Simone Montanari – Chief Financial Officer**

Hello, everyone.

As usual, I'll start the conference call giving you a snapshot of the main demand trends. As highlighted on page 3 of our presentation that you can find on our website, after a weak start to the year in terms of market trend, we are experiencing a positive, progressive improvement in all key reference markets.

In details, in Europe, the negative start to the year with January and February that experienced the decrease of 13% reverted already in March. And as foreseen during last conference call, the upward shift strengthened in the second quarter, leading to the overall demand in the semester pretty much in line with prior year level.

It is worth mentioning the positive uptick in May and June where we experienced in both months it's about around 5% increase compared to May and June of 2016. This bodes well for the remaining part of the year. This improving dynamic has been mainly driven by Italy, France and Benelux, which were also the only three areas posting positive trend in the scooter segment that is key to see a strong shift in Piaggio results. More importantly for Piaggio, the improvement of the European market had been boosted by the strong

performance of the 50cc vehicles, which trended up about 5% in the semester. This will be extremely helpful going forward, given our leadership in the segment.

In Asia, two-wheelers continued to trend up, boosted by Vietnam, which positive trend across the semester. Overall, market grew by 5% in Q1, 10% in Q2; followed by the Philippines and Taiwan, both up double digit; while Indonesia was the only major country ending down even if the decline eased across the semester.

Indian commercial vehicles market kept being hit by the demonetization in the light commercial vehicle, scoring a minus 25% compared to previous year. In fact, the sales of this segment are more concentrated at the passenger one in the rural areas of the country that had been more affected by the demonetization effect.

In addition to this, there is an introduction of the GST, the good service tax, caused a temporary slowdown in selling volumes as dealers cleared their inventory ahead of GST July implementation. We think that with the introduction of the GST, we have cleared that the final hurdle in the market environment should improve going forward starting from July. By contrast, Indian two-wheeler were on a different path with scooter demand, we ended up double digits behind the strong Q2, plus 20%.

Moving to page 4. We may have a snapshot of Piaggio performance by geographic area. In Western Countries, Piaggio's strengthened its positioning. In Europe, the Group confirmed its leadership, gaining market share in scooter, 26.1%, that is a plus 0.2 percentage point versus previous year; selling 1.6 times the volumes of the closest competitor. In North America, the Group has been able to grow against a negative market. It is also worth mentioning our performance in the European 50cc market where our volumes grew more than 20%.

2

That's extremely promising going forward. If we take cost into consideration, the recently positive market dynamics on one side and on the other side with the potential reshuffle of the market linked to the introduction of the Euro 4 engine supply at the 1st of July 2018. Among products, Vespa was again the bright spot with volumes and revenues up double-digit, once more highlighting the brand's unique appeal.

Asia showed encouraging trend , namely in Vietnam where we have been able to stop the prolonged slide of volumes and revenues in Q2. These results, coupled with ongoing strong performance of other countries like Thailand and China, both with volumes and revenues on the rise more than 60% compared to the 2016, drove Asia revenues up by 5% in Q2 after a decline of 6% in Q1, thus, nearly closing the gap versus prior year in the semester. Noteworthy again the good performance of Vespa that posted positive revenue strength across the broad confirming the brand potential in this area.

In India, in a market hit by the demonetization minus 25%, Piaggio gained market share in the light commercial vehicle and continued to enjoy the successful launch of the Aprilia SR in the two-wheeler segment, as well as from the resilient performance of Vespa, thus limiting the impact on the top line.

Let's move to page 5 to have a quick summary of Piaggio financial performance. Overall, we are very satisfied of the Group performance both in terms of operating result and free cash flow generation. I would like to highlight that these

results had been achieved even if we had to face a difficult demand headwinds in India. Clearly, this bodes well for the remaining part of the year, as we expect that the comparison base full year.

In summary, EBITDA grew around €13 million up to €114 million, with the ratio to net sales that reached 15.7 percentage points, the best performance to date. As I did during last conference call, I would like to highlight again that these results came on the back of a significant improvement of the gross margin that grew by €12 million up to €228 million and an uplift on the ratio to net sales that reached a remarkable 31.4 percentage point, 0.8 percentage points above prior year. Net profit grew by 17% up to €21 million even after discontinuing higher tax rate reflecting the different geographical mix of our results.

All in all, we achieved strong results in all key P&L metrics. In addition to these very positive economic results, Piaggio generated €41 million of cash in the six-month period, that has been the best performance since 2008. Therefore, I believe that we are all well-positioned to achieve the target of €460 million of net debt at the end of 2017.

Let's move now to page 6 to have an in-depth analysis of the volume trend. Overall volumes ended at slightly above prior year, plus 1.4%, on the back of good performance in Q2 that has been around 3% compared to the minus 0.2% in Q1. The result stemmed from diverging dynamics. Two-wheeler overall grew by 11%. That means 20,000 units in the wake of the going strong performance in Western Countries and in India and good rebound in Asia in Q2. Commercial vehicles kept on declining by 17%, again, against the market that declined by 25%, dragged down by the Indian domestic demand and the weak export as discussed earlier. And more in detail, the two-wheeler Western Countries' performance was boosted mainly by the Netherlands, Germany, Italy and North America.

In Asia, the strong performance of Thailand and China, both more than 60% compared to last year, coupled with improving performance in Vietnam, drove the volume uplift over and 4% in Q2 compared to a minus 14% registered in Q1.

Moving to page 7. We can have a look at the revenue trend by region. As a rule, the revenue growth accelerated across the semester, plus 0.7% in Q1, plus 4.2% in Q2. The revenue trends by business mirrored the volumes and the trends in volumes, with two-wheeler overall up by 7%, that means €34 million; and commercial vehicles down by 8%, €16 million.

I am pleased to highlight that Piaggio's sound pricing policy mitigated the effect of volume decline in Asia, and commercial vehicles in India, While the minor dilutive effect in two-wheeler India and two-wheeler Western Countries stemmed exclusively from product mix effect, not from discount.

As usual, to give you more granularity, I can add that in two-wheeler Western Countries, the highest contribution to growth came from North America, we kept on growing more than 20%; followed by Italy, Germany and the Netherlands. In Asia, Thailand and China confirmed to be the best performers with revenues more than 60%, and Vietnam ended up down year-to-date, but came back to grow in the second quarter, also helped by the product mix improvement, mainly Vespa.

Let's now move to page 8, to have a look at the breakdown of revenues by product. I would like to underline again the strong performance of Vespa among scooters. In fact, the Vespa revenues grew by 15% in Western Countries, with 50cc up more than 20%. Similarly in Asia, Vespa posted a robust revenue growth of around 10% even in a highly competitive market as Vietnam. These trends, coupled with the slight growth posted in India, plus 10%, despite the demonetization, confirmed the strong brand potential of Vespa. In bikes, on the other hand, Aprilia had been the main driver of growth, posting a sound plus 15% compared to last year, mainly benefiting from the strong volume and the revenue increase of the RSV4 and the Tuono bikes.

Moving to page 9. We can have a look now at the EBITDA bridge. As said before, we achieved a record EBITDA in the six month, primarily on the back of a very positive performance at the gross margin level. Notably, the gross margin grew to 34%, 0.7 percentage point above prior year, leading to €11.2 million of positive effect. As you can see on the slide, we can split this €11 million in €6 million coming from additional volumes and the €5 million coming from a pure gross margin effect, which testify again our ability to deliver efficiency and sustain our price policy.

Lastly, a great effort has been done to manage and to reduce also cash operating expenses despite higher marketing costs, that is switching resources from the savings we achieved on staff cost and central cost to higher commercial expenses.

Coming to slide 10, we can see how the improvement in EBITDA, plus €12 million, more than offset the growth of the D&A, plus €7.3 million, mainly leading to the increase of intangible amortizations coming from past year investment and led net result significantly above prior year plus €3 million up to €21 million, that is 0.3 percentage point of sales from 2.5% up to 2.9% despite an increase on the tax rate from 40% to 42% to reflect the different geographical mix of our results.

4

To sum up, looking at page 11, we have a summary of our P&L figures that we just discussed. Net sales, from €706 million up to €725 million, meaning 2.7% or 1.4% excluding the forex effect mainly coming from the revaluation of the Indian rupee. Gross margin raised from 30.6% up to 31.4%. That means 0.8 percentage point more than last year. Cash OpEx down by €2 million. D&A up by €7 million. EBITDA margin from 14.4% up to 15.7%, up 1.4 percentage point, with an EBIT increase only by 0.5 percentage point lower than the EBITDA one and affected by the higher D&A. Net income from €18 million of last year up to €21.1 million of this year.

Furthermore, we want to highlight again the strong performance at the free cash flow level which led net debt well below June 2016, meaning €30 million lower than June 2016, and below December 2016 level, €40 million lower December 2016.

On the next page, we can have a better look at the evolution of the net debt. In details in page 12, the net financial position evolution benefited from improvement in all key levers. The operating cash flow grew more than last year on the back of higher net sales, higher product margin, lower cash OpEx. Working capital positive contribution slightly higher than last year, and capital expenditure lower than prior year on a favorable comparison base, as 2016 had been affected by the investment for the completion of the new

painting facility in Europe. The change in equity led to a lower cash absorption, mainly benefiting from a zero buyback compared to the €5 million in 2016. As a result, we generated in the six months, €41 million of free cash flow compared to the €18 million of the same period of last year. That has been the best performance in terms of free cash flow since 2008 and which boosted down the net debt to €450 million

.....

## QUESTION AND ANSWER SECTION

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

Okay. Now, we are ready to answer the question you may have. Thank you

.....

### **Renato Gargiulo - Intermonte**

Good afternoon. Well, my first question is on the Vespa brand. Clearly, in terms of brand, it's probably one of your major drivers both in terms of sales and in terms of profitability. We have seen very strong performance both in EMEA and Asia. I was wondering what are your expectation going forward and especially what kind of potential for further upside that you've seen in the Asian markets.

My second question is about your CapEx guidance. If you have some scope to reduce your CapEx for this year and in particular also looking for award given the fact that you recently invested in your production capacity, you can afford to spend less, to invest less going forward.

And then my last question is on price mix. In Europe, what are your expectation for the next quarters?  
Thank you

.....

5

### **Simone Montanari – Chief Financial Officer**

Thanks, Mr. Gargiulo. Coming to your first question for Vespa brand, again, I underline that this is our most powerful brand, at least among scooter brands. Our expectation is that this positive trend will remain and keep on the remaining part of the year in all our regional areas, so both in Western Countries and in Asia. In Asia, Vespa should be one of our main lever to recover the negative situation we experienced in the first quarter and to keep on growing in the coming quarters.

Also in India, by the way, in India, we coupled the Vespa brand with a new scooter, the Aprilia SR, that – it is benefiting from a new entrance. And these – each performance are very positive.

As for CapEx guidance for 2017. I think that we will end up with a CapEx in a range from €90 million to €100 million for the year that I suppose is mostly in line with the consensus forecast.

As for price mix, we do not see any potential risk besides, so everything is going well. The only minor impact we may have on price mix should come from a different product mix, in particular, as we highlighted, the 50cc market is growing more than the higher 50cc, both in scooter and in bikes. This may result in a different product mix and also in our performance, and this may affect our average price mix. But again, nothing coming from higher discounts or lower pricing.

---

**Renato Gargiulo - Intermonte**

Okay. Thank you. If I may just – a quick follow-up on the tax rate. In this case, if you can give us some indications about the full year. Thank you.

---

**Simone Montanari – Chief Financial Officer**

Yes. Well, as you may know, the geographical mix of our results that affected and characterized the first six months of the year has been higher growth in Western Countries compared to the Asian one.

As you know, in Asia, would benefit from a lower tax rate. And so, from a geographical mix, we had these results in term of average tax rate of the Group, 42% compared to the 40%. I expect that this higher than 40% tax rate will affect also the full year results.

---

**Michele Baldelli – Exane BNP Paribas**

Good afternoon to everybody. I have few questions. First one, I would like to know about the cost for services. The line has been dropping also in Q2, and I was wondering what are the main reasons for such cutoff for OpEx, if it's temporary cost cutting or more structural.

Second question is about the targeted D&A for this year and also for next year. Third question relates to – I was just trying to reconcile between a European market for two-wheels, which is a flat negative in H1, roughly stable market share because you increased by 0.2 percentage point market share in Europe and a sell-in that should have grown by roughly to 6% in Europe, if I'm not wrong. So, what is the difference? Is it just the inventory building among the dealers or, I mean, am I missing something? Thank you.

---

**Simone Montanari – Chief Financial Officer**

Thank you, Mr. Baldelli. So, starting from your first question, that is services cost. Yes, you're right, we did a great effort there in order to reduce services cost and, again, to switch non-core cost, that is staff cost or corporate staff cost towards marketing cost. Among these, well, also the services cost, and in particular, we had been successful in reducing energy, telephone, and other cost line together with other miscellaneous non-core consultancy services that we had at the corporate level. So, we think that this OpEx saving will go on also in the remaining part of the year.

As for D&A, total D&A for the full year 2017, I expect that we will reach a level higher than €120 million, very likely in the range from €120 million to €125 million, let's say, €123 million.

As for your consideration about the Western Countries are selling, yes, you're right that the market was flat. We improved a little bit our market share, but not in that size. On the other hand, we have to consider more two effect. One, is the importer sell-in that we have been quite successful in and it is not directly reflected in

the market share data. The other one is the stock, the network stock that should be in line with a growing market. Again, the May and June market is growing plus 5% compared to the May and June of 2016. As you may understand that the level of the network stock should be more or less in line with the more recent market trend. And so, we ended up with higher network stock in order to have the same level of efficiency in terms of product availability to customers in the dealer network.

.....

**Michele Baldelli – Exane BNP Paribas**

Okay. Very clear. Thank you very much. And just last question. On the improvement of the gross margin, I noticed this improvement due to the sales increase. Is it fair to assume that 50% is driven by volumes and 50% by the price mix?

.....

**Simone Montanari – Chief Financial Officer**

Well, I don't know if it is actually 50% of 50%, but for sure, the two main drivers for this improvement is efficiency and reducing on material cost, and this trend may also revert in the coming months. And over-absorption, that is efficiency in the transformation cost of the European plant considering that we are producing more, so basically scale. You're right

.....

**Michele Baldelli – Exane BNP Paribas**

Yeah. No. But I was just referring anyway to the net sales effect, not to the COGS effect. Okay. Yeah

.....

**Simone Montanari – Chief Financial Officer**

Okay, So, absolutely it is scale effect coming from the fact that in European plant, we increased our production and so we increased also our efficiency

.....

**Ms. Monica Bosio – Banca IMI**

Hey. Good afternoon, everyone. I offer you three of my question. The first one is, I was wondering if you can give us an update on two-wheeler registrations for the month of July. Is it stronger as the previous month?

And second question is on the full year guidance. Actually, the first half results are better than market expectation. I was wondering if you'll be now more comfortable with the year-end EBITDA in the range of €190 million instead of that €180 million and €184 million because I see room for an upside in the EBITDA. Just your opinion on this.

And the last question is on India. Can you please remind me the catalyst behind a better potential performance in India

in the second half? Thank you.

.....

**Simone Montanari – Chief Financial Officer**

Thanks, Ms. Bosio. So, starting from the first question, that is on the July market, what I can say, looking at the data in the first three weeks of the market, is that in Europe, overall, I see a positive trend continuing in July, in particular in Italy. Until yesterday, the market was up double-digits on the back of the strong growth in bikes, but also the mid single-digit growth in scooter. France, that is the biggest market with Italy, should be up again double-digits in July on the back of the higher growth in scooter, plus 10%. And similarly in the Netherlands. So, overall, I see that this positive trend that we experience in May and June may continue also in July and in the coming month. I do not have any additional data on the other market, but again the trend is positive in line with May and July and June.

As for the full year guidance, I agree with you that is looking at the data and the results of the first half performance and considering the assumption that the same market trend will remain also in the second part of the year, I feel more comfortable. I think that we may exceed our €190 million EBITDA more than the €184 million that is reflected in the consensus. So, the answer is yes.

As for India, we hope that the worst has been behind, let me say. Again, what I can see looking at the data of the market, in July – the market in July, the market trend is definitely less negative. And so, the situation is going better and better compared to what we saw in June and in the previous months

.....

**Ms. Monica Bosio – Banca IMI**

Okay. Thank you very much. Very clear. Thank you.

.....

**Mr. Niccolò Storer – Mediobanca**

Okay. Thank you. And good afternoon, gentlemen. First of all, apologies if I'm asking something that's already been asked. I wasn't able to connect from the very beginning. My first question is on India. If you could please elaborate a little bit on the drivers of the rebound in export in three-wheelers which I think can give you a softer boost going forward, and we have started to see positive figures over the past few months. And also, on the export of two-wheelers from the Indian plant, if you can give us an idea of where the costs are going?

The second question is on D&A. I understand that this year will be at between €120 million, €125 million. What should we expect going forward in 2018 and 2019? Thank you.

.....

**Simone Montanari – Chief Financial Officer**

Thanks, Mr. Storer. And let's start from India. In India, we recently went through a deep reorganization of our organizational structure. We changed our CEO in May or June, and we are going to have a deep



reorganization of the whole structure. So, this is our main level of our future results. In particular, export should be one of the level of improvement, together with an improving, hopefully, in internal commercial vehicle market. And again, we are all waiting, as you are, the recovering of the market. And we are seeing in July the first positive trend. Again, the main level would be the market recover from one side, and our internal reorganization starting from the CEO on the other side.

Two-wheeler India, the same. The trend is very positive also because of an easy comparison base compared to 2016. We are doubling our volumes. The export of two-wheeler is starting also in India. The main country where we export from here, India, is Nepal. So, starting from India, the neighbor countries plus the Latin American one.

As for D&A for 2018, I see, for sure, a decrease in D&A compared to the level of 2016. Also, Ms. Bosio asked me, sorry, apologize now. And compared to the €123 million, let's say, in 2017, I expect that D&A in 2018 will be down again by at least €5 million, let's say, from €5 million to €10 million

.....  
**Mr. Niccolò Storer – Mediobanca**

.And the reason of this expected decrease is because of amortization

.....  
**Simone Montanari – Chief Financial Officer**

It is simply because of accounting reason, that is, we are obviously failing the D&A from past CapEx. D&A performance and D&A charges may have a different amortizing period, going from three years of R&D up to 10 years in tangible assets, in particular real estate. Considering the past investment we have are detailed forecast of D&A, of the future D&A in the coming years. And so, I see that 2018 will be, for sure, lower than 2017.

9

.....  
**Operator**

No more questions at the moment.

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

Okay. I think that if there are no more questions, I think that we can end the call now. As usual, you can call me later on, also in the following days if you need to have further details, further information. So, thank you, everybody, for attending this conference call