

Piaggio Group

First Half of 2018 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

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

Hello. Thank you very much for joining us today to follow this conference call on H1 2018 financial results. Today's conference call, as usual, will be held by Mr. Roberto Colaninno, Piaggio Group's Chairman and Chief Executive Officer; and by Mr. Simone Montanari, Piaggio Group's Chief Financial Officer.

During today's conference call, we will use a presentation you can download from our Group 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.

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Simone Montanari – Chief Financial Officer

Hello, everyone. Thanks for attending our call. Before starting commenting on our results, I would like to highlight that Piaggio applied from January 2018 the new IFRS 15. In this presentation, to provide a better comparison of financial information for different years, 2017 data are restated in accordance with the new IFRS, although there are no material impacts other than a minor one on net sales on both years.

Going now to page 4, we can have a snapshot of the key demand trends. The market ended the first semester 2018 with mixed but overall improving demand trends. Europe ended broadly in-line with last year, minus 1% despite a negative start to the year; Asia-Pacific positive trend accelerated across the semester, and India confirmed the strong rebound versus prior year for light commercial vehicles and consistent growth in two-wheels.

More in detail, in Europe, demand after the start on the back foot reverted the trend in Q2, leading the market to end broadly in-line with last year. This result is flat during our last conference call and from fully diverse in dynamics, a sharp decline of 50cc vehicles demand that was linked to the shift from EURO2 to EURO4 engines and to the relative price increase and sequentially stronger demand for over 50cc vehicles, which ended up high single-digit with positive demand spread across all major European countries.

In Asia, Q1 positive trend strengthened in Q2, notably Vietnam posting robust mix single-digit growth; Indonesia improved strongly in Q2, leading the market up around 11% at the end of the semester while other countries in the area showed mix and overall positive market dynamics.

In India, three-wheel light commercial vehicles strong momentum continued with demand surging around 70% against 2017, and more importantly around 28% growth against 2016. Indian two-wheelers kept on posting strong growth with scooter ending up by 17%.

Moving now to page 5, we have a snapshot of Piaggio Group performance. Piaggio achieved the healthy results against European and U.S. still unsupportive demand trends that led the group to reach a profitability peak at EBITDA level at 16%. Net sales went up by 1% and 6%, excluding €36 million of negative exchange rate effect coming from U.S. dollar and Indian rupee devaluation. From a geographical standpoint, this positive result has been driven by the strong performance in emerging countries, India and Asia-Pacific.

In terms of operating margins, Piaggio posted a sound growth in all operating metrics, both in absolute and percentage level. EBITDA grew around €3 million up to €117 million with margin uplift of 0.2 percentage points that led the ratio of net sales up to 16%. That has been the best first semester performance to-date. These results stemmed mainly from the improvement on the gross margin that grew by €3 million with an improvement of ratio to net sales despite the dilutive geographical mix together with an OpEx reduction. Net profit surged by 26% at €27 million with significant contributions coming from lower depreciation and amortization, €6 million less than last year on a 6-month period; lower financial expenses, €3 million less benefiting also from the lower debt and the reduction of the cost of fund despite higher tax rate at 45%, reflecting the different geographical mix and in particular the higher contribution of results coming from the Indian region. With these results, we have been able to increase capital expenditure and to maintain a sound cash flow generation that pushed the net debt below June and December 2017 levels.

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Let's move now to page 6. To have an in-depth analysis of volumes and net sales trend by business. Overall, volumes continued to trend up across the semester when the Q1 up by 7%, Q2 up by 9%, ending the semester up by 8%. This trend let the revenues at constant Forex to end the semester up by 6%, 1.2% at current forex. The Forex effect that may be quantified in the region of €36 million in the period came from the devaluation of the Indian rupee and the U.S. dollar, both minus 10% against prior year.

In terms of geographical mix, similar to the trend we saw in Q1, these good results came on the back of strong growth in emerging countries. In details, India confirmed to be the main engine of growth, both in absolute and the relative percentage terms. Indian two-wheelers' volumes and revenues kept on growing, outstripping the market trend namely with Vespa, whose volumes surged by 57%. Indian light commercial vehicle kept posting healthy performance, driven by both contribution with both of domestic and export sales. I would like to highlight that volumes were not only in the rise against 2017, which represent an easy comparison base, but also above 2016. More positive, we achieved these results with average prices on the rise, excluding Forex.

In Asia-Pacific, volumes rose again by 10% leading to 8% growth in revenues at constant Forex, while decreasing 2% at current, thus keeping in Q2 a trend similar to Q1 despite tough comparison base. Clearly, these results bodes well looking at the remaining part of 2018 when the comparison with prior year would soften. From accounting standpoint in Asia-Pacific, the strongest contribution came from Indonesia, which grew more than 40% and thus is set to achieve at the end of 2018 the best results on the record. Among other countries, it is worth mentioning the ongoing sound performance of Thailand, Taiwan, and China and finally the positive trend in Vietnam in Q2.

Last in Western Countries, two-wheelers volumes has been deeply affected by the decline of 50cc European market, driven by the shift to EURO2 to EURO4, that represents a big portion of our business in this area. On top of that, other drivers have been the negative impact in H1 has been the U.S. market and the minor stock increase versus prior year. Despite that, I would like to underline that the declined soft end across the semester and that we will benefit from an easier comparison base going forward in the year. Additionally, this sound increase of the average selling price further proves the strength of our brand and pricing power.

Let's move now to page 7 to look at the breakdown of the volumes and net sales performance by product. Among scooters, I'd like to underline again the sound performance of Vespa. Vespa volumes grew around the 10%, driven by India and Asia, leading to a overall positive revenue trend notwithstanding this negative Forex effect.

In Western countries, too, Vespa average selling price went up against market contraction, further proving the strength of the brand. Among other scooters, the positive results performance for Medley and ending up at double-digits in volumes and revenue and, MP3, whose volumes went up mid-single-digits ahead of the introduction of three new version at the end of Q2 that should further accelerate sales in the second half of 2018.

Looking at the bikes, the mismatch between the volumes, plus 14%, and the revenues, minus 5%, has been linked to the negative mixed effect and the Forex effect in particular in U.S., where a big portion of our sales are represented by high-displacement vehicles, our volumes declined, dragged down by the prolonged market weakness.

Going to commercial vehicles, whose volumes grew by 27%, driven by India sales to be mentioned that the sound performance of the Indian export grew by 70% against previous year.

Moving to page 8, we can look at the EBITDA bridge. As I said before, EBITDA grew 2.3%, reaching €117 million and above all, with a margin on sales of 16% that has been the best performance to-date. These positive results came from additional net sales from the emerging markets as we said before. Gross margin in-line with last year, driven by negative geographical mix, Indian gross margin percentage is lower than the group one; lower European production, both offset and counterbalanced by a further cost reduction on our product rate; and cash operating expenses slightly lower than last year despite higher expenses to support new initiatives.

Coming to slide 9, we can analyze the net profit bridge. Net result grew 26%, plus €5.5 million, with a significant uplift of margin on net sales that reached 3.7 percentage points, growing from €21.1 million up to €26.7 million. This positive achievement has been achieved despite the higher tax rate to 45% that is reflecting the different geographical mix of our results; in particular, the strong growth in India, where we have a higher tax rate among our cash-generating units. And this net result was the sum of the higher EBITDA as commented before. As expected, lower D&A after the peak reached in 2017. In particular, D&A has been €6 million lower compared to last year in six months. And as expected, lower financial expenses as we start reaping the benefit of lower level of tax and of the recent actions to lower the cost of borrowing. In this regard, I remind you that in April, we issued a new €250 million bond and that the last month, we refinanced our old lines of credit with a new five-year €250 million. These activities allowed us to reduce the cost of debt and to expand the average life of the debt to more than five years.

We can now move to slide 10 to summarize the figures just discussed. Net sales went up from €721 million up to €730 million, 1.2% or 6.2% excluding the Forex negative effect, mainly linked to the Indian rupee, U.S. dollar and Vietnamese dong. Gross margin slightly up, 31.3% of sales. EBITDA margin, slightly up, from 15.8% up to 16%; EBIT operating result from €53 million in 2017 up to €62 million, 17% with margin on sales up 1.1

percentage point from 7.3% to 8.5%; net income from €21 million up to €26.7 million. Furthermore, you can notice the good performance at the cash flow level that led the net debt €19 million below June 2017 and €15 million below December 2017.

Let's move to the following page 11 to have further analysis on the evolution of net debt. As you can see and as you can appreciate, operating cash flow grew against last year on the back of higher sales and lower operating expenses. Working capital generated contribution – a positive contribution, not in the same size of last year considering the very good position we already have in working capital. Capital expenditure higher than last year, €9 million and consistent with the target that we have for 2018 to finish the year with €100 to €110 million of capital expenditure. Change in equity higher than last year, also reflecting around €4 million negative effect linked to the reduction of the IFRS 9 principle and with the same dividend distribution. As a result, we produced €15 million of cash that pushed down the net debt at €431 million, and led the gearing net debt on equity at 1.12 against the 1.15 of June 2017. I want to highlight again that the €15 million of positive cash flow would have been €20 million without considering the impact one-off of the adoption of the IFRS 9 in 2018 and this would have leave the net financial position further down to €425 million.

And so, thanks for the attention. I'm also available and we can start the Q&A session. Yes, go on.

QUESTION AND ANSWER SECTION

Alberto Villa– Intermonte

Yes. Good afternoon. I have a couple of questions.

First of all, if you can give us your expectations for your main markets into the second half of this year if you have some indications about the trends in July, but also what are your expectations in terms of end market demand for your products in the main regions you operate?

And the second one is if you are confirming that the guidance for the full-year EBITDA or that is something that we have to include in our models for the rest of the year? Thank you.

Simone Montanari – Chief Financial Officer

Thank you, Mr. Villa. Thanks for your question. Starting from the first one expectation for the second half in terms of market, I expect that the trend will be similar to the first one.

So, in particular, European markets remaining flat compared to last year with over 50cc growing, bikes growing, scooter over 50cc growing, scooter 50cc decreasing. Overall, I expect that we will be flat. Same data we have seen in the first two weeks of July.

Going on the emerging countries, I expect that in India, both light commercial vehicle and two-wheelers will keep on growing definitely compared to the 2017 results. Maybe the comparison base will be a little tougher on the last quarter in commercial vehicle in India considering that the rebound started in the last quarter of 2017.

Looking at our Piaggio Group performance and, in particular, to the consensus and guidance, I confirm the guidance that I already gave in the past conference call at the EBITDA level. So, we expect that the EBITDA will be working beyond €200 million for the full-year. Going also, if that's maybe another question to the expectation in terms of net debt for the full-year, again, I can confirm the expectation that by December 2018, we'll be – the cash reduction of December will be in-line with the first half one. So, we should close the year with the net financial position in the range of €425 million, €430 million.

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Alberto Villa– Intermonte

A follow-up question, if I may. In terms of potential impact of this issue about trade tariffs and so on, now we have seen an agreement between EU and Japan. And it seems between EU and the U.S., there might be some kind of agreement. Still unclear what is going to happen with China. I was wondering if you can give us an idea of what's the potential threat and opportunity for your group?

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Simone Montanari – Chief Financial Officer

Difficult question. The scenario is still complex and not very clear. At the moment, I think that the most likely but that I can see that may happen if tariff – if U.S.A. introduced tariffs on the import of motorized two-wheel vehicle that would be on vehicle above 500cc. And in this moment, we sell in U.S. lower than 5,000 vehicles that is in the region of 1% of our total sales. So, I think that this will be a minor effect on our result. And if we will see duties introduced on the steel price on the raw material, that at the moment I do not see, but if they will come, I remind you that we do not buy raw material with buy component. So, if there will be an effect, it will not be a direct one but it would an indirect one, and we will have the filter of contracts already in place and in negotiation with our suppliers

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Niccolò Storer – Kepler Cheuvreux

Yes, good afternoon. Good afternoon, everyone. The first question relates to the introduction of IFRS 15. So, just to understand better, which activities fall under the new IFRS 15 perimeter and led you to revise revenues and also gross margin. And related to this question, if you can gives us the adjusted number of revenues and gross margin for the first quarter of the year in order also to get to numbers of the second quarter.

The second question is on Piaggio Fast Forward. We keep on reading on the press that you are testing the Gita. So, in this regard, which will be the next step on these products? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Mr Storer. Starting from IFRS 15, the re-classification that we went through for the first semester of 2018 have been the re-classification of net sales, in particular net sales coming from warranties. It is in the region of €4.5 million, both in 2018 and 2017. The impact on the first quarter, it is definitively not relevant, in the region of €1 million, considering also the seasonality but we will provide you the data through the Investor Relations.

Coming to PFF, it's very exciting challenge that we are facing and that we are working on. One moment please. Sorry, sir, we have some issues. And coming back to Piaggio Fast Forward, we are working on it. As you correctly reminded we are on the late development phase, early marketing introduction phase. And so, we are trying to understand any marketing potential in particular with the vehicle Gita. We are working on a lot of aspects, starting from the technological one that are, again, very, very interesting. And we also have some impact also on two-wheeled traditional vehicles and we are working also on a regulatory aspect, in particular, trying to understand there which will be the regulation that we will need in U.S. in order to put these vehicles in case on the market.

Again, there's no particular plan in this moment, but to go in the market we are in the late development phase.

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Monica Bosio – Banca IMI

Yes. Good afternoon and thanks for taking my question. The first one is on Vespa in India. Can you give us an indication on the volumes of Vespa on the total volumes sold in India in second quarter and in the first half?

And the second question is on the Indian markets for the light commercial vehicles. I apologize but I had some technical issue or maybe I lost your answer. I was wondering if you can give us some indication on your feeling about the growth expectation of the market in 2019, because 2018 was really robust due also to a favourable comparison base. I was wondering if you look at growth in the region of 10% for 2019 or something similar. Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Ms. Bosio. And so, all the two question around India, let's start from the Vespa one. Vespa volumes in India grew by around 60% in the first semester, going from something in the region of 15,000 last year up to 33,000 this year. The other part of the growth of the vehicle of the units in India came from Aprilia SR.

Going to India light commercial vehicle, the market growth in 2018 has been very, very, very high. And 2019 year, we'll have for sure comparison base, very difficult compared to the last that we saw in 2018. I think that the – but I think I'm really confident that the growth will keep on. I think that the region that you gave around 10% may be a reasonable one.

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Emanuele Gallazzi – Equita

Good afternoon, everybody. I just have a couple of questions, if I may. The first one is on India. Can you provide us an update of the situation over there for the two-wheelers with a focus, if it's possible, on the competitive scenario? Do you see any pressure on price going forward?

The second question is on the agreement with Foton. I would like to have, if it's possible, some additional details on the agreement and in particular on the incremental CapEx you expect in 2018 and 2019 and something about your expectation in terms of volumes and price for these new vehicles in 2020? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Gallazzi. India two-wheelers and the competitive scenario, as you know, we are competing in a very different segment compared to the traditional and mainstream one that we had in India.

We stay up, very, very up; very, very high in terms of price positioning and noticeably we didn't have any price pressure, at least we didn't have this up to now. The prices in Indian rupee are increasing so there is no weakness or no risk at the moment in the foreseeable future for this.

Foton, we just closed the second agreement with them last month. So we closed all the – let me say, the predevelopment phase and now are moving into the implementation one. It is a very, very interesting deal that we are going through. It's a development agreement, as you know. As I've mentioned, it's a commercial agreement.

And in terms of capital expenditure, as I said before, 2018 will be in the level from €100 million up to €110 million in terms of CapEx. The same level, I expect, would be sufficient for 2019. And inside this level, we will include also the CapEx necessary for the carry-on of the Foton activities.

In terms of volumes, in this moment, the four-wheels European and Indian one is below 5,000 vehicles per year. We will start selling in 2020 and I think that the growth will be relevant also considering that the starting point is feasible.

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Niccolò Storer – Kepler Cheuvreux

Yes. Thank you again for taking my question that is about your expectation for the second part of the year on the European two-wheel market. You said very clear you expect a flattish market year-on-year. This is what you expect for the market or is what you expect for Piaggio?

And second point related to this question, don't you think that you should benefit in the last part of the year from a sort of easy comparison versus the last quarter of the year, which was particularly weak due to the well-known change over processes and the recovery of what we had in the previous year? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Storer. I think that you are right. Well, I wasn't referring to the flat, I was referring to the overall market trend for the second half of 2018. I think that we will have space to grow in terms of Piaggio performance in Europe in the second half of 2018 for two reasons.

The first one is the easy comparison base, as you highlighted.

The second one is the product launch phase or plan that we have in place for the second half, in particular the new Vespa Elettrica and the new Vespa GTS that will have an impact on our sales for the second half.

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Gabriele Gambarova – Banca Akros

Yes. Good afternoon to everybody. A question on the tax rate show it was pretty high in the first half; as you mentioned the geographical mix or so. What should we assume for the fiscal year?

And then on the volumes in APAC, if you could give me some more detailed data on Vietnam and Indonesia in terms of absolute volumes? Thanks.

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Simone Montanari – Chief Financial Officer

Tax rate, I think that 45% is quite a reliable one also for the full-year 2018. As I was highlighting, the more the Indian sales will contribute to the group one, the higher the tax rate goes. In general-speaking, this is not true for Asia Pac, the higher the annual results, the lower the tax rate. In this moment for the first half, the Indian results' contribution has been higher in terms of mix compared to the first half of 2017. So, 45% fits very well for the first half. I think that is also a reliable forecast for the full-year.

In terms of volumes, Asia-Pacific, in first half 2018, the Vietnam volumes were in-line with last year, while we've had very positive peak coming from Indonesia and Taiwan. Just to give you a size of the volumes and made 100% of the total sales in the first half of 2018, around 40% came from Vietnam, another 40% came from – sorry, 20% came from Indonesia, another 40% from the rest of Asia-Pacific, the main part of whom came from Thailand

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Renato Gargiulo - Fidentiis

Yes. Good afternoon. Well, my first question is related to your increasing CapEx related to the new product launches. Could you give us more details about your new product launches and when you expect this to impact sales going forward?

The second question is on Vespa. Could you give us more details about the European performance, both in terms of volumes and pricing?

And then the last one is the recent trade agreement between Japan and Europe. Do you expect any possible implication in terms of Japanese producer exporting to Europe? Thank you.

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Simone Montanari – Chief Financial Officer

So, yes. Sorry, I'm taking some notes. So, let's start from CapEx and new product launches. The whole difference between 2018 and 2017 has been only the focus on new product development.

Talking about new products in the next 12 months, let set this view, the main one and the more interesting one would be the Vespa Elettrica that we'll have a two-phase launch. The first one, it will be the full electric by the end of this year; the second one will be the hybrid that will take place early next year. Then, we will have the new Vespa GTS. And then for next year, we are working on our major models, namely the MP3 and the Medley and the new Beverly. This is for scooter – European scooter one.

Then, we will have the new Moto Guzzi V85 that we launched in the last EICMA and will be commercialized in the early 2019, and then we will have new launches also in India and Asia-Pacific

And coming to your last question that is Japan impact, I do not see any significant impact in the near future, let me put it in this way, then in the medium-term or in the longer-term that means in a few years from now, yes, there may be an impact if the duties will go to zero.

Then the second question what's the second question – sorry, regarding Vespa?

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Renato Gargiulo - Fidentiis

The second question was on Vespa, what's Vespa's performance in Europe, if you can give us any more detail in terms of volumes and prices? Thank you.

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

Yes. Raffaele speaking. So in Europe, with Vespa, we perform, we say better than the market. In fact, our market share was increased. But clearly, also in this case, we have to make a difference between over 50cc and 50cc scooter. So over 50cc Vespa were broadly in-line with last year, with positive price effects. 50cc Vespa were down, the 50cc market went down 30%, Vespa 50cc went down just 9%, just to give you an idea of the strength of the brand. And again, also for 50cc Vespa scooter, we had a peak, an up peak in price in the region of 5%. Again, this testifies the power of the brand.

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Simone Montanari – Chief Financial Officer

Coming back just for one moment to your third question, the new development, obviously, I have again to remind that the Foton deal, and so the new Porter that will not be in 2018, but we already started planning on this. And also, even if they are not capitalized, all our R&D activities for Piaggio Fast Forward.

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

Okay. Thank you. So, I think that now we can conclude the conference call. As usual, if you need more info or clarification, you can call me this afternoon, also during the weekend. So, have a good one. Bye.