

# Piaggio Group

## First Quarter of 2018 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

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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 Q1 2018 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio's Chairman and Chief Executive Officer; and by Mr. Simone Montanari, Piaggio Group's Chief Financial Officer.

During the conference call, we will use a presentation you can download from our Group website. 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.

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, and thanks for attending our call. As usual, I will start the conference call from page 3, giving you a snapshot of the main demand trend to move later on our results.

Three main areas, Western countries, in particular Europe from one side, Asia Pacific and Indian on the other side mixed trend. In Europe, as expected, we experienced a slow start to the year, namely minus 4%, the market declined compared to last year. The decrease came only and in particular on the 50cc segment compared to last year. The decrease came only and in particular on the 50cc segment with an overall decrease of minus 30% and on the other side, we had the over 50cc segment, both scooter and bikes increasing compared to last year with the plus 5%.

The demand of the 50cc vehicles has been affected by the strong growth of the latter part of 2017, in the last quarter of 2017 that ended with volumes climbing around 90% and as mentioned in prior calls, the step up in volumes reflected the need to reduce the stock in the market at the end of 2017.

Additionally, we may say that we may highlight that the European market has been hit strongly in February and March with an unusually unfavorable weather condition and starting from mid of April weather condition

improved reverting the trend that we had in some markets, we do already have data from April and the market trend finally reverted to a plus 5%.

Looking at the trend by country, Spain has been the only major country ending up compared to last year with scooters plus 15% while bikes trend has been positive across Europe. On the other side, with positive results, we had Asia that in Q1 trend mirrored the trend of last year. In particular, Vietnam posting a robust growth high-single digit in scooters, Indonesia ended up by mid-single digit growth, while other countries in the area showed mixed trend and overall positive market dynamics. As expected and highlighted in prior calls, the Indian three-wheeler light commercial vehicle market climbed not only against 2017, but overall and most remarkably it increased compared to 2016 results, and in my opinion these are very good, very positive starting point to have a market recovery across all the 2018 in India light commercial vehicle. In India two wheelers the, market posting strong growth, driven again by scooter, ending up 24% against the last quarter 2017.

Moving now to page 4, we have a snapshot of financial performance, we are again very satisfied on the results that we achieved in the quarter and that led us to another profitability peak in our history, recent history.

In particular and in detail, net sales went up by 1% at current forex, but if we exclude a negative forex effect the growth compared to last year would have been 7%.

The positive result has been driven by strong performance in the emerging countries, as we will see more in details later.

In terms of margins, Piaggio reported a sound growth in all operating metrics. In detail EBITDA grew around €2 million up to €43 million in the quarter, this has been the best absolute performance to-date with a margin uplift of 0.5 percentage point, that boost the ratio on net sales up to 13.8%. It is important to notice that these results has been delivered by significant improvement in the gross margin, and with an uplift in the ratio to net sales on the gross margin that is 31%.

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Excluding the forex effect, the ratio to net sales would have been a little smaller also considering the growth and the uplift in the gross margin, thanks to the forex effect. At the same time we have been able to mitigate the seasonal cash absorption to €56 million, thus keeping well below the Q1 2017 levels, €30 million lower than March 31, 2017.

Let's move now to page 5 to have a better analysis of the trend by businesses. As you can see, the Q1 ended with overall volumes increasing by 7% leading to the same growth rate of revenues plus 6.7 percentage at constant forex. This result came on the back of strong growth in the emerging countries, in particular in India. India has been the main engine of the growth, both in absolute and developing percentage terms. Indian two-wheelers volumes and revenues kept on surging on the track – on the back of favourable market dynamics and on the success of our products.

Once again, the bright spot has been Vespa with volumes up by 70% confirming the brand potential in this country. Additionally, we achieved the strong results even after a notable average price uptick of around 5% at constant currency.

On the other side, of the India region, light commercial vehicle posted a healthy performance driven by contribution of both domestic and export sales. I would like to highlight again that our results are not only above 2017, but also above 2016 levels, thus suggesting that we should be at the outset of a long lasting sustainable growth. Also for LCV, it is worth mentioning that we achieved the result with average prices on

the rise compared to last year excluding forex. The improvement of domestic sales to get a acceleration of export is extremely positive if we look forward to 2018 results.

In Asia Pacific, volumes rose by 11% leading to a 7% percent growth in revenues at constant ForEx. In particular, the strong growth with both volumes and revenues of Indonesia, Taiwan, China and South Korea more than offset the weakness of Vietnam with went down double-digits. Noteworthy again in rest of Asia volumes went up double digits in the other class 15% compared to last year.

In Western countries, two-wheelers volumes have been negatively affected by several drivers. First of all, the bad weather. Second, that the plunge of the 50cc European market, the prolonged weakness of the USA market and lower European seasonal dealer stock increase compared to last year, in preparation for the new product launches that will come Q2 mainly in the U.S. Despite that, we'd like to underline again the strong increase of the average selling price in Europe, around 12% further improving the strength of our brands and also thanks to a mix targeting to over 50cc compared to the 50cc one. At country level, I can add that in Europe, the best performing countries have been Spain and Germany, that have been the only two major countries ending up versus prior year.

Let's move to page 6 to look at the breakdown of the breakdown of the performance by product. First of all, we – I underline again the performance very positive of Vespa. Among scooters, Vespa volumes grew around 12% driven by India and Asia leading to an overall positive revenue trend notwithstanding the sharp negative products affecting Asia and India.

Also in Western Countries Vespa average selling prices were top more than 5%, further proving the strength of the brand. Among the other scooters we would like to highlight the positive performance of Liberty, up in volumes and revenues and the MP3 with volumes and ending up versus the prior year notwithstanding and ahead of the introduction of the two new version that will come in 2018.

Looking at bikes, we posted the strong growth also in bikes mainly plus 32% in particular with the brand Derbi and Aprilia that performed extremely well with double-digit volume and revenue growth Aprilia, Tuono, Shiver and Derbi Senda have been the outright best seller product. In terms of pricing, as you can notice looking at the slide of the reduction of the net average price, it came exclusively from negative mix effect together with the net – negative forex effect. Not considering forex effect, the average selling price increased compared to last year.

Moving to page 7, we may have to look at EBITDA reach. EBITDA grew from €41 million up to €43 million. As I said before, we achieved this record EBITDA results on the back of the outstanding performance of the gross margin level, we have been able to – able to increase the gross margin on sale up to 31% compared to the 30.8% over the last year. In absolute terms, the gross margin growth has been driven obviously by the net sales improvement together with the percentage gross margin improvement. In addition we had – we have been able to reduce again and to maintain cash operating expenses lower than last year, however we increased €2 million in terms of EBITDA.

Going to slide 8, we can have a look at net profit bridge, net result came with close 3 times higher than last year, starting from €1.5 million up to €4 million with the significant uplift in terms of ratio to net sales and gives very positive result extending from higher EBITDA that we just commented on the previous slide.

But overall and more important, lower D&A, compared to last year, and we know that in last year we reached a historical peak in D&A in 2018 and the decrease of D&A will start and and will continue in the all the long.

We decreased also the financial expenses, we had lower financial expenses compared to last year around €1 million, thanks to the management of the gross debt and the lower down or the net average price of the gross debt.

With the taxes, the tax rate at 43% that we think it will be at the normalized level of the 2018 and that reflects the differential graphical mix of our results. So overall again in terms of net results 0.5% up to 1.3% but in terms of absolute terms, from €1.5 million up to € 4 million.

Page 9, slide 9, we can summarize the figures that we just discussed. Net sales growing up at €3.2 million from €309 million in 2017 up to €312 million plus 1%, but not considering forex mainly U.S. dollar and Indian Rupee devaluation. The growth in net sales would have been plus 7% in the segment ratio and in the same size of the growth in units sold.

Gross margin grew from 30.8% up to 31.0% and in terms of absolute terms from €95 million up to €96.7 million.

EBITDA grew from 13.3% up to 13.8% at €43.2 million. Depreciation went down from €30 million in the first quarter of 2017, down to €28.7 million in 2018. Financial expenses went down by €1 million from €8.5 million, down to €7.5 million, thanks to the income before tax of from €2.5 million in the first quarter of 2017, up to €7 million in the first quarter of 2018.

After tax, with a tax rate of 43%, net income has been €4 million against the €1.5 million in 2017. Furthermore, you can notice also the good performance at the cash flow level. We kept net debt below prior year level, and in particular at 31st of March, 2017, our net debt has been €532 million. We decreased the net debt at €503 million with decrease of €30 million in the last 12 months.

If we move to page 10, we may have some more details in terms of cash flow. We can see that we started the year with the €447 million and we know that in the first quarter, we have a seasonal cash flow absorption. We had then seasonal cash flow absorption in the first quarter of 2017 and 2018 operating cash flow has been better than last year €3 million, €33 million compared to the €30 million of last year. The change in working capital has been lower compared to last year. We absorbed the €63 million compared to the €55 million of last year and this is due mainly to a lower utilization of the factoring because of lower invoices and lower net sales in Europe. We increased capital expenditure €22 million compared to the €18 million of last year as we had an impact of around €5 million coming from the adoption of the new IFRS 9. Without this impact, the net financial position at the first quarter of 2018 would have been €497 million compared to the €503 million posted with the new accounting principles.

QUESTION AND ANSWER SECTION

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

Thank you. Now, we are ready to answer the questions you have may have. So, please go on

**Monica Bosio – Banca IMI**

Yes. Good afternoon and thanks for taking my questions. The first one is on the European trend for two wheelers. You know that a top investment topic for investor is the recovery of the scooter market in Europe investment topic for investor is the recovery of the scooter market in Europe. If I have heard correctly, you told us that April at the European level was up by 4%. Can you give us more flavor, are you referring to the scooters or to the total market and if you can give us some highlights at the European level for the last month?

And the second one is my usual question. I know that you do not release official guidance for the EBITDA, but the consensus is still pointing to €200 million, €204 million for the full year 2018. I was wondering if you are still confident on this on the back of the weaker trend of the scooter market in Europe due also to the weather condition or if you believe that at the end of the day, even if the market that might be lower, you can offset with efficiency and are still reaching an EBITDA in the region of €200 million and €204 million?

And very last question is on the Indian two wheels operation. You are achieving very good results in two wheels in India, where we are spending. I was wondering if you believe that this operations can achieve the same profitability of the Indian light commercial vehicles and if you can give us some indications in term of volumes by year end and if you may in 2019? Thank you very much.

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**Simone Montanari – Chief Financial Officer**

Thanks, Ms. Bosio. Thanks for your question. I will start on the first one, that is a European trend as we commented that the European trend two-wheelers in the first quarter has been negative Two-wheelers in the first quarter was negative and the decrease was focused and limited to the 50cc segment in particular. We had a minus 30% compared to the plus 5% on the other 50cc segment. The first data that we have provided that are coming from the major countries are already posting a different trend compared to the safety markets, and in particular you're mentioning the plus 4% – let's say plus 5% in the counties that are already have official data and I can compare with the – that these are positive results, plus 5% and these positive results is also for both for scooters and the bikes. And so that result in terms of market has been definitely different compared to the three months.

Coming from your second question EBITDA consensus, yes we are still confident that we are in a position to reach their consensus EBITDA in the region, in the range from €200 million, up to €205 million as you have highlighted the first quarter is being weak more than expect – our expectation in Europe, but it has fully – being fully contemplated by the trend of Indian and the Asia results. I think that these trend, we continue throughout the year and considering these things that the €200 million, an EBITDA beyond €200 million is still achievable and so I can EBITDA in the consensus.

In particular, Indian two-wheelers, we are targeting the result of in the range of 90,000 vehicles in 2018 compared to the 70,000 vehicles in 2017, if this was the question. In terms of profitability, you're right, underlying debt, the profitability of the two-wheels is still not at the same level of the profitability of the light commercial vehicle in India. There are some percentage points of difference. I think that right we have very different situation. Commercial vehicle is the business that we are playing for a lot of years and so we are already benefiting from scale, from operation, from certain capability. Indian two wheelers is a quite a new business for us. I think that in the medium-term, the profitability should be and could be considered at the same level at least at the EBITDA level. Thanks to price premium, not thanks to an additional decrease in cost, but very likely in an additional increase in premium pricing and premium positioning

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**Michele Baldelli - Exane BNP Paribas**

Hi and thank you for taking my questions. I have couple of them.

First one I would like to understand what could be the impact let's say the difference between what is your reported sell-in in the first quarter and reference market in Europe? So what has been the difference in terms of trends?

And the second question relates to the question just posed by Monica on the fact that you expect to sell around 90,000 vehicles, am I right in assuming that on the fact that you expect to sell around 90,000 vehicles, am I right in assuming that anyway the total capacities around 150 for this Indian facility and if it's so, does it mean that anyway you will not be at the full speed in terms of capacity utilization rate? So, I was just wondering into my head is there probably also an operating leverage effect in the future if you will go over these 90,000 vehicles? Thank you..

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**Simone Montanari – Chief Financial Officer**

Thanks, Mr. Baldelli. Starting from the first one, impact of “sell-in” where we already commented that the market – the difference between the market trend and our results are mainly linked to two factors. The first one is that, waiting for the launch of the new product that will come in Q2 and Q3, we did not have the same level of sell-in that we had last year basically. So, the gap is also driven by this to the fact that to the level of the stock of the net product decreased in the quarter waiting for the new launches. The second driver has been a minor loss in market share and in particular in the over 50cc market share in Europe.

In terms of India two-wheelers, 90,000 target. Yes, it is our target. Is there – if the question is, is there any operating leverage that my come with the increase – with the further increase in sales. Yes, I think that there is, you are right in pointing out that our overall capacities is 150,000 vehicle in two shifts. Then we may also even increase the capacity without bigger investment, but increasing volume sold, we will increase a little bit also the operating capacity. Overall – but overall, again and coming back to the question – to the answer, I guess in the closure, if I think to the medium term, the higher opportunity in order to improve profitability in two-wheels India, I think that are coming more from increasing pricing than from decreasing costs.

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**Filippo Prini – Kepler Cheuvreux**

Yes, good afternoon. Two questions. The first one is on the gross margin that has since been very high above same level of last year. If you can give us an indication what you expect in terms of your efficiency, your new production for – on the full-year basis? And the second is clarification on forex. You pointed out, you quantified the impact of forex negative on revenues. But, you made also some reference to positive impact on – from forex on the OpEx. So, if you can give us also the impact of forex on EBITDA in the first quarter this year? Thank you.

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**Simone Montanari – Chief Financial Officer**

Thanks, Mr. Prini. Gross margins, yes we are satisfied with this level. I think that they are fairly high. In compared to the 2017 one, the 2017 one was benefited and was affected positively by the increase in the production of the European manufacturing facilities. In Q1 2018, they say we didn't have the same increase, but the major improvement and efficiency came from the cost of the product, in particular from one side, the international sourcing of our components and also thanks to the forex effect we lost 5% growth on the net sales, due to therefore devaluation of the U.S. dollar and the India rupee, but on the other side we had also significant savings both on product cost and on operational expense. Overall, if I sum up the plus – the minus that we had in net sales and the saving that we had both on product cost and operational expenses, we are – on an average we are balanced. Actually, in this quarter with this product mix, with this geographical mix, there was a slight positive – of course, a slight positive impact coming from the ForEx, but very slight. Overall, you should consider for us with this level over geographical mix a balance in terms of forex and in particular U.S. dollar and Indian rupee.

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**Filippo Prini – Kepler Cheuvreux**

Okay. Just a follow up to understand if I heard you correctly, on the EBITDA basically, there is a meaningless impact from forex?

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**Simone Montanari – Chief Financial Officer**

Lower than €1m

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**Gabriele Gambarova – Banca Akros**

Yes. Good afternoon to everybody. I would ask you brief comment on the APAC, on the Asian market perspective, do you think that this recovery is going to be somehow structural, what are your perspectives for the remainder of the year? Thank you.

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**Simone Montanari – Chief Financial Officer**

Thanks, Mr. Gambarova. The action plan that we put in place starting from July 2017 in Asia Pacific July 2017, in Asia Pacific has been a structural action plan, because we went to full re-organization of the area. We changed the – the CEO. We are going through the re-organization of the dealer network and revenue of the part of trends. So, the action plan has been structural. We expect that the result of this structural action plan will be structural as well. And if I look at the second quarter, the comparison will not be so easy, because the second quarter of 2017 has been quite positive. If you look at second quarter of 2017 Asia Pacific compared to the second quarter of 2016 but overall so the next quarter will be difficult you know on a comparison base; on an yearly basis, I expect that the growth will come also in Asia Pacific full year 2018 compared to full year 2017 for sure in terms of units sold. In terms of revenues this will depend also on the forex as we saw in the first quarter.

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

Okay. So, if there are no more questions, we – we can close the call now. As usual, you know you can call me later also tomorrow if you need to have further details, further information. Thank you very much for attending the conference call. Bye.