

Piaggio Group

H1 2024 Financial Results

CORPORATE PARTICIPANTS

MICHELE COLANINNO – CHIEF EXECUTIVE OFFICER

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RAFFAELE LUPOTTO – EXECUTIVE VICE PRESIDENT, HEAD OF INVESTOR RELATIONS

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Piaggio First Half 2024 Results Conference Call. As a reminder, all participants are in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions).

At this time, I would like to turn the conference over to Mr. Raffaele Lupotto; Head of Investor Relations of Piaggio. Please go ahead, sir.

MANAGEMENT DISCUSSION

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Thank you very much. Hello everybody, and welcome to the first half of 2024 financial results. Today's conference call will be hosted by Piaggio's Chief Executive Officer, Michele Colaninno; and Piaggio's Chief Financial Officer, Alessandra Simonotto. Today we have also here Matteo Colaninno, our Group Executive Chairman.

You can access the slides supporting today's conference call on the internet at Piaggio Group website. As you may expect, before starting the presentation, I need to remind you that during today's conference call, we may use forward-looking statements based on Piaggio's current presentations and projections about future events. By their nature, forward-looking statements are subject to risks, uncertainties, and other factors that could cause actual results to be materially different. As mentioned also in the Safe Harbor statement included on page 3 of today's presentation, we can have some data that are based on forward-looking statements. Also remind you that the press has been invited to participate to this conference call in a listen-only mode.

With that said, let me turn the call over to our CEO, Mr. Michele Colaninno.

Miche Colaninno - Chairman and Chief Executive Officer

Thank you, Raffaele. Good afternoon, ladies and gentlemen and thank you for attending the conference call of the first half of 2024. I will briefly describe what happened during the period, and then I think it would be

interesting to have some question-and-answer timing after this presentation as you have seen the slides on the website.

Well, revenues are down due to mainly Asia and USA for first half of 2024. Europe, we are managing the safe balance between sell-in and sell-out with a reduction still to be done on the dealer stock, so to be aligned with the new regulations of Euro 5 Plus and so to be prepared for the beginning of next year.

India is showing a positive momentum for the time being. We are happy with the growth, that in India is continuous but slow growth, and I prefer that we can manage this kind of situation instead of the hysteria that we have in some other parts of the world. If you take China for instance, if you take Vietnam for instance. So India, I'm still positive.

I would like to point out the positive cash flow that we registered this first semester compared to a reduction or to absorption of 2023, even though we see an increase, slightly increasing costs that we have been able to counterbalance through productivity around the world, and I won't speak of costs, I refer mainly to logistic costs. And you know why? It is because we have two wars ongoing in Europe, the Red Sea problem and the logistics linked to transportation.

On the raw material, we are starting to see some growing that we will obviously counterbalance, taking some action for the next semester, but even for the next year time, so to be aligned with the margins that we have registered these first six months. For the remaining time of the year, as I pointed out during the Board of Directors, we do not see a big recovery in Asia, even though we are seeing some markets, especially Vietnam, where as I told you in the last conference call, we should have reached the bottom, and with now a stabilizing market and hopefully slightly growing by the end of the year.

China is still a question mark, because it's not just Piaggio products but all the consumer market in China has been affected by the situation over there. If you ask me, I think that in the medium period, all the Asian countries will come back to good performances, even though, then remember that this is the second-best six months that we have registered ever.

So, if I would say a slight comment on this, I am happy about the margins, I'm happy about the cash flow, and I'm happy about the strategy that we put in place on the product side, on the marketing side, and on the development of the dealer's distribution network all over the world. We have an increase of cost of debt that is nothing as a consequence of the increase of interest rates that is roughly EUR7 million compared to first half of last year, and we have increasing percentage of OpEx compared to revenues. We have 1% more percent of OpEx related to the revenues, that means that we are not stretching the costs, but we are investing slightly more on OpEx compared to revenues. So, the percentage on this could have been tighter, but we didn't stop nothing around.

Markets are evolving through electric vehicles very slowly, all around the world, even though we are continuing investing in electric mobility, slowly compared to what has been the predictions of the last years, due to the market that is not there. It will come for sure, but it takes time.

Given that we are investing both on thermic engines and electric engines in two-wheel vehicles and in three and four-wheel vehicles. So, I would say that 2024 and first half of 2025 will be the peak of capital expenditure due to some key points: electric mobility, renewing of the entire Mandello Moto Guzzi Factory, Museum, and all the stuff around the production site, investing in new digitalization of the production plants, so to be in line or better compared to the competition with the production processes.

So, a lot of things has been done, we have to do a lot of things more in the coming years, but as I have to see a medium to long-term strategy, given that I'm not interested in just tomorrow morning, I would confirm to you that the strategy is okay, the product line is quite okay. We have to introduce some minor new vehicles, but we are not to hurry up. So, the biggest part of the work, the job has been done both in scooters, bikes, three-wheel and four-wheel, obviously we will have some technology introduction. We will continue to invest in R&D, we will continue to invest in our trademark's protection, we will continue to invest on brand equity.

Because I'm convinced this is the way to counterbalance the competition arising on the small mobility that Piaggio is in. By the end of the year, I think we will have markets that will continue as the first half. And so, as a consequence of it, you can imagine what would be the target that we have in mind with the actual forecasts. I think that I have pointed out the main key points that, after the first quarter, have characterized also the second quarter, we will push to try to maintain these level of margins to be in line on the full-year basis or slightly better than last year on a full year basis, remembering that for the next year but also this is happening now, we can have some slight cost increase that is not due to Piaggio business, that is due to the actual geopolitical situation. So, we can do nothing.

I think that we can do better in the United States, I think that we could be better also in Indonesia. I'm pushing for it because those are two markets that are interesting for me. China, we follow the market, if the situation is due to problems of the country, we cannot counterbalance this. I think that Vietnam will confirm that the bottom has been reached, and I also think that we have to put in place a new strategy for the two-wheel market in India. It is true that is going and moving towards an high level of consumer business, but some mistakes have been done over there, especially on two-wheels, on three-wheel I'm happy. So, I'm putting in place a new organizational chart to be able to catch the opportunities on the big two-wheel vehicle market in India.

Having said that, it's not so easy to predict what happens around the world, especially from a political situation. We will have elections in the United States that everybody is waiting for to see what happens. India has closed the election period, so it is now Mr. Modi in next years. Indonesia is closed. We will see what happens in the United States and that obviously will, some way, affect the worldwide market in the way of the other.

If you ask me how to try to have a fair competition on the, let's say, more global mobility business, I don't think that fares and import barriers can help the situation, I'm speaking about Chinese products. I think that to be fair competitive in a world of costs, everybody should produce in the same place. So, I would prefer, and I'm speaking also about this as the President of the Association of the European and Worldwide Manufacturers, to be in a fair market, you have to have the same cost basis. This is not today, it will not happen, I think, but as we are investing on our products more on a branding situation to give to the customers a better experience and technology that is up to date for the customers. Today, frankly, I would not say it is intelligent to go in the mass market or to fight on the cost basis. If we produce in Europe, we stay in Europe, we produce in Vietnam, we stay in Vietnam. So I don't see any close down of factories around the world. I don't even see any new investments for new factories, because we have enough and we are in the right place in the right momentum. We will be ready if and when, barriers would be put in place by countries around the world. This is on a very slight introduction what is the first half of 2024. Now, I would say because you have seen the slides, if you agree, Raffaele I would jump the presentation by Alessandra, that is here with me, but ready for question and answer.

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Great. So, we are ready to start with the Q&A session.

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QUESTION AND ANSWER SECTION

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Operator

Okay, thank you. This is the Chorus Call Conference operator and we will now begin the question-and-answer session. (Operator Instructions). The first question is from Monica Bosio - Intesa SanPaolo. Please go ahead.

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Monica Bosio – Banca Intesa San Paolo

Good morning. I hope you can hear me and thanks for taking my questions. I have few, the first one is on the top line. It's now the fourth quarter in a row that Piaggio is reporting declining results at the topline level. In the third quarter 2023, the topline was down by 20%, more or less a similar level in the fourth quarter, in the first quarter minus 20%, and now in the second quarter, minus 10%. Obviously, this decline has been driven by on one side by APAC and on the other side by the decline in two-wheels in Western countries, notwithstanding a stable demand of the European two-wheels market. I know that part of the explanation is due to the management of the inventories, but I'm just wondering, is Piaggio facing a higher competition in Europe? Is it because of your pricing policy? I'm just trying to figure out if in the third quarter, the topline of the group in Europe will start to be positive and growing. This is the first question, and then I will reveal the others after.

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Michele Colaninno - Chief Executive Officer

Well, I have to say that if I look especially at the European markets, yeah, there's competition on price, big discounts from our competitors, we are discounting very few vehicles that are Euro 5 mainly, but with a low discount. I think that it's more important, and I'm convinced on this to have a well-balanced dealers' stock network so to be ready to have good sell-in in the coming quarters, instead of pushing now to show good numbers that then will revert into bad numbers if the stock is too high, because dealers are entrepreneurs, and they have to make money. They make money, Piaggio makes money.

It's not that pushing for a quarter or two on the sell-in would create a safe and healthy future for the company. So I don't know how the market will develop. Our forecast is obviously that the market will be slightly better due to the introduction of Euro 5 Plus, but it also depends on interest rates, consumer credit cost, labour market, so exogenous momentum that are not under our control. If I think of what you have just said, we come from a minus 20 and now we are minus 10. I would say like a positive news, if it continues, it means that it would be the same level of last year on the second half. But as the market is going on, I have to confirm that we will not push the dealers to buy if the sell-out is not in that direction. So, we monitor the sell-out priorly compared to the sell-in. And I think that's right, because then when you have a growing opportunity, dealers are ready to be our partners instead of calling us and saying, hey guys, you give me some

more vehicles on the last quarter, now I don't buy. That is what is happening to some of our competitors. And I think that to have an intelligent view on the future, we have to keep it very safe.

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Monica Bosio – Banca Intesa San Paolo

Okay, perfect. Thank you. And now for the second and third questions. The second question is just a check, you said that in 2025, there will be more costs. Are you meaning that maybe we can have some margin pressure or even in a scenario with a higher costs, the company will keep its current margins?

And the third question is on the evolution of the mix in the second half, and if the company is planning some further launches of new products in the second half. Thank you very much.

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Michele Colaninno - Chief Executive Officer

Thank you, Monica. Yeah, the second one is easy. Yeah, we have new vehicles coming on the market on the second half of 2024, that will be obviously a Euro 5 Plus, but that's normal. We will see, we will continue to invest in new vehicles or enhance the product line that we have, because as I said before, we have some luck both on scooters and bikes, but we are quietly and fairly happy about the product line now.

As far as the 2025 cost increase, well, we can manage cost increase with the actual level of production. If 2025 will be affected by declining markets, we will have to take some action, but you know that we are flexible and resilient. So, I'm not worried about this, either because every year we take some decision to protect ourselves if we see speculative or speculation, especially about raw materials. If you take aluminium, you see it's hysterical in the last months, sometimes goes plus 20, sometimes goes minus 4. So, it's difficult to have the right price in point. But because aluminium is one of the important raw material that we have, we try to, let's say, fix the cost when we see good numbers for us.

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Monica Bosio – Banca Intesa San Paolo

Okay, thank you. Very clear. Got it. Thank you.

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Michele Colaninno - Chief Executive Officer

Thank you.

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Niccolò Storer – Kepler Cheuvreux

Yeah, good afternoon. Thanks for taking my questions. The first one is a check on what you said on margins. If I'm not wrong, you said that you're expecting to keep margins flatter, slightly better year-on-year, but in full-year '24, but in H1 you're already 120 bps more than previous years. So, I was wondering if your comment was related to actually to '24 versus '23 or H2 versus H1 this year.

And the second question is on your P&L, I see that in this first six months of the year, you have had quite significant other operating revenues and other operating costs, one minus the other is at peak level, and I was wondering what's behind these figures. Thank you.

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Michele Colaninno - Chief Executive Officer

Well, the second question is related to the fact that we have won against Peugeot, where you know that we have some discussion with them. The economic result of this will be in the second half. But we have appointed some safe number prior to the end of the Tribunal Court debate.

Then we have some reimburse from insurances around the world because of extraordinary items occurred. If you remember, we had the flood in Italy at the end of last year, we had some reimburse of damages, nothing serious, and nothing related to the ongoing business.

Margins, well continuing to have 17.5% in the second half of the year where we have a declining production volume will be quite difficult. When I say on that year-on-year we will maintain or be slightly better, I think it would be a positive result given that last year I think we had 16.4% - 16.3% and that would be very nice if we maintain it due to the situation around the world. Obviously, we are doing everything to be better, but, sometimes it's impossible to do better than better.

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Niccolò Storer – Kepler Cheuvreux

Thank you.

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Gabriele Gambarova – Banca Akros

Yes, thank you for taking my questions. The first one is on the market trend in July. We are at the end of the month, you told us that you're going to, let's say, produce as much as required by the market or even less, and it depends on the market. So, could you share with us any data and insight on the performance in July, please?

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Michele Colaninno - Chief Executive Officer

Well, I have to say, as pointed out in the communication to the market, that we have achieved in the second quarter of this year, the better result for bikes. We have never been able to sell 11,800 bikes in a quarter, that's from March till June. And this means that the customer is starting to appreciate our job. July, it's quite in line with last year, so nothing happened that can affect European market. So, if I have to analyse from the sell-out and sell-in of the bikes, I would be positive.

Scooter market is different because we have a competition coming from low-price country. But it's not our target to compete with low-cost vehicles or low-cost countries' vehicles in Europe, I mean Europe. I don't know if I replied to your question.

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Gabriele Gambarova – Banca Akros

Yes. And regarding Asia, do you have any early indication on July?

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Michele Colaninno - Chief Executive Officer

No, it's too early. What I can tell you is that it's not a plus 20% compared to last year.

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Gabriele Gambarova – Banca Akros

Okay, thank you.

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Michele Colaninno - Chief Executive Officer

It continues to be weak. But I repeat, if I take Vietnam, that is very important for us because we produce in Vietnam and we sell in Vietnam. I would say that the bottom has been reached. So, now it's starting to sign some positive numbers. But, very, very low numbers. But still, it's a plus, plus one means plus.

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Gabriele Gambarova – Banca Akros

Okay, okay. Maybe is it possible to understand how much you have sold in Vietnam in Q2 since it's the bottom, it would be nice to have a number attached.

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Michele Colaninno - Chief Executive Officer

Well, as you know, we do not disclose and tell exact numbers to the market, otherwise, we will go in a discussion that will never end.

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Gabriele Gambarova – Banca Akros

Okay, okay. Thank you. Another question, maybe more strategic, if you want, because we are always talking about, say this month, last month, so it's a little shortsighted. You mentioned strategy and dealer network development. I was wondering if you have any -- I mean, do you envisage any country you could, any new market you could address, penetrate in the future you're considering widening your, let's say, commercial footprint? are there opportunities out there, do you see any?

Michele Colaninno - Chief Executive Officer

Well, given that we are quite everywhere in the world, it would be difficult for me to target new countries instead I could say that Africa could be one, but it's still too early to think about the localization of production over there for two-wheel and three-wheel, otherwise, we are everywhere.

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Gabriele Gambarova – Banca Akros

Okay, thank you. Thank you very much.

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Gianluca Bertuzzo- Intermonte

Hi, and thank you for taking my questions. On the European market, we have seen resilient numbers since the start of this year. What are your expectations for the second half for this market? And you expect sell-in in line with the sell-out, and so no more destocking in second half for this market. Thank you.

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Michele Colaninno - Chief Executive Officer

No, we will continue to destock, but that doesn't mean that we have a problem. The stock is under control, but I want to have a clear, safe, and ready to start, from January '25. You know it's difficult to predict what happens. It's better to be safe and be prepared for good, let's say, to a 2025 year with dealers ready to buy. The destocking is going as we forecasted, perhaps in some region of Europe, some slight less than what we forecasted, but due to the market, nothing related to the product.

So without going on price pressures, I would like to continue like this for the second half and to reach a positive stock at the end of the year. Even because we are introducing also new vehicles. So it's a combination of, it's a matter of facts that we introduce new vehicles, we have new regulations and we have to destock a little bit.

But the market should follow. So, if July is not negative, today, I don't see any major issue in Europe, then we are going into declining season-related numbers, it's normal. We are going to wait for reduction in interest rate that doesn't come on the market, that's more related to the consumer, to the financing consumer market. So, a number of facts that we forecasted has not happened, but that's not happened for everybody, it will happen, yes. So, it's not just tomorrow morning.

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Gianluca Bertuzzo- Intermonte

Okay, if I may, how many units you destocked in the first half in Europe? Do you have any number?

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Michele Colaninno - Chief Executive Officer

No, we don't give any precise number because we want to give you the real vision at the end of the year. So, it's not relevant if one month is 1,000 more than the forecast or one month is 1,000 less. I target the end of the year.

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Gianluca Bertuzzo- Intermonte

Okay. And on the new vehicle launches on new scooters and motorbikes. What we can expect from the second half, I mean, it will be the launch of new vehicles will be something that may reverse the declining trend in revenues or what?

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Michele Colaninno - Chief Executive Officer

Well, given the fact that you will see what happens, but launching new vehicles doesn't mean that you have to stock the dealers. So new vehicles will be sell-in, taking care of the sell-out of the old vehicles, let's say like this. Because otherwise, I repeat, it's important to continue to invest in new vehicles, but not too much, because the dealers are there, the shops dimension is given, so they are not ready to have 100 new vehicles every year. So, we have to very carefully increase the quality of the dealers, and we are continuously pushing for the Motoplex distribution instead of multi-branch distribution.

We are helping them somehow, it's a tough work to be done, because they are entrepreneurs, and they have to invest money. So, we will find a way, continue the way to help somehow, and to demonstrate that the Motoplex distribution is the right distribution. New vehicles will come, but we will put on the market starting from October, so it's not a huge volume period for the two-wheel vehicles in Europe going into wintertime. It's a rebalancing of stock, introducing new vehicles, both in scooter and bikes.

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Gianluca Bertuzzo- Intermonte

Okay, thank you.

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Gabriele Gambarova – Banca Akros

Yes, thank you for taking my follow-up, Mr. Colaninno you mentioned some issues, I mean, some errors Piaggio made on the two-wheeler segment in India. And I saw that despite a pretty strong market, the sell-in was almost flat in Q2 2024. So, are these problems over? So, you have put in place already strategy and we are going to see a recovery in the second half. This is my question basically.

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Michele Colaninno - Chief Executive Officer

Well, if you consider the introduction of the medium displacement bike, the RS 457, that is a global bike, we are satisfied. The mistake we have done in the past is more on the scooter side, where we have not been able to face the competition of the low cost vehicles. We have put in place a new team that will start from

now, especially to target those kinds of vehicles. So, we will continue to be in the high end and we will stay on the high end. So with the Vespa and the bikes. But at the same time, I think we have to be ready and able, more able than ready to fill the gap, let's say, with the competition that we have on scooters. If you take the Honda Activa, if you take the TVS, they produce millions and millions of vehicles, since now we have not been able, we'll be able. The actual management, the new management team is just people that we have decided to put in place on the R&D. Well, we work for this. But that doesn't mean that we will exit the premium market, because India is growing on GDP per capita and it will grow slowly, but we are ready to catch the growth, numbers are not millions, but with the RS 457, at the beginning we are very satisfied. You cannot compare us with Honda, obviously, that is there in the two-wheel vehicles market since 50 years in India. But we have, I think that we will take the right decisions to be ready and to enter the big volume market there. Not with the Vespa, not with the bike.

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Gabriele Gambarova – Banca Akros

Okay, thank you very much.

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Michele Colaninno - Chief Executive Officer

Let's say India could be an opportunity, oh, it is an opportunity, not could be.

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Robert Janz - Oldenburgische Landesbank AG

Good afternoon, I'm calling from Germany and I have a question regarding the German market. I think which is important for you. To my knowledge, there have been some changes in Germany in terms of working capital financing for the dealers here in Germany. I know that Angelo Mazzone is not with the company anymore. He has left the company last year and I'd like to know if you can comment on the developing of the German market regarding Piaggio or Vespa. Thank you very much.

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Michele Colaninno - Chief Executive Officer

So, thank you for the question. It is very important, your question, because we have to renew our managers, so to have young people managing young people. And it's not true we are reducing the working capital financing in Germany. It is true that we have put in place a new dealer contract all over Europe, so also in Germany that will be more in line with our product line.

If you consider the German market in bikes, it's very important, we've never been there. So, it is for sure because we didn't have the right product and now we have, it is also sure that we didn't have the right people, and now we have. So, I think that Germany will appreciate our job, if some dealers would like to continue like it was in the past. So selling just Vespas, it is no more the time.

We have Vespa, we have Aprilia, we have Moto Guzzi, we have Piaggio, and we have the Motoplex. If you want to follow the strategy on the Motoplex, you have to invest on the four brands, starting with a small

Motoplex, we will help you, I perfectly know that some dealer will exit, some dealer is entering because he's very satisfied.

But, people are the key and take it or not, it's my duty to change people if they do not understand the strategy on a long-term basis. But I confirm to you, Germany is a very important country for us. We are happy of the dealers' network. Germany is like the other countries we have to fine-tune the dealer distribution network, but the final customer appreciates what we are doing, and I think also the dealers appreciate what we are doing.

And they will appreciate if we work as partners, because it is a partnership that we have with our dealers, it is nothing related just to customer and supplier. I am not a supplier and the dealer is not a customer, we are partners. And okay, we have to take some risks together, but I think that the strategy is right.

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Robert Janz - Oldenburgische Landesbank AG

Okay, I see. Thank you for the explanation. But do you see a decrease in sales in Germany at the moment?

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Michele Colaninno - Chief Executive Officer

No. We are following the market.

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Robert Janz - Oldenburgische Landesbank AG

Okay.

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Michele Colaninno - Chief Executive Officer

And we are happy about the bikes.

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Robert Janz - Oldenburgische Landesbank AG

All right. Thank you very much.

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Michele Colaninno - Chief Executive Officer

Thank you for your questions

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay, we can stop now. Thank you very much for attending this conference call. If you need further info as usual, you can call me later. Thank you very much. Bye.

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Operator

Ladies and gentlemen, thank you for joining. The conference is now over and you may disconnect your telephones.