

Piaggio Group

Full Year 2017 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

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

Yes. Thank you. First of all, I would like to thank you, everybody, for taking your time to follow this conference call on full year 2017 results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and by Mr. Simone Montanari, Piaggio Group Chief Financial Officer. During the conference call, we'd use the presentation that you can download from Piaggio Group website. And before going ahead, 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.

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

Simone Montanari – Chief Financial Officer

Hello, everyone, and thanks for attending our call. I would like to start with some slides that we added to our usual presentation namely page 3 and 4 to summarize the great challenge and efforts and results made by the company in our path towards improvement of operational and financial performance.

2017 has been an outstanding year at all levels. At the volume level, we reached two key milestones in our journey. The first one is Vespa, that has been by far the most important vehicle on our product lineup and that do more than 10% in this year, reaching 182,000 units, benefiting from positive results in all key reference markets; the Western countries, Asia and India. In India two-wheeler, we go by 71%, nearly 70,000 units, paving the way to what we think may be a sustainable growth in the world's biggest and fastest growing scooter market.

Moreover, in terms of margins, Piaggio posted a sound growth in all operating metrics, reaching a peak at EBITDA level. In particular, the gross margin has been the highest since 2010 at 30.6%. The EBITDA margin has been the all-time high at 14.3%, going 13% compared to last year at €192 million. Even more importantly, we achieved very positive results at cash generation level, which has been our key priority. We achieved the best results today, both in terms of cash flow and a reduction of net debt, that

coupled with EBITDA generation, boost the leverage down to 2.3, again 2.9 of 2016, that has been the best improvement up to date.

We can move to page 4 to have also a medium term picture on these results. As you can see, since 2013 when I remind you the European two-wheeler market demand reached its lowest peak, the group steadily improved on all key financial metrics, proving the ability to manage the cost base while increasing efficiency and enhancing our product mix. In 2017, we achieved the mentioned result record with European two-wheeler volume still 55% below 2007 levels. And this give you a sense of the magnitude of the results uplift achievable.

In details to be mentioned from 2013, the revenues grew from €1.2 billion up to €1.342 billion (thanks to the €130 million increase in revenues together with a gross margin improvement and the OpEx management, The EBITDA grew €45 million increasing from €147 million up to €192 million or in terms of ratio to net sales from 12.1% up to 14.3%. And equally important, this together with increasing EBITDA drove the net debt reduction from €487 million down to €447 million with a peak of nearly €500 million with the leverage of debt to EBITDA decreasing from 3.3 to the current 2.3.

Having said that, let's move now to page 5 to start looking in details on our 2017 performance starting from the main market trends in the year. We ended 2017 with mixed but overall improving dynamics. Europe ending flat after a negative start to the year. Two-wheel in Asia Pacific and in India posted a solid growth and light commercial vehicles eventually in India strongly rebounded in Q4.

More in details. In Europe, after a start of the back foot the demand trend shifted to positive in Q3 and Q4. As highlighted in our previous calls, the positive trend stemmed from the 50cc vehicles, which ended up the year up by 24%, boosted by volume in Q4. To be mentioned that the strong volume uplift has been driven by the upcoming shift from the Euro 2 to the Euro 4 engines and, therefore, the need to build a stock of vehicles with a Euro 2 engine. Conversely, all vehicles above 50cc ended down on a challenging comparison base. Last year, the segment sales have been boosted by the introduction of the Euro 4 engine.

Looking at the trend by country, I would like to highlight the performance of France, the biggest European two-wheeler market, which strongly improved across the year, leading the country to be the best-performing in Europe, along with the Netherlands and Italy. Also, Italy ended slightly up, reaching the first consecutive year of slight improvement. All in all, the European market kept recovering even if at a slower pace than expected

U.S. remained on a different path, with demand edging down by 7% in scooters and 3% in motorbikes. Asia Pacific ended another year progressing. But moreover and more important for the group, in India, in light commercial vehicle market, the negative effects of demonetization eventually vanished in Q3, leaving room for a strong rebound in Q4, plus 50% in three-wheeler and 44% in four-wheeler, which led the total demand of 3 Wheelers in line with prior year. In addition, always focusing on India, the two-wheeler kept on posting a strong growth, with scooter demand up double digits, confirming India to be the fastest growing and to be the fastest growing and biggest market in the world for scooters.

After this quick review of the main market trends, let's move now to page 6 to have an in-depth analysis of Piaggio Group trend and the results by business.

Starting from volumes, we ended Q4 with overall volumes progressing by 4.7%. That led to an increased total year at 3.9% compared to 2016. These positive results came from different dynamics: with two-wheelers

volumes ending up by 9%; and light commercial vehicles ending down by 6%, after taking [indiscernible] 00:08:39 in Q4, thanks to India. Revenues followed this different trend, ending up 4% in two-wheelers and down 1% in light commercial vehicle. Overall, revenues grew by 2.2% at a group level or 2.6% excluding forex contribution.

More in detail, looking at two-wheeler business, the biggest delta in volumes came from India, whose performance had been fueled by the Aprilia SR sales in H1 and from the positive performance of Vespa in H2, thus confirming the brand potential of Vespa in this country. Vespa sales drove also the average price uptick in Q4 in India.

Two-wheeler western countries ending up by 3%, both in volumes and revenues, despite unsupportive market trend and a slowdown in Q4, mainly linked to our seasonal management of the dealer stock in Europe. As mentioned in prior calls, main driver of growth have been the 50cc vehicles, where our volumes grew double digits, outstripping market trend. To give you more granularity in terms of counter mix, I can add that in Europe, the main contribution to the revenue growth came from Italy, the Netherlands, Austria and Germany.

In Asia, the outstanding performance of Thailand when we grew plus 50%, and China when we grew plus 74% had been unable to fully compensate for the weakness of Vietnam which ended down 15% in volumes and revenues. Overall, excluding forex, Asia was down by 2.7% in revenues excluding forex and 4% in volumes. Noteworthy, despite the overall negative trend, our average selling price in Asia, slightly up versus by this year at constant forex also reflecting the improved product mix, again thanks to Vespa.

Looking at commercial vehicles, we can see that the performance improved steadily in the second half of the year. Revenues, after halting their stride in Q3, grew 12% in Q4 despite adverse forex on the back of the very good performance both in EMEA and in India, plus 13% in Q4, which led the overall full year revenues broadly in line with prior year.

As mentioned before, in India in Q4, we started benefiting from the end of the negative effect of the monetization and the following strong market recovery. Additionally, we posted strong performance in export which grew around 60% in the second half and improvement of domestic sales together with the acceleration of exports is extremely positive looking forward also for the year to come.

Let's move now to page 7 to look at the breakdown of the group performance by product. Overall, we grew both in scooters and bikes, both with revenues up around 4%. In scooters, I would like to highlight again the performance of Vespa that confirmed once more the strong brand appeal. Vespa volume grew in all regions. Notably in Western countries, Vespa revenues went up double-digits, both in 50 and over 50cc segments, also benefiting from the positive price effect.

Among other scooters, I would like to highlight the healthy performance of Beverly and Liberty, both up double-digits, a growing market demand trend. And the condition to be mentioned Aprilia brand scooter performance, going more than 20%, also thanks to the contribution of the India market results, thus revamping the brand strength. Also in bikes, Aprilia confirmed its positive momentum with sound volume and revenue increase on some key products, mainly Tuono, RSV4 and Dorsoduro, and posting the best performance since 2012.

In addition, also to be mentioned, the brand scooter performance of Aprilia growing 20%, thanks to the contribution of the Indian market, while no need to further comment on the light commercial vehicle performance namely India in Q4, that has been already discussed in the previous slide.

Moving to page 8, we can look at the EBITDA bridge. As I mentioned, we achieved the record EBITDA results primarily on the back of the outstanding performance at gross margin level. Notably, the cash gross margin grew to 30.6% that means 1 percentage more against prior year, leading to a €22 million of positive effect compared to last year in our P&L. As you can see in the slide, this €22 million increase is split between the net sales improvement, €9.5 million that is the additional gross margin coming from the additional net sales and the percentage gross margin improvement €11.7 million that is the additional gross margin coming from the improvement of the 1 percentage point of gross margin. This further testify our ability to yield a product efficiency through pricing and product cost management.

Lastly, a great effort has been done to keep operating expenses below prior year level. I'm talking about cash operating expenses, despite higher marketing expenditures and despite higher top line in order to further improve the productivity at those levels.

Going to slide 9, we can look at the net income bridge going from €14 million of 2016 up to €20 million in 2017 or from 1.1 percentage on net sales up to 1.5%. This has been driven by the improvement in the EBITDA of €22 million like before, higher D&A linked to the increase of the amortization of intangible assets coming from past year investment, a decrease in financial expenses €3.1 million lower than last year mainly coming from lower cost of funding together with a lower average net debt throughout the year and the step up of the tax rate namely 50% in 2017 compared to the 45% in 2016. That is the result of the write-down of U.S. deferred tax assets to comply with the recent U.S. tax reform in December 2017, that has been accounted for around €3.1 million in our tax. Excluding this negative effect of €3.1 million, the tax rate that would have been around 43% and notably the net result would have been €3 million higher. That means from €20 million, adjusting to €23 million or 1.7% of net sales.

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We can move now to slide 10 which summarizes the figures just discussed and gives a full picture of the full P&L 2017 compared to 2016 one, together with an estimate of the ForEx contribution on the right side of the slide. In details, net sales from €1,313 million in 2016 to up to €1,342 million in 2017, 2.2% or 2.6% excluding the forex negative effect, mainly linked to U.S. dollar and Vietnamese downgrade evaluation. The gross margin up from 29.6% to 30.6%, that means 1 percentage point higher than last year. EBITDA margin from 13% up to 14.3%. The D&A that grew from €110 million up to €120 million and the operating results that grew from the €61 million of 2016 up to €72.3 million in 2017 or 0.7 percentage point.

The tax charge that has been €20 million, again €11.5 million last year, and remember this €20 million includes €3.1 million of extra charge coming from the U.S. DTA write-down and the net income from €14 million up to €20 million.

Furthermore, on the bottom slide – part of the slide, you can appreciate the strong performance at cash flow level that has been €44 million in the 12 months for 2017 compared to the €7.2 million of 2016 is €37 million more compared to 2016 that led to the net debt €44 million below December 2016 at €447 million. On the next page, we can have a better look on the evolution of net debt.

In page 11, you can see the net financial position evolution who benefited from the improvement in all key drivers. In details, the operating cash flow has been higher than last year, €135 million compared to €123 million. On the back of the higher gross margin coupled with the flat operating expenses.

Working capital positive contribution has been slightly higher than last year, around €10 million mainly benefiting from the lower absorption of VAT receivables. Capital expenditures at €87 million has been lower than prior year also thanks to a favorable comparison base considering that 2016 has been affected by the upfront investment for the completion of the new painting facility in Europe and the change in equity that led to a lower cash absorption mainly benefiting from zero buyback compared to the €6 million that were spent in 2016.

As a result, we generated €44 million of cash compared to the €7 million of cash of last year that has been the best performance to date and which boost the net debt at €447 million and the leverage is down to 2.3 compared to the 2.6 of last year.

QUESTION AND ANSWER SECTION

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

Thank you. Now, we are ready for the Q&A session. So, we're waiting for your questions

Monica Bosio – Banca IMI

Good afternoon, everyone, and thanks for taking my questions. I would have a few ones.

The first is this. Given that your equity story rely now on the recovery of the European scooter market. And given that we are at the end of February, I was wondering if you can give us some indications on at least on Italy as for the wheel registrations. And if you can share with us, what do you expect in term of volumes for the European scooter market?

And the second question is on the current consensus. It's my usual question. Current consensus for 2018 is pointing to an EBITDA at €203 million. I was wondering if you see some potential upside on this level given also the better trend in the GDP also in Italy.

The third question is a housekeeping question. Can you give us some indication on the D&A for current year and on the potential impact of the patent box for current year.

And the very last, if you can share with us some indication on the renewal of the product range and especially about the electric Vespa. Thank you very much

Simone Montanari – Chief Financial Officer

Thank you, Bosio, for your question. I will start from the financial one, than I will hand over to the Chairman in order to give some comments on our new product range.

So, starting from the recovery of the European market, we said that the European market in 2017 has been around flat, with different paths between scooter and bikes. We do expect the 2018 growing compared to 2017. We saw already this growing trend in January and February, in particular, in Italy where on average up to yesterday The growth of the market was around 10% year-to-date, January plus February.

The second question was on the consensus and, in particular, on the EBITDA level. You see that the consensus in this moment forecast €203 million for 2018. It's very, very early to comment on the consensus but I think that, well, let's start commenting on the consensus.

I think that it is something that we may achieve, the consensus EBITDA. You asked also if there is any upside. Yes, there is an upside, as always, starting from the year, but I'm feeling confident in this moment with the consensus forecast.

As for D&A, compared to 2017 where D&A had been accounting for €120 million. In 2018, the increase in D&A trend will start and my forecast for 2018 D&A total group level is around €115 million. So, €5 million lower than 2017.

Patent Box: we are working on it. We already submitted our documentation and we are waiting for the answer that should come in the first half of 2018 but it's not in our hands. Ideally, the range of the positive impact we may have in our tax cost should be in the range of €3 million.

For the renewal for the product range. I will hand over to the Chairman to give you some color

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Roberto Colaninno – Chief Executive Officer

Yes, good afternoon.

Talking on the range of the products, we expect them to be divided in the three sector where Piaggio used to work. The first one is a commercial vehicles.

As you know, we signed an agreement with the Foton company at the end of last year. We worked together to achieve a technology of the Porter that is a new four-wheeler for the last mile delivery that we will begin to produce at the middle of next year. The new vehicle will be equipped with 1,500cc petrol engine EURO 6. And we're working also gas CNG and the LPG version. This is in line with the decision that we'll announced yesterday that the diesel engine will be limited there starting from next year and the following year. This will be very important because this new Porter will have the same size than the actual one, but with better engine, better performance and better accessories.

In India we are on the way to change actual engine diesel with an alternative fuel one for three-wheeler The engine will be Barat 6 that is corresponding to our Euro 6.. This engine will be built completely inside to our factory in Baramati and will be launched to the market by by the end of 2019 beginning of 2020. This will be an engine of 400cc and we will exclude the diesel version .So, we believe to cover for the European market, for India market and also for Africa market, with a complete range, with a non-diesel engine, completely new engine, completely new body.

Then we have for the end of this year, we confirm the Vespa Elettrica. As you know, this will be coming in two versions: one, full electric, that will have a capacity of 60 kilometer on the urban utilization; and hybrid version, that will be in a combination of electrical engine and thermic engine, that gives an autonomy of when you are in the electric side, of 40 kilometer on the urban utilization, and 150 kilometers when you use the range extender. We expect this will be launched worldwide and will be due on October of 2018.

Then we have the scooter and motorbikes that will have the engine renewed in accordance to Euro 5 that will be at the end of next year. And all our engine will be in line with the European new regulation and also United State and Asian regulations.

In particular, for bikes, as you remember, we have already Moto Guzzi V85 that is confirmed ready for the market in September of this year, plus other two model of the family of the Guzzi V7 , that will be launched at the end of this year.

Then we get the Aprilia 600. It is completely new model for Aprilia. There are three type of bikes. One sport version, the other one is within Tuono family, and then the other one is the Tuareg family.

That means that the application of this engine is one for Sport, one is for Turing, another one for meduim Sport that is naked.

Then we are working for the end of 2019, on a new version of Moto Guzzi that should be considered completely new type of product, that will have a new engine, a new cylinder unit in the range of 1,000 and 1,100.

We believe this will complete the family of scooter and motorbikes for 2018 and 2019

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Renato Gargiulo - Intermonte

Good afternoon. My first question is on Vespa. We have seen good results this year. It seems across all the main markets. I was wondering what are the main drivers in terms of markets? Is there any markets which are performing better?

My second question is on MP3. Can we assume this year any recovery or better contribution compared to 2017, following the slowdown and was it just a matter of model switch?

Then, my third question is on price mix. What are your expectations for 2018 in terms of pricing?

And then my very last question is on factoring, if you can give us an update about your level of factoring at year end? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks Mr. Gargiulo for your question. Let's start from the first one, Vespa, well, we had the different trends throughout the year and throughout the region. The lowest one was in Asia where we grew from 1.2%, then in the middle with Western countries where we grew by 10% compared to last year, up to India when we grew more than 50% compared to the previous year one. So, basically very, very positive in India, in the Middle in Western countries, almost flat in Asia, basically again.

The second one is MP3. The answer is nothing extraordinary compared to last year, that is we will have our ordinary renewal on the range including the existing or restyling, but no new model for this year 2018 on the MP3 range. We will have to wait for the year to come.

The third question is on price mix. Expectation, well, as I was commenting during the call, the market in 2018 will shift from 50cc to the over 50cc also considering that the 50cc has been impacted by the change of regulation from Euro 2 to Euro 4. The change in regulation will drive additional cost and additional cost will drive to higher price. So, basically we expect that some part of the market will shift towards the over 50cc mile segment. And this will have a positive impact on our pricing.

The last question was on factoring. Supposed it was factoring on receivable. The factoring of receivable at December 2017 has been exactly in line with the 2016 one. That is around €90 million. And so, no growth despite the higher volume effect. In fact if you notice we have growth in western countries but we didn't have any growth in factoring our receivable. And so, basically nothing exceptional on this site.

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Renato Gargiulo - Intermonte

Okay. Thank you. If I may, a very quick follow-up. On taxation we are seeing the write-down of the U.S. deferred tax assets. Can we assume any even if more positive impact this year from the U.S. fiscal reform?

Thank you.

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Simone Montanari – Chief Financial Officer

Some, yes. Some, yes. For sure we will not have any further write-down and we will benefit something from the part, portion of profit that will come from the U.S. As you may know in U.S. we do have just a commercial company. So, the profit is the profit of a commercial one, not from a manufacturing company. So, it's lower, has been lower the profit if we also lower the impact.

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Niccolo' Storer – Mediobanca

Yes. Thank you. Good afternoon, gentlemen. I have two questions. The first one is on gross margin. You achieved a really outstanding figure at year-end 2017. So, I was wondering if you could comment a little bit on the drivers behind is important result, and if you could also give us a split by main geographical areas.

The second question is on volumes. If you could give us a little bit of flavor of, first of all, the split of Vespa sales between India and Indonesia. Secondly, the sales in Western country between EMEA and Americas and the third in Southeast Asia, 78,000 units which is the weight of Vietnam and Indonesia. Thank you

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Storer. I will start with the gross margin. Yes, it has been quite an exceptional result, the 30.6% of this year. What's the reason behind this result is basically the fact that the improvement in production volumes and sold, the sales volume in Europe came with an improvement in the productivity of the whole European manufacturing plant. And this supported the gross margin.

Second, we also benefited in the last part of the year from the recovery of Indian market. Third, on the other side, the gross margin in 2017 has been already affected by increasing some raw material prices, increase that we think it will continue also in 2018. But that we have been able to counterbalance to product cost efficiency and further productivity in 2017 and we expect that this will go on also in 2018. I do not expect that we will further improve beyond the 30.6% but I want to maintain this level of gross margin that has been quite exceptional.

As for the volume, the split of volume if you may, I would hand over or to a later call with Mr Lupotto to give all the details that you may need.

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Martino de Ambroggi - Equita

The first question is on the R&D. What is the balance between the capitalized and amortized R&D for the full year 2017 and what should we expect for this year based on the projects in R&D that you have in mind?

The second is on the guidance for EBITDA at €203 million. You mentioned to be confident with this level. I know it's difficult because there are many moving parts, but what is the underlying assumption in your mind in order to achieve such EBITDA? And the third just a remainder on the tax rate, what is the normalized tax rate going forward? Thank you.

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Simone Montanari – Chief Financial Officer

Thank you, Mr. de Ambroggi. So, starting from R&D, well, the part of the R&D that had been capitalized in 2017 has been lower than the part that we had in D&A was because we had that simply higher D&A compared to the CapEx in 2017. This trend will remain also in 2018. If this is the question.

The EBITDA level, €203 million of the consensus, which may be the driver behind. But first of all, the growth in the topline, that should come for sure in India and also in Western Countries that will drive the EBITDA even if at the same EBITDA margin.

Secondly, I expect that in 2018, we will have in terms of contribution to the 100% of our result and higher contribution coming from India, India results. And thanks to the EBITDA, the India level is higher than the average and this will support to the overall EBITDA at the group level.

The third question, tax rate, I expect that the tax rate of 2018 should be in line with the 43% of ordinary tax rate. Also, this will be linked to the higher contribution of India when we, in terms of tax rate, it is higher than the group one.

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Martino de Ambroggi - Equita

Okay. Thank you. If I may, just to follow up on the R&D. In 2016, the balance was €7.5 million. If it's not possible to have the precise figure right now, we'll wait for the full disclosure but just to have an idea if it's higher,

lower and what should we expect going forward?

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Simone Montanari – Chief Financial Officer

I don't have the figures here with me. We will get in touch with you later..

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Filippo Prini – Kepler Cheuvreux

Yes. Yes. Good afternoon. Sorry, again. I got two question. The first one is on the CapEx. Could you give an indication for 2018 since I see that the level of 2017 €85 million has been €10 million below the level of the year before. The last one more long-term question I remember that more or less two years ago you gave us an update of your industrial plan we target at 2019. If you can tell us which is your feeling if you still believe that those targets are still reliable. Thank you.

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Simone Montanari – Chief Financial Officer

Let's start from CapEx. In 2018, we expect to have CapEx in the range from €90 million to €100 million. So, basically starting from the €87 million of last year. Also by the way, coming to the question of Mr. Ambroggi on what was inside the €87 million CapEx of this year, €26 million has been for R&D.

As for guidance for 2019, we do not give any more guidance for 2019 and the year to come. So, we stay in 2018 with the one that we already commented during this call. And by the way I expect that the consensus in this moment is already reflecting our forecast.

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Gabriele Gambarova – Banca Akros

Yes. Good afternoon to everybody and thank you for taking my question. Two questions.

One is on India, you recently introduced you introduced – you recently introduced a couple of new scooters on the market. So, I was wondering if you could share with me your expectation on their volume of sales. And then in the longest term, since we have 150,000-unit production capacity in India, I was wondering when we could assume you will saturate this capacity?

The other very short question is on China. You mentioned the 74% growth in volumes. So, I was wondering if anything has changed there, possibly what are the volumes in absolute terms and what are – what is your strategy basically if anything changed there? Thank you.

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Simone Montanari – Chief Financial Officer

Yeah. Thanks, Mr. Gambarova. So, let's start from India Two Wheels. By obviously, we expect to grow and we

expect to grow in 2018. And our expectations are below 100,000 for 2018. So, I think something in the region of 90,000 units for the year to come. If something better will come, we will comment on this during the year.

As for production capacity, we do not see the need to expand the production capacity in the short-term. We are ready to do it. We also start to think about it. In case , it will be always included in our ordinary CapEx level at the year level. That will be around €100 million. So, we will not expect to have further capital expenditure needs coming from these positive and lucky situation when we will find it.

As for China, nothing changed. The high growth – the high percentage of growth came from the fact that we started for a very small number, basically. We have seen there that the number of units that we sell in China is below 5,000 units a year. So, I think that there is a – definitely, there is an opportunity to increase these units in 2018 and from the year to come. But in this moment, nothing changed in our approach or in our processes.

Beside the fact that we will continue what we started and we will continue to expand our Motoplex dealer network footprint also in Asia as we did last month in Hong Kong and these will give a contribution at least to the sales and also to the brand awareness in the area.

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

Okay. I think that this answer takes the call to an end. So, if you want to ask more questions, as usual, you can call me later this evening, tonight and tomorrow. Thank you very much for attending our conference call. Bye.