

Piaggio Group

First Quarter of 2021 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Hello, thank you very much for taking your time to follow this conference call. So this conference call will be held by Mr. Roberto Colaninno Piaggio Group, Chairman and Chief Executive Officer; Michele Colaninno, Piaggio Group Chief of Strategy and Product; Alessandra Simonotto, Piaggio Group Chief Financial Officer and myself.

All relevant materials are available on the Investors section of Piaggio Group website and in the end of the presentation we will be available to answer the questions you may have.

Before starting the presentation as usual, I need to remind you that during today's conference call, we may use forward-looking statements based on Piaggio's current expectations and projections about future events. By their nature, forward-looking statements are subject to risks, uncertainties and other factors that can cause actual results to be materially different. Also, I remind you that the press has been invited to participate in this conference call in a listen-only mode. And now I would like to turn the conference call over to Mr. Roberto Colaninno.

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Roberto Colaninno-Chairman and Chief Executive Officer

Good afternoon. As you know, the results of the first quarter are very good. It is very good due to the market where Piaggio is playing its game, that is divided, as you know in four big areas. One is EMEA, the second one is India, the third one is Asia plus China and then last one is the United States and the Canada. If we consider all these markets together, the results give to us a positive expectation for the future, for the rest of the year. Naturally, we have some area where we have some difficult situations as India, the second area where we have difficulty is the price of the raw material, that is a very, very difficult to predict the trend on the future time, especially for iron, aluminum and what we consider the important raw material for, anti-pollution technology as rhodium, platinum and palladium. Divided these two, these three concepts markets, India and the raw material, Piaggio plays its game in the way that it maximizes the product strategy and the sales organization strategy in Europe, in Asia-Pacific and China, in Canada and United States. I want to underline,

what we have done regarding China market in terms of organization. We just started at the begin of the month of May with a new organization in China. This new organization in China is organized in the way that we have three business units. One is market sales on Chinese market, and the results of the first three months with Vespa and Aprilia are very, very good, in some way it is unexpected results. The sales raised up by 70% in the first quarter related to last year and the year before. and what is more important is the margin is quite good. The second business unit is the relation with Foton Group where we are working today to develop the electric engine for the four-wheeler Porter that we are producing now in Italy. The third one is the market of components especially electronics components and other components where the Chinese market is the market that we consider more competitive worldwide. These three business units today, finding one company that is located in Beijing and in Canton and they control all these three sectors, including the joint venture that we have in Foshan near Canton with the company in Zongshen. The number two is the Asia-Pacific located in Vietnam, and now, as I mentioned to you in the last meeting, we are developing our new company in Indonesia where we have already begun to build a new factory. The results on the Asia-Pacific on the first quarter is very, very good especially for sales in Vietnam, Thailand, Indonesia, Philippines and Korea. This development of production plant and the sales gives us the possibility to double the production, and we are very close to reaching this goal.

Where we have the problem is India as you know. India is a problem of pandemic reason, we work at the possible at high possibility of what we do and then we base our strategy on the exports from India to the African country and other country around India. Today our plants in India are working 100%. We have invested some money to protect the people that working with us, in order we have provided for vaccine to everybody and the area where it is located, our factory today fortunately is not involved in any lockdown.

United States and Canada has a very good results on the bike sector and the forecast for the rest of the year is exactly what we have budgeted in our plan. So the results that we have achieved in the first quarter we work and we believe to be in the same range for the rest of the year because we see a good market for Europe, a good market for Asia-Pacific, extraordinary market for China and very good also for United States. To play at the global vision, we can play and also manage the value of the currency and the value of the raw material and the parts and components that we can play around the world in the different markets. And today, we don't see any problem for us to have enough quantity of components to satisfy the next production plan. For India, we never forget that India is a market of 1.4 billion people, that has shown that they when , they able to change or to improve their situation, the virus situation, the market will be growing in a very high number.

So, at this stage, we consider positive next future. We are in line with our plan of CapEx, we are in line with our number of new vehicles that we projected for this year. We are in line with the new investments on the new line of Porter four wheelers, and we are in line also on electric develop engine. On this side, on this last question on the electrical, we expected to be ready to launch a new electrical product for the month of June. This would be process completely full electrical products, 50 cc and with a very competitive price. So, we can say that, we have to work hard. We have problems to manage, but we have also a lot of possibility and a lot of challenging goal to achieve for the rest of the year.

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Raffaele Lupotto – Executive Vice President, Head Of Investor Relations

Okay, and I think Alessandra will further comment on the financial results.

Alessandra Simonotto – Chief Financial Officer

Okay, thank you Raffaele, thank you Mr. Colaninno. After the overview that Mr. Colaninno I would continue the call with Page 13, in which we have underlined the highlights of the first quarter of 2021. As you can see and also as you have already read on the basis of our press release, this quarter is the best one or the highest one in our history for all the most important metrics we have. So, compared with 2020 but not only as you can see the net sales has reached at the end of March 2021, the amount of EUR 385 million at 23.5% higher than 2020, but also EUR 40 million higher than 2019 and this is the highest value since 2007. About EBITDA we can say that the value of EUR 56 million is the highest of the quarter, the highest in our history, both in absolute terms but also in percentage as we reached the ratio of 14.6% on net sales. About net income, again one of the best results in our history EUR 11.1 million, 3.5 against last year and 2.9% on net sales. Last but not least, the net debt reached at the end of March, EUR 449 million, EUR 100 million less than March 2020 and EUR 45 million, EUR 48 million less than 2019.

If you go ahead on page 14, here you can find the comment about our industry key demands trend. About EMEA and Americas even so all major countries were still grappling with lockdown, we can observe a robust demand ahead of the seasonal peak. Piaggio market share is on the rise both in motorbikes and scooters just like Mr. Colaninno said before. Asia-Pacific posted mixed demand trends, Asean 5 declining mostly reflecting Indonesia double digits dip. Also, the sequential improvement across the quarter bodes well for the rest of the year. China and Taiwan on the rise, the former surging by 70%. About India, India shows multiple speed dynamic. Two wheelers already back at the pre-pandemic level, while about three-wheeler we can say that the dynamic is reflecting the rural and urban demand disparity with cargo back to growth versus 2020 while passenger ended down reflecting subdued activity in major cities.

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Let's move to Page 15 to have an in-depth analysis of volumes and net sales trends by business. Outstanding performance of two wheelers magnified at the revenue level by significant positive mix price effect, this is to be the title also of this slide. About two wheelers EMEA and Americas, the outstanding volume performance heightened at revenue by steep average price increase also reflecting product portfolio enhancement. About two wheelers Asean, we can say that staggering performance in an overall subdued market environment boosted by Piaggio premium positioning and distribution network expansion. On two wheelers, India, surging results outstripping market trend, behind strong growth of Aprilia and Vespa brands. About CV EMEA and Americas results already above pre-pandemic level, boosted by the successful launch of the new Porter NP6. On CV India, CV India still suffering from the protracted weakness of the Pax segment, as already said, which overshadowed the improving trends in cargo and exports.

Going to Page 16, you can see the breakdown of the performance by product as usual. Looking at scooters, we have reached outstanding results behind strong performance across all geographic areas and widespread positive price effect. Vespa volumes and revenue surging benefitting from widespread geographical growth coupled with sound pricing. Beverly posted double-digit volume and revenue growth also benefitting from the successful launch of the new version in the latter part of Q1. Regarding motorbikes, eye-popping performance propelled by the success of the remarkable array of product launches. The ongoing mix shift towards high-value segments coupled with market share gain of both Aprilia and Moto Guzzi. As you can notice, commercial vehicles volumes and revenue dragged down by that Indian passenger segment protracted weakness.

Going to page 17, you can have a look on the EBITDA bridge in which most part of the factor is made the by the net sales growing more or less EUR 22.6 million and an effect also on gross margin. We can say that gross margin benefited for the uplift of the ratio, as already said, the ratio on net sales proving the Group's ability to cope with raw material price escalation as well as global shipping and supply chain challenges. About cash OpEx, we were lower weight on net sales versus prior year, they grew up to support the business grow.

On page 18, you can have the complete P&L of the Group for the first quarter. As we already said, net result surged 3.5 times verses Q1 2020. We have ratio on net sales topping 2.9%. About tax rate, we consider in this first quarter as prudently tax rate at 40% in line with Q1 2020. About D&A, reflecting recent years heightened capital expenditure.

Going to page 19, here you can find an analysis of our net financial position, and the evolution of the net financial position both on the next, on the last three months and also on a rolling period of March 2020 to March 2021. So, we can say that the net financial position at the end of March see the lowest seasonal cash flow absorption today despite step in capital expenditure drove net debt, as we already said, to EUR 448.6 million well below the EUR 548.6 million at March 2020 and 2019 level. Significant free cash flow improvement versus Q1 2020 of more or less EUR 19 million driven by higher operating cash flow and in a discipline on working capital as we already said during the different comment in the last conference call. About CapEx, we can say that Q1 CapEx grew up by EUR 7 million from EUR 28.5 million to EUR 35.6 million consistent with the full-year target driven by heightened focus on product development to fuel growth.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. So now..

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Alessandra Simonotto – Chief Financial Officer

We will wait for all of you in Mandello in September for the 100th of Moto Guzzi.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. Thank you and now we are ready to answer the questions you may have. Thank you.

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QUESTION AND ANSWER SECTION

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Emanuele Gallazzi – Equita Sim

Yeah, good afternoon everybody, thank you for taking my questions. I have two questions, the first one is on the cost inflation. Can you just give us some more details on what you are experiencing now in raw materials and what could be the impact on your margins for the full year. And then the second one is on the western countries, if you can comment on the strong price mix in the first quarter and share with us your expectation for the full year. Thank you.

Roberto Colaninno-Chairman and Chief Executive Officer

Okay. As I said before, we have registered the price increase on raw material as steel, iron, aluminum and all the material that we use for the catalytic emission system. Until today, what we have, how agreement we have major supplier is not registered the same value of the market. We are below the price that is run today, and we expected based on our buy with our diversified purchasing strategy, to China to Europe, United States and some other place. We are able to keep in balance, what is the budget cost of raw materials and components for the full year. Because even the currency as Indian Rupee and Vietnamese Dong and the Chinese Renminbi are in line with the inflation and in some way we should be able to compensate for the price increase. We don't expect for other price increase for the second six months. In terms of purchasing of electronic components, electrical components and the other one we have diversified our supplier for different countries and until today based on our stock strategy and based on what we see our sales budget to production for the second quarter, we can say that we don't have any problem on the production quantity for the second quarter of the year. We work today largely projected our production required for September, October, November, where normally is still high market for Europe, higher markets for South Asia and high market for China. On this way we want to say the last quarter that we have to cover in our production strategy is open to the market, but we don't see big problem for us to cover our requirements for the full year time. In terms of inflation, well inflation is not very high in all the countries and the price is stable and the price of our products is in line with the price of competitor and what is benefits for Piaggio is that today Piaggio has a production entity located in Italy as you know, in India, in Vietnam by the end of the year, in the Indonesia and in China. So, our diversification, production diversification on different market protects us on terms of inflation of the raw material and inflation components. We project to control very two weeks all the trend of the price on the market and until now, we see that our sales strategy and price strategy is in line with what we have in budget.

Going back to specifically to talk about India. India, as you know, it is a critical time but the location of our plant until today is not involved in any lockdown. We expect that any way to look the future develop of the virus and we have planned to help all the people working in our plant to be safe in terms of vaccine and in terms of what we can do to protect all the people. Until today, we can say that India anyway has a better result than last year, corresponding time, and we see now based on the projection of the Indian authority that we have achieved the peak of the pandemic situation on last week and then we expected some, we can say not the worst situation but some results can give to us the idea that this pandemic situation have achieved the maximum on the last month. Now excluding India, what we can say that the Vietnamese factory work today in two shifts and we have another shift where we are expected to be in place on the third quarter and the last quarter of the year. The China factory work at average of two shifts, we expected to keep two shifts for the rest of the year and the Chinese plant is fully occupied to deliver of electrical scooter ready for European market and for Southeast markets. We expect to be beginning the sales on the month of May or June, July. What we have a good achieved good result is in the growing of bikes. Bikes are developed in Italy and Europe then in United State, then we begun some sales through Moto Guzzi trademark also in China.

So, we want to say that we don't see any problems on any inflation point of view, we have to work to keep the strategy of raw material purchasing and component purchasing in line on the requirements of production plant and we don't see the market problem for Europe, for United States and for China and for Asia. India naturally depends for virus situation, but until today, we have worked to keep safe our plant.

Emanuele Gallazzi – Equita Sim

Thank you very much.

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Monica Bosio – Banca Intesa San Paolo

Good afternoon everyone and thanks for taking my questions. The first one is on the European two wheel market. Do you have any indication in term of market growth for April and would you still confirm as for Piaggio a mid-single digit growth rate by the end of the year in term of sell-in in Western Europe. And Western Europe, just some more colors, are you seeing different trend between Scooters above 50 cc and Scooters below 50 cc? Thank you very much.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So, Monica, the first question was regarding the market trend in April in Europe?

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Monica Bosio – Banca Intesa San Paolo

Yes, correct.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yeah, we have just data for three weeks and clearly the market is positive clearly compared to 2020, but also compared to 2019. Can you hear me?

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Monica Bosio – Banca Intesa San Paolo

Yeah, I can hear you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Also compared to 2019, notably the Netherlands is performing extremely well, and Italy seems to be very strong internal market and if I look at the last data that I have received the markets will go up around or close to 10% compared to 2019.

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Monica Bosio – Banca Intesa San Paolo

In Italy?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

In Italy. For other markets, just facing for the first three weeks and overall the market is likely positive with these two markets outperforming. The Netherlands and Italy, France is doing really well too. This is the first question. The third question is link again to market, no the trend between 50 cc on overseas you've seen a market trend sell-out has been pretty much the same in the first three months. So, the growth of the 50 cc scooter was in the region of 20% and similar trend in over 50 cc, 21% but this is the market. If you mean what we did as probably we said before we performed very well in over 50 cc and we outgrew the market in over 50 cc and we gained more or less, exactly 2% point of market share in over 50 cc. So, maybe this is also linked to one of the questions that Emanuele Gallazzi asked before. One of the reason the average price going up is due to the very strong mix effect, also because we improved, increasde a lot in higher displacement against low displacement vehicles. I think I gave you a comprehensive answer, then there was something else, I don't remember the question, sorry.

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Monica Bosio – Banca Intesa San Paolo

If you confirm a mid single-digit growth in sell-in trend of Piaggio by the end of the year. I remember that there was a similar indication in occasion of the full-year conference call but maybe I'm wrong.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Normally, we don't give guidance at this stage. We don't give this kind of indication now.

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Monica Bosio – Banca Intesa San Paolo

Okay. Just a follow-up on India. I understand that the situation is difficult, but in the two wheel segment Piaggio is performing very well and the market is up year-on-year. I remember that there was a statement from the CEO of India. He was pointing to roughly 100,000 vehicles, two wheels in India by year-end. Are you still comfortable with this projection?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

If the situation will improve by June, in term of the spread of the virus, yes, because in Q1, our performance has been very strong as you know, so this is our answer.

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Monica Bosio – Banca Intesa San Paolo

Okay. Thank you very much.

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Francois Robillard – Intermonte

Hi everyone, thank you for taking my question. Another question on India light have on the commercial vehicles market. It's the one that's been suffering the most since the start of the year, is April starting to show something else or what are your expectations mainly for this market by year-end?

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Roberto Colaninno-Chairman and Chief Executive Officer

If you are referring to the Porter production, I can confirm that we are on the production on today as we have projected and the results of, the further action sorry, of the market regarding the quality, regarding the power of this new vehicle is very good and until today for the first delivering on sell-out on this kind of products, the European reaction is very good and we believe that, at this point we can confirm our budget for the year.

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Francois Robillard – Intermonte

Sorry, No. I meant about your view about the Indian market going forward. But then yeah, if you can as well, what you added just give us some more color on your expectations for the new Porter in Europe. I see you reached over 4,000 pieces; can we expect the same rhythm for the coming quarters for commercial vehicles in Europe as well.

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Roberto Colaninno-Chairman and Chief Executive Officer

I am referring to European market, I am referring to the production of the new Porter which production began by the end of January of this year. As you know, these new products that we began, we have launched on the market on February and March and we have the first reaction of the market on this new product and this reaction is quite good. So, I was referring to the European production of the new Porter. Regarding the commercial vehicle in India, the three-wheeler, I will confirm that our market, our segment market for the rural area is in line with the budget instead he sales of the city product are down in relation to the virus situation.

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Francois Robillard – Intermonte

Okay, thank you very much. And just one last question, in your slide, you on the cash flow, can you give us some more color on what is inside the EUR 7 million of the change in equity and others, referring to slide 19, the chart on the right.

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Alessandra Simonotto – Chief Financial Officer

If we exchange reserve, so the change of all the balance sheet of our company in US dollar or in the other currency than Euro. Then normally they can create a difference that booked in a specific reserve. That you can find in the financial statements when we will publish the book in the next week.

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Francois Robillard – Intermonte

Okay, thank you very much.

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Alessandra Simonotto – Chief Financial Officer

Okay.

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Gambarova Gabriele – Banca Akros

Yes, thanks for taking my questions. I was wondering if you can cast an expectation on your volumes for Far East Asia, they were up 47% incredibly well in Q1. So, I was wondering if you can give us a number on your expectations in that area for 2021?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

As we said before, we don't give guidance at this stage, so we can't provide you with a number or forecast for Asia Pacific at the end of the year.

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Gambarova Gabriele – Banca Akros

Okay. So if I can make another question about mix and price; it was very, very strong in Q1, around 7% or something similar. Do you expect it, I mean is there any, let's say comparison or seasonal effect or we could, we should consider a similar impact for the rest of the year on your top line and margins.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

As we said before, this is mainly a mix effect, so you can imagine that these put in mix effect will last for the remaining part of the year. So this is the key element. As you probably have seen the first slide of the presentation, we showed some numbers concerning in Aprilia and Moto Guzzi that achieved outstanding results. Also given the fact that, we launched several new products that are performing very well, and so this is a positive element in term of mix. And as I said before overall, if you look at over 50 cc compared to 50 cc or small displacement vehicle, we performed better in over 50 cc. So overall in a strong mix effect.

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Gambarova Gabriele – Banca Akros

Okay, thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

I don't if I answered to your question. There is no one off, is the trend linked to the new product launches and the success we are having with our product launch that we are having and experiencing.

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Gambarova Gabriele – Banca Akros

Okay, thank you.

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Michele Baldelli – Exane BNP Paribas

Good afternoon everybody. Thanks for taking my questions. They relate mainly to the sell-in and sell-out trends. Just to give some color on it. If I look to the numbers from the market and the market in 2021 was plus 1% compared to 2019 Q1 but the volumes at least that I've seen on developed countries on two wheelers are kind of let's say plus 7% to 8% compared to '19. Does it mean that you are now in a phase where you give more sell-in then sell-out in the EMEA region? And this is the first question. The second one, still on the sell-in and sell-out. If you can also give us some figures in the Asean part. If you are, let's say, doing more sell-in than sell-out in particular in China and Indonesia. Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Michele, in realty is quite the opposite compared to your statement. In Europe, we are reducing the dealer stocks and our sell-out strongly outgrew sell-in. In fact, we end up in Europe with the lowest Q1 dealer stock ever and it was pretty much aligned with at the end of last year. So de-stocking, sell-out outgrowing sell-in and that's the reason why also we gained market share. Similarly, in Asia there is no stock effect at all, is market driven and sell-out driven our performance.

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Michele Baldelli – Exane BNP Paribas

Okay. Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay, you 're welcome.

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Michele Baldelli – Exane BNP Paribas

Another quick question is about the Poste orders, if there is any, let's say, volume, so of that in Q1 and if we will see it, when in Q2 would be mostly?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yeah, there was a small effect in Q1. Clearly, you know, we won the tender one year ago. We have to sell 5,000 vehicles for more than EUR 30 million and out of 5,000, in our Q1 results we have around 1,700 vehicles. So, this is the effect of the contract with the Poste Italiane.

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Michele Baldelli – Exane BNP Paribas

Okay. Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

You're welcome.

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Sebastian Lémonnier – Inocap

Yes, hi, good afternoon. Can you dig a bit more on the Chinese market and the good opportunity for Vespa. Can you describe who is the customer, is it mostly new clients, a new adopter to the scooter basically or is it like higher end penetration outpacing the demand segment? Is it the first question. Still on China, can you talk bit about the dealer network, it's a growing network. Do you have any data that this? Just to try to give us more color and then more complex question will be how big you think the market in China could be for Vespa in the next three to five years.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So, essentially in China, most of the sales in China now are Vespa scooter and clearly the strategy is a premium strategy, and we are targeting particular kind of clients. And we are succeeding, and we have success with these vehicles so far. You are right. If you look back on our report, you see that in the last two years, we increased dealer network, and this is part of our strategy in China. If this is one part of your question. So these are trying to...

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Sebastian Lémonnier – Inocap

..to be in China

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

extend the dealer network and the expectation are good going forward, in terms of market trend our penetration in the market. It's okay?

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Sebastian Lémonnier – Inocap

How many dealers you have today in China and what could you introduces in 2021?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yeah, sorry, I haven't understood your question. Can you repeat please?

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Sebastian Lémonnier – Inocap

You said, you're increasing the dealer network, how many dealers you have today in China and how much you see in 2021.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So, in China, and I'll give you the number. So, in China, we had, we end up 2020 with 48 point of sales, 48 Motoplex and the goal is to increase at least 10 point sales also this year. As I will say before, if you go back to two years ago, two years ago we were at 20. So, there is a speed up in term of point of sales opening.

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Sebastian Lémonnier – Inocap

And the last question in relation to Gita and the partnership with Trimble. Can you provide rough estimate how much basically what's good, how much you see will add to the... of your technology because so far that was a cash burn to the company and I'm just wondering if we reach real turnaround on basically move slowly to breakeven free cash flow generation there. So it will be great if you can elaborate a bit more

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

No Sebastian, we don't provide financial data so far, so we can't disclose anything so far.

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Sebastian Lémonnier – Inocap

Okay. Okay.