

# Piaggio Group

## First Quarter of 2023 Financial Results

### CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

MICHELE COLANINNO - CHIEF EXECUTIVE OF GLOBAL STRATEGY, PRODUCT, MARKETING & INNOVATION

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Operator

Good afternoon. This is the Call of conference operator. Welcome and thank you for joining the Piaggio Group's First Quarter 2023 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions.

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

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### MANAGEMENT DISCUSSION

#### **Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Thank you. Hello, everybody. Thank you all for joining us to follow this earning call. Joining me today are Roberto Colaninno, Chairman and Chief Executive Officer; Michele Colaninno, Chief Executive of Global Strategy, Product, Marketing & Innovation and Alessandra Simonotto Chief Financial Officer.

You can access the slides supporting today's 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 expectations 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. Also, I remind you that the press has been invited to participate in this conference call in a listen-only mode.

With that, let me turn the call over to our CEO, Roberto Colaninno

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#### **Roberto Colaninno - Chairman and Chief Executive Officer**

Good afternoon to everybody. As you have seen, the results of the first quarter are quite good. I just to reconfirm that this quarter is in line with our budget configuration. So, the results that we show are in line with our expectations. As you know, the Piaggio Group is present in all the world's markets and the vision

that we have is globally intensive. And based on that, we see that the market evolution of the first three months is in line on what we expected for the future months. Our business is in Europe where we have some countries going extremely well, Italy, Germany, Austria. Other countries as Holland and France are a little bit delayed, based on different question, but generally speaking, Europe has sales line very stable.

The second huge area is Asia where we are present in India, in Vietnam, in Indonesia, and China. We see that India presents numbers that show that '23 would be much better than '22, especially on the three-wheeler. Vietnam, Indonesia, Philippine are in line with last year's business and we expected that even this year, we maintain the same quantity, price, EBIT, and results as last year. I want to underline that last year, we have a very, very positive results. China is a little bit delayed. Generally speaking, there is a huge duty that we have to pay for the products that we import in China from Europe. And instead, the products that China buy from Vietnam is very good and it is a fact that the duty is very close to the zero.

United States are on good development, stable, especially on the motorcycle, we have good results and we expected the same things for the rest of the year.

Saying this, I want to underline that we are carefully looking at the productivity management system, because we don't want to -- we try not to increase price but to confirm and to increase the margin through productivity strategy. We find very high results already in the first 3 months after the reorganization in production, especially, and due to the raw material costs, especially on the gas and electricity, where the price of '23 in relation with the price of '22 are going down, slowly but going down. So, productivity, plus decrease on price give us a big positive vision for the rest of the year.

In term of investments, we go on with electrical new technology that cost to us in term of new organization, new people, that we already completed and now we are on the way to be in the executive area. Let's say that electrical market is not so enthusiastic everybody is thinking about. The market, generally speaking, is a little bit reluctant to be open to electrical system due to the main problems that are infrastructure, the price, and they say, generally speaking, the general sales organization.

In term of problems on the political and the problems around the world, our market is a little bit out from this type of problems. We don't have any problems from the Ukraine war. We don't have problems with China- United States. We don't have problem in other parts of the world, especially now that some country of Africa where the situation is very critical. The two-wheeler market, fortunately, is a little bit independent from this type of situation.

Regarding the inflation, because our budget is based much more productivity and cost reduction than price increase, we follow this strategy for the rest of the year, because we have seen some advantage coming from the raw material market, coming from transportation costs and coming also from the high results in term of reduction of production technology and the production engineering and all the products.

We confirm the results of the first three months also for the rest of the year, in term of range of productivity. And based on that, we are positive on the results. We are on the way to manage a big evolution on the trade name, on advertising and promotion, and on the sales distribution organization, where we base our future strategy to support production in new products. We have a big plan on sales organization. We have a big plan to support the trade name as Vespa, Moto Guzzi, and Aprilia, and we have a big work to do on the sales organization and how we sell our products. So, we said that this year for us means productivity, sales organization, advertising, promotion, and quality of the products.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Okay, thank you very much. So, we are ready now to answer the questions that you may have. Thank you.

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QUESTION AND ANSWER SECTION

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**Monica Bosio – Banca Intesa San Paolo**

Hi. Good afternoon and thanks for taking my questions. I have a few questions. The first one is on the progress of the EBITDA in the first quarter. In the first quarter, the Group's EBITDA improved by roughly EUR20 million. The consensus sees for the year-end an improvement of EUR30 million. So that in the first quarter, the EBITDA improvement covers two-third of the year-over-over expected improvement on the EBITDA. At this point, I was wondering if you can share your view on the consensus that looks to me a very, very low-hanging fruit. So just to check from your side.

The second question is on the inventories. Are you still expecting a decrease in inventories across the year as you said in the previous call?

The third question is on the European growth. The market -, the two main markets in Europe, in the first quarter the market was positive by roughly 5%. Piaggio was positive in EMEA by plus 3.5%. So, what did you expect for the second quarter also, on the back of the positive figures of April, should we expect for the full year a positive trend or at least a flat trend for Europe, even accounting the macroeconomic slowdown?

And the very, very last question for me, you mentioned the productivity actions. Do you expect the productivity actions will affect -- fully affect a potential decline in pricing? Thank you very much.

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**Roberto Colaninno - Chairman and Chief Executive Officer**

Starting from EBITDA, as I've already told, we base our budget evolution based on productivity. The first results of productivity are that with efficiency we had cost reduction. So, means that EBITDA will be in a positive position in relation with our target. Naturally, the first three months that you see that our results confirm that the productivity action is quite positive, confirm that it's possible to achieve, even if we were not so sure when we developed the budget. Based on that we -- I don't say that we are sure, but we expect to have the same trend of a positive influence on our EBITDA if we are able to maintain our productivity action plan.

I want to be clear that the concept that we have about the positivity is not to work more in a way that the people like to work more than today, but to work better than today and to find a system to put this people to work better. Number one, the project has to be in line with exactly the technology of the production line. The project has to be in line with our supplier and the project has to be in line with the technology that we have in the company at this moment. If we are able to do this and maximize this, naturally the productivity will have a positive impact on our costs and our EBITDA.

The second one, the trends or the stock. Naturally we want to reduce the stock because this is a part of our productivity, and this productivity will impact on the cash flow. And for us the cash flow this year, let's say,

that is more important than the economic results. We believe that all the turmoil that is in place from the inflation, from the problems in the country, war, and so on will have some effect on interest costs. And the liquidity that is in the hands of our dealers that have -- to have the money to buy and to stock the products for a certain period of time. So, for us, the cash flow is the first hurdle that we want to reach through inventory reduction, credit, strategic tools for sales and productivity again.

Other question that you ask, the market in Europe. Based on the first quarter and also April, that is already done, I want to say that the trend of Italy is fantastic. Very good. Germany is good. France, have some problem due to the new legislation that is affecting the Paris area. Spain is good. Holland is not good, but fortunately, it's not a big market. All the north country; England, Norway, Sweden, are in line with, let's say, a normal market, it is not down, it is not grown, but it is line to guarantee anyway the quantity that we have budgeted.

India, India is a huge market, you know. The number of people in India, now it is the first country for population. The market in India started quite good in respect to last year. But it is not enough and is not in line with the potential of the Indian market, but we expected that the growth over there will be huge in a short time. Vietnam, Indonesia, Thailand, Philippines are a market -- I call this market as a gold market, because they have results, EBIT, in line with the market evolution, and let's say, Piaggio, has guaranteed, through the marketing policy that we have developed in the last period of time, to be a huge competitor with the other one, especially Honda and Yamaha and the other Japanese. And today because our strategy, especially through Vespa products, is to sell top-line products. We now have the results of that. China is in line with our budget. So generally speaking, we confirm the positive view on the market that we had in the first quarter.

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**Niccolo Storer – Kepler**

Good afternoon. I have one question related to the performance of Western countries in Q1. We have seen a very strong price mix effect in Western countries. Average selling price above EUR4,500. So, I was asking, which are the drivers behind this performance, if it's price, if it's mix? And if it's mix, if it is just something related to geographies, so maybe the contribution of the US. So maybe it's also a matter of mix of Vespa versus motorbikes versus other lower-cost scooters. Thank you.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Raffaele speaking. Essentially, it's a strong mix effect, which reflects the premium nature of our brands and products and this is the real answer. We have seen the same kind of effect -- positive effect, both in US and Europe.

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**Niccolo Storer – Kepler**

And so, I mean there is not one-off? I mean, is this something you expect also continue going forward?

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Yeah. The only thing will change going forward in Q2, Q3, you can have a slight movement of average revenue per unit, just because you know there is a different trend in the scooter and motorbike trend in Europe. Motorbikes are very strong in Q1. Normally in Q2 and Q3, scooter as a market are slightly bigger than motorbikes. That's it. But at product level, no, nothing less.

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**Niccolo Storer – Kepler**

Okay. And so maybe a follow-up on pricing. Basically, from what the Chairman said, we should not expect any further price increases on products in 2023.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Yeah, if there are, are negligible, so low single digit. Nothing that important.

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**Anna Frontani – Berenberg**

Hi. Good afternoon, everyone, and congratulations on the record results. I have two questions. The first one on your sales growth. Do you think that double-digit acceleration that we saw in this quarter is also sustainable for the following quarters, given also that later in the year, you will also face tougher comps? And then the second question on the electric products. Can I ask where are you in terms of innovation and product launches? And also if you can please help understand how much is the weight of electric on your turnover. Thank you

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

So as far as the electric market, first of all, I would like to remind you that the electric market in Europe declined by 32% in Q1, and essentially, we are selling electric vehicles in Europe, in India, and around 5% of our revenues came from electric vehicles. So, this is the answer to your second question. The first question was -- I think Alessandra want to answer.

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**Alessandra Simonotto – Chief Financial Officer**

Yes if Q1 trend is the same that we expect for the next quarter. We hope so and we believe so, because there is a seasonality as you well understand there and you will have known having in mind our figures of the last 10 years or so, there are different weight of revenues in the different quarter. Normally the second quarter is the best of the year. Having in mind that motorbikes are growing year per year in our sales. This kind of seasonality will become a little less in 2023, just like you have seen in the results of the first quarter. So, we believe that the growth more or less will be the same in terms of revenues and in terms of margin.

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**Gabriele Gambarova – Banca Akros**

Yes, thank you for taking my question. I've got just one, let's say of strategic nature regarding your business portfolio. You have this -- big operations in India on the three-wheelers. So let's call it sort of mass-market business. Why you are more and more becoming sort of a, let's say, premium player in the scooter business. Do you think that this, let's call it, mass-market business of three-wheelers in India is absolutely strategic or you see it like something apart from the rest of the Group?

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**Roberto Colaninno - Chairman and Chief Executive Officer**

If I understand your question is that for us Vespa is a trade name that is a premium product. We work in order that the value of this trade name is not only the mechanics, tools, or the speed, but is the design, strategically we put Vespa as luxury product in a way that we wanted that young people that buy Vespa, buy a sort of products that put this in the line of not just a transportation tools, but even that product that is something in term of evaluation in term of presence, in term to satisfy what they require as a fashion tools or a part of fashion style. This is very important for Asian market, even that Europe and the United States, but especially India, Vietnam, Thailand, Philippine is quite important for that market, the trade name is not a generic trade name, it's not a question of price, it's not a question of something that is related with the normal, let's say, and anonymous products. But when you buy that kind of product, you are positioning yourselves in the market as to complete your fashion style, to complete your position, to complete how you dress -- what is your message that you want to say to the market. We believe that this is what we can reach with the Vespa name especially. Different as Aprilia, different as Moto Guzzi, different as commercial vehicle and so on. And we work to a new strategy to reinforce this position of the products. And I want to tell you that the first results are unexpected in a positive way. If you go to Vietnam market, or Thailand market, and talking about Vespa, you will be surprised about the reaction of the customer to say why I want to buy Vespa, why I want to... what I like to buy Vespa at this point. So, this is in principle in our strategy that we want to launch in the market in order to be able to increase our penetration and to increase our position relative to our competitors.

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**Gabriele Gambarova – Banca Akros**

Okay. So, your strategy is to focus on premium, on Vespa if I understood correctly. My question was just about light commercial vehicles, let's say, three-wheelers in India especially, if you see that as a strategic or the core business.

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**Roberto Colaninno - Chairman and Chief Executive Officer**

Yeah. The Piaggio Group is diversified, about products, about our trade name, about distribution channel, and I am glad to say this is very different from our competitors. We have, Piaggio, Aprilia, Moto Guzzi, Vespa, Ape, Porter, as different products, different lines and different customers, but we have now developed our distribution channel that is very, very important and very successful all around the world. And for each of these different trade names, we have a proper strategy in the proper way to have the relation with the market. Aprilia is totally different from Vespa, Moto Guzzi is, say, different from Aprilia, and we get the results of our different strategy in these different names.

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**Sebastien Lemonnier – INOCAP**

Yeah, hi, good afternoon. Congratulations on good results. Two questions on my side. Can you elaborate a little bit more on the productivity opportunity that you mentioned that it seems that there is area where you can get the people to work better. And can you give few examples and try to quantify it, it would be great? The second question relates to sales organization. As you said, there is a plan to also make the sales performance better. Been located in Paris and have in mind your -- what you mentioned then of new regulation, but I also see this as a strong opportunity for you, especially given the swappable battery, because for sure not there are by any infrastructure in the coming two to three years. So first, what's your plan in term of new use of electric swappable battery? That's the first one. And then don't you think, especially in France, there should be marketing issue anything like this because I think of Piaggio1 nobody is really aware of this offering, which more or less with the incentive of state has the same price as bike, why it should be much more convenient, much faster, and much more profitable. So, what are your actions ready in France to transform the current issue into a potential strength going forward? Thanks.

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**Roberto Colaninno – Chairman and CEO**

Now, it's a very hard question. What we have to do about productivity, if I understand well, to avoid -- to crucify the people, is correct?

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**Sebastien Lemonnier – INOCAP**

I'm just trying to understand what can you do to make the people work better, so if you can mention several actions that you take into the warehouse, into the factory. And then if you can try to quantify on a normalized basis, how much kind of margin you can generate from this better efficiency, or better way of working.

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**Roberto Colaninno – Chairman and CEO**

Let's say that to respond to this question, maybe we need more than two minutes. Productivity for us, as I told you, means to work better than what is done today. In the shorter end, it is not the responsibility of the worker or responsibility of the people, the employee, but it is how the company, the totality of the company is running and how the people are able to have a better performance to work together. Let's say, that number one is that the team is quite important to get some results and productivity, the people have to talk together and think openly and frankly and, for instance, the responsible for cash has to be entitled to talk with the production people and the sales people should talk with the responsible of logistics, or the managers that are responsible for spare parts have to be able to talk with the sales men.

Number two is that the secret, if you want, to get better productivity is to look in a very small number and to look and control the small things of the company, because you are able to save money if you control all details, the small things. So, I am interested to know what the quotation of the steel in the market, for sure, but then also very interested to support, to know how the people who work in a small operation of the

company and how many -- how much time they lose to satisfy the production or to answer a customer requests.

So, the process that we look on the productivity is quite complicated. It's not because we want to introduce a productivity program, let's say, this year for next year. It is many years that we worked on this. We never finished, but let's say that for the first quarter of this year, our productivity means that our margin results will improve very well.

The second question is about the electricity. We work on the electricity, obviously, that we work on that. We are working now to transform, let's say, to update -- the right word is update the organization coming from the mechanics to electrical technology. Let's say that demand of market is not so enthusiastic, the sale is very poor, and the demands of this kind of products is substantially negative. But we follow the new legislation. We are sure that in the future electricity system will be important to be in line with the request of the market when this will come. France is a country where, for instance, we have a big change on the Paris City district because the mayor has introduced some regulations and to oblige to improve towards the electrical products much more than other big cities around Europe. We'll wait and see. We are in line with the request of the legislation. We are in line with the technology, we are in line with the people. Naturally, we expect that the market will be ready to do the same things in order to require these products.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Thank you. So I think that we can end the call now. Thank you, everyone, to attend this conference. If you need further info, you can call me later. Thank you very much. Bye.