

Piaggio Group

First Nine Months of 2020 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 of Piaggio first nine months of 2020 financial results. Today's conference call will be hosted by Mr. Roberto Colaninno, Piaggio's Chairman and Chief Executive Officer; Mr. Michele Colaninno, Piaggio Group Director of Product and Marketing Strategy; Mrs. Alessandra Simonotto, Piaggio Group Chief Financial Officer; and myself.

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

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 the conference call in a listen-only mode.

Lastly, given the COVID-19 pandemic in order to mitigate the risks, today we operate in a split team, so bear with us if you will be facing some difficulties managing the conference call.

Now, I would like to turn the conference over to Mr. Roberto Colaninno

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Roberto Colaninno-Chairman and Chief Executive Officer

Thank you. Good afternoon to everybody. Before to ask to Mrs. Simonotto, Chief Financial Officer to make their own presentation, I'd like to give what in my opinion is that a more important way to make a presentation of the results of 2020.

We had the first six months that have been totally influenced by the question of the virus with a high turbulence in the market, that obliged more or less all the economic systems to be negatively affected. And then we had the last quarter July, August and September, just after the six months, especially the second

quarter, and where the market, generally speaking, registered a very active reaction. Piaggio particularly, I believe, that in in this quarter, July, August and September, registered let's say, in my opinion, record results. And the record result means that we have increased sales by 3% on the last year, on the '19. The industrial gross profit go up by 0.5%, and let's say that the 0.5% is a big number, if you consider the productivity on the cost of sales. The EBITDA went up by 23%, the net profit go up by 75%, and the total sales of Two Wheelers in quantity went up by 14%.

But what in my opinion, is very, very important is that we have reduced the debt by EUR80 million thanks to the good performance in cash generation. This is really an extraordinary result, including the fact that Italian market generally speaking in August worked for 15 days. This was the reason why we were able to compensate the negative results, the negative trends of the first six months.

Now, looking at last quarter, I can say that in October, we are in line with our forecast and this is already done. November and December : November, we have for 90% the order already acquired, and then December is in a normal situation, in term of the trend, generally speaking is a very low month.

Now, I don't know what will happen on November and December about the decision, the different governments' in Europe and the different governments in Asia and the United States. So I can't, I'm not in a position, I'm not able to predict what can happen at this regard. What I can say is that very positive, what I consider very positive is that the Asian market starting from China, Vietnam, Thailand, the Philippines are in a position where the virus declined. China market is empty now for the virus and other countries see substantial reduction in the virus.

In India too there was a dramatic situation, now we see the beginning of the positive evolution of the virus. In my opinion, India on '21 would be very, very positive. Now, the trend in India is not so negative as in the past, is not yet a positive situation naturally. But the market here is that two-wheeler for us are already growing whilst three-wheeler suffer again big contraction. But the first reaction of the market is in line with the positive evolution of the virus. So also I said that, I want to say that, I expect that anyway through a very conservative control and the management in terms of cash, in terms of expenses, we will be able to control a possible reduction on the market, especially in Europe. But you have to consider that, October went very well. We didn't have any problems on the dispatch of the products. Now I wait for November and December, and this is a big question because I don't know how the virus situation will be.

But I want to say that from Piaggio, I expect that all what we have done in terms of new products, new project that we are budgeting for the '20 has already been totally done. We expected to start with the Piaggio with the new POter as we have already said in January or beginning of February. We had launched the Aprilia 600 just 20 days ago and the market responded very well. We received a very important pre-booking already, and we are in a position to deliver products starting from this week.

We have also for the next year a huge quantity of new products in the tunnel, and we will do that for '21, I believe on time because I don't believe -- I don't want to believe that on '21, we will have the same situation of 2020.

Okay. Say that, I ask to Mrs. Simonotto to make her own presentation.

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Alessandra Simonotto – Chief Financial Officer

Okay. Thank you, Mr. Colaninno. Good afternoon, everybody. As usual, I will start the call with page 3 of the presentation you have find , you have found on our site on key financial metrics. To understand better what happened in these months, we focus the analysis on third quarter highlights. And as you can see, we performed in Q3, significant improvement of all key operating metrics and the highest cash generation to date. So as you can see in all the metrics, net sales, EBITDA, net profit, net debt, free cash flow, the goal we reached in these three months after the reopening post-COVID lockdown in May, have reached the best performance in Piaggio in the more or less against the same quarter of 2019.

I should like to talk with the attention of everybody on what we have done, in both EBITDA and net profit, but also on net debt. When we close the first quarter 2020, our net financial position was more or less about EUR550 million. Now, we have reduced the net financial position of the Group for more than EUR105 million. So we believe that this goal is very, very important for all of us.

Going to page 4. We have summarized our industry key demand trends. EMEA and Americas: overall, two-wheeler demand bounced back strongly as lockdown measures eased. European two-wheelers already back at 2019 level at the end of September, boosted by demand surging around 27% in Q3 on the back of strong acceleration across products and displacement segments. Notably, in Germany and The Netherlands, demand ended up double-digit at the end of September. USA confirmed the upward trend started in Q2, ending up by 10% versus prior year at the end of September.

About Asia-Pacific. Asia-Pacific kept on posting diverging trends. Asian5 countries demand continued its slowdown albeit at a minor pace in Q3. Vietnam and Thailand kept being the most resilient whereas Indonesia and the Philippines have been hit the most with demand plummeting around 30% and 40%, respectively. In stark contrast, the trend of other key reference countries, notably in China, scooters ended up high-single-digit and in Taiwan the positive trend accelerated in Q3 leading to 20% growth year-to-date. In India, demand dipped across segment hit by persistent and stringent lockdown measures, but encouraging signs of inflection of the cycle materialized in Q3, both for scooter and cargo light commercial vehicles.

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Let's move to page 5 to have an in-depth analysis of trends by business. Q3 APAC and Western countries' outstanding performance, outstripping demand trends, partially mitigated Indian hefty demand downtrend. Year-to-date results still hit by widespread lockdown measures. So with the EMEA and Americas recovery started at the end of Q2, accelerated in Q3, despite continued drawdown of European dealers' stock. All main markets on the rise in Q3 with Germany, the Netherlands and US standing out reaching double-digit growth at the end of September.

Two-wheels Asia-Pacific. Despite market demand downtrend, Q3 outstanding results largely driven by our performance in China, Indonesia and South Korea. About two wheels India. This part of our business is still declining, albeit a minor pace of the year progressed on the back of encouraging signals of demand recovery.

CV EMEA and Americas. Healthy performance in Q3, driven by rebound of four-wheelers against marked weakness.

CV India. Volumes dragged down by Pax segment affected by lingering lockdown measures in urban areas, while cargo halted the slide in Q3 suggesting that the segment is on the verge of a recovery cycle.

Let's move now to Page 6 to look at the breakdown of the performance by product. As you can notice, two-wheelers' performance shifted to positive in Q3 behind rebound in Western Countries and APAC, largely offsetting Indian drop. Prices held up well despite the adverse economic scenario.

Q3 scooter outstanding performance across the board apart from India, led revenues close to previous-year level at the end of September. In this context, Medley kept on gaining traction surging two times versus prior year, confirming the success of the new version launched at the end of 2019.

About Vespa. Revenue are already above prior year at the end of September against Indian weakness. I should like to underline the results of Vespa from Chinese market with volumes and revenues two times above prior year.

Looking at the motorbike, despite challenging comparison base, strong rebound in Q3 led by Guzzi V7 and Aprilia RSV4 growing around 30% and 40%, respectively. Regarding commercial vehicles, European resilient performance overshadowed by Indian dip in trend.

Let's move now to page 8 to have a look at the EBITDA breach. Q3 top line growth more than offsetting slight dilution on margin, coupled with operating expenses, efficiencies drove outstanding EBITDA uplift to EUR67 million, with margin on sales at 17%, the best absolute result to date and the best percentage on sales performance in 11 years.

Year-to-date EBITDA still dragged down by significant top line decline in first half due to widespread lockdown measures, partially offset by heightened efficiency on operating expenses. Tight grip on SG&A will continue in the remaining part of the year, without affecting key projects.

Moving to slide 9. We can see that the net result declined as a consequence of lower operating results has been mitigated by lower financial expenses, primarily driven by lower cost of debt and lower tax rate as we see here, we will fully benefit from the reduction of the corporate income tax in India.

Now we can go to page 10 to have an in-depth analysis of cash flow, net debt and liquidity. As said before, cash flow positive dynamic across the period, with a remarkable step-up of EUR81 million in Q3, mainly stemming from a strong improvement in working capital, largely driven by inventories trending down and receivable lowering, benefiting from the boost of two-wheeler space in Western countries.

Capital expenditures remained broadly in line with last year, testifying the Group's unchanged focus on new projects to nurture future growth. As a result of the trend just described, net debt has crashed down to EUR444.8 million, close to year-end 2019 level. Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. So 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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Monica Bosio – Banca Intesa San Paolo

Good afternoon, everyone, and thanks for taking my questions. First of all, thanks for giving us the view on the order intake for October and November. On the back of a double-digit rise in volumes in the third quarter,

may I ask you what is your view on the dealers' stocks inventories in Europe, in APAC, and in the other regions?

And the second question is on the margins. We have seen a very strong rebound. I think it's also due to the OpEx savings. Can you please give us some more color how much of , can you just quantify the savings in the third quarter? And can you tell us how much of the savings be retained for the last quarter and 2021, hopefully?

And the very last question. In the first lockdown, Piaggio plans were at full speed. It was March -- February, March, and April are usually quite strong months for the two-wheels. Do you have an idea of the impact in case unfortunately of a lockdown in November and December, just an update on the plans, operation in this period? Thank you very much.

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Roberto Colaninno-Chairman and Chief Executive Officer

Okay. I'll start from the last question. Our management , our purchasing management system that is linked to the material manager, the guy that fix the quantity and the type of their production schedule for the month, keep in mind that normally, December is a very low month and also is a very short month due to the Christmas holiday. As I say, October is already closed and we can say that October went very well and the results on quantity of October are better than October last year.

Now the question is November. November normally is a month in which volumes begin to decline to go on the December trend. This year, we have a combination of Europe, India, and Asia. What I'll say, Asia, we go very well, extremely well in China for sales of Vespa. We go went very well on Vietnam and other countries around Vietnam. And India, we begin on the two-wheeler going a little bit better than trend of last month.

So Europe is a question. Now in terms of stock, we have fixed what is the level of stock that we want to achieve at the end of December, and there really is a very low stock, very low stock. We have reduced the purchasing program of the components and we accelerate the rate of the -- how many time turn this stock on the components and we ask today our supplier to increase this turnover.

So regarding cash that is for us a priority, we don't have any problem, because we're confident -- we are more than confident to be able to manage the level of stock in line with the trend of the last three months. The level of sales we have to solve November. Regarding November, we have, let's say we have already 50% of orders in our hands, especially for the critical country as France. Now regarding the second half of November, we don't have again the feeling on how is going the market.

What I can say is that the trend of sell-out is not bad, so people want to buy are ready to buy. The question is what is the situation of our clients and what is the general situation regarding the decision of the governments. So we have managed the way we: number one, protect cash; number two, reduce all the expenses where it's possible to reduce; number three, to keep the same production productivity. After that, we are ready to deliver, or we are ready to decelerate in case we have a bad situation in the market.

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Monica Bosio – Banca Intesa San Paolo

I understand. Thank you. And then just a follow-up, please, on the cost of savings in the third quarter, how much are temporary and how much could be replicable? Thank you

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Roberto Colaninno-Chairman and Chief Executive Officer

Alessandra, would you like to answer?

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Alessandra Simonotto – Chief Financial Officer

Yes. Yes, Mr. Colaninno. Ms. Bosio, good afternoon.

We are working on our productivity index, and this is something that we do every month and every day. So I can say now if the amounts will be the same than in the fourth quarter or would it be better. I can only confirm to you -- to all the people present today that this is one of our goal, so we will continue on the same way

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Emanuele Gallazzi – Equita SIM

Yes. Good afternoon, everybody. I have three questions.

The first one is on the Indian market. I mean, after a still very weak third quarter, what trend are you seeing now in the market? I mean, I know that the visibility is still very low. And in which condition are your dealer there? The second question is a very quick one on factoring, reverse factoring if you can just quantify them. And the last one is an indication of net debt, which was the positive surprise of these results from aside, if you can just share with us your expectation for year-end considering the stronger trend in the third quarter? Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Sorry. Raffaele speaking. Can you repeat again the second question because we haven't understood

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Emanuele Gallazzi – Equita SIM

Yeah. It's about factoring and reverse factoring, if you can just give us an idea of -- I mean, in the third quarter. Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. Yes. Okay. So I can start with factoring and reverse factoring. So factoring, without recourse and I think it is what you mean has been a little bit higher than September last year, but in the region of EUR130 million. So there is something in line with the average that we had in the prior quarter.

Reverse factoring on the contrary went down a little bit, but you have also -- always to compare reverse factoring to purchases and percentage on purchases has been exactly the same of September 2019, so no big difference there.

Just to give you -- no -- yes, this is the -- these are the trends. So reverse was in the region of EUR186 million, so EUR41 million below September 2019, albeit the same percentage on purchases.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

On the Indian market, maybe, I don't know, okay, which is the situation now in October, you mean?

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Emanuele Gallazzi – Equita SIM

Yes

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So the situation is clearly improving in the two-wheeler market and we have seen also the players are confirming that the two-wheeler market is going up and probably also our volumes will be up double-digit in two-wheeler. So there is a clear sign of an inflection point there in the two-wheeler business. Unfortunately, light commercial vehicles are still suffering and so October volumes will be still down compared to last year, improving month-after-month but October on October still negative, I will say around 50%

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Emanuele Gallazzi – Equita SIM

Yeah. I've understood. The last one was on the net financial position target, if you can give us an idea for the year 2021

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Alessandra Simonotto – Chief Financial Officer

Yeah. Alessandra Simonotto speaking. As of now, we don't like to give to anybody a feeling of the results of the net financial position at the end of the year. What can I say is that we are working for, very hard in these six months to reach the goal that we addressed today, and this is the same thing so that we will do in the next months because as you know, net financial position is one of the most important information and measures and figures on which we have to work any day. Thank you.

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Renato Gargiulo – Fidentis

Yes. Good afternoon. Well, my first question is still on the last part of the year. I'm referring to the second wave of the COVID-19. Yes, clear, it's the visibility right now is -- I can understand is not very high. But referring to, in particular, to some markets like France and Germany, where they have already announced the new

lockdowns, are you already seeing and experiencing any I don't know, any disruption in terms of local dealers or anything else on that side?

Second question is still on India. There were some rumors some weeks ago about the introduction of potential scrappage policy from the local government. Do you have any news on that side?

And the third question is on Vespa. You have talked about on improving sales trend in the nine months. Do you have any more details about the third quarter trend in terms of volumes or sales? Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Raffaele speaking. On Germany and France, so we have some data on the market from the month of October. And actually, the German market is going up more than 60% in the over 50cc market. These are data up to the end of last week, so three weeks, and the French market is up around, was up around I would say high-single-digit. Keep in mind that in both markets, you will have at the end of the month, one less working day compared to last year, okay. So this is for the month of October, these are the data we have.

And then it's very easy to answer you about the scrappage incentive in India, now, no news at all. Okay.

And in terms of Vespa, you know we have been growing in Q3, significantly in Western countries and in Asia-Pac, so essentially revenues were already above the prior year, at group level, and revenues were strongly up in Asia and Europe, with an average of selling price that was higher than last year. So this give you an idea of the strength of the brand. The only area in which clearly we went down was India linked to market dynamic, I would say. So this is the split we can give you.

Also on the slide, we highlighted the fact that the China was performing very well, and also Mr. Colaninno explained several times how we are performing in China. So this is the trend that I can give you.

There is one particular version of the Vespa GTS has performed extremely well, mainly in Germany, so Vespa brand GTS outperformed overall at a Group level than other version, at Group level, I mean.

I think that these are the details we can give you

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Renato Gargiulo – Fidentiis

Okay. If I may, just a very quick follow-up. Yeah, you are not giving a guidance in terms of net debt. In terms of CapEx for the full year, do you confirm your previous indications, or are there any changes

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Alessandra Simonotto – Chief Financial Officer

Yeah. I can confirm that the CapEx will be in line with the 2019 full year. So there will be no raise in our CapEx and in our projects after the lockdown measures

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François Robillard – Intermonte

Hi, everybody. Thank you for taking my question. It's on your four-wheeler commercial vehicle in Europe so I saw that you're planning to start production by the year-end. Can you just remind us what are your expectations in terms of volume and top line in the next few years, if you have any visibility given the current concept?

Second one is on the dividend. So you announced the advance on the 2020 ordinary dividend. Should the last quarter go well as the third one went, can we expect -- is it realistic to expect some additional upside on the second part of this ordinary dividend next year? Thank you very much.

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Alessandra Simonotto – Chief Financial Officer

Good afternoon. It's Alessandra Simonotto. About the CV Europe, as we already announced in July, we have stopped the production here in Pontedera now because we will start again with the new porter in the beginning of January. So in these two months, all the factories will be renewed and prepared for the new production that we'll begin in the beginning of January.

May you repeat what's your question about dividend, excuse me?

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François Robillard – Intermonte

No. It's just what -- should the fourth quarter go beyond expectations a bit like the third one went? Is it realistic to expect an ordinary dividend superior to the preliminary one announced today?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

François clearly is something that we can't answer, so we need to wait for the full-year results, and then there will be the Board next year to decide the potential dividend payment or the amount of dividend that will be paid. So for sure, we can't give you a guidance on the second part of the interim dividend

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Gabriele Gambarova – Banca Akros

Yes. Good afternoon. Thanks for taking a couple of questions from my side. The first one is on the Far East and your volumes grew 23% in Q3, so the performance was extremely positive. I was wondering what do you see for the remainder of the year 2020, so in Q4?

And then a question again on the new Porter. Can you tell me what is your production capacity for this new model and possibly if you have any expectation around 2021 sales? Thanks.

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Roberto Colaninno-Chairman and Chief Executive Officer

Our capacity is up to 20,000 units per year. Regarding what you asked about the Far East, I can confirm again, that our Far East results are due to the strategic decision to have a presence in the Far East; we have a

company in Vietnam, as you know, that is going very well where we have in mind to increase some capacity margin. We are on the way to build a new organization in China, especially regarding the sales organization to follow and to satisfy the demands of Vespa that is improving. And then as you know, in China, we have established this industrial relation with Photon. We expected to develop in connection with Photon all the electrical parts. And then in China, again, we have a partnership where we have 40% with our partner that is Zongshen Group, and their plant is located in Foshan, where we want to produce some products for the Chinese market and South American market. We are on the way to fix the budget. And I want to say that we expect very positive results in Asia Pac.

So China, we expect that China for us growing in terms of organization and the results for the near future. So we can say that the Piaggio position in Asia is very good, very well and we are ready to take the opportunity to follow the growing demand that we expected to be very good in the next year.

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Gabriele Gambarova – Banca Akros

Yes. Thank you very much for this granularity. Can I ask you if you -- there will be a certain point in time when you will consider to localize the Vespa production in China to let's say, to avoid the custom duties. I know the price is very high, the selling price, but much of it is custom duty. So would it be reasonable to set a small -- I don't know, an assembly line there?

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Roberto Colaninno-Chairman and Chief Executive Officer

No because we export for Vietnam. And then we have a very good position for customs, and then we are not open to make any joint venture for Vespa and we want to keep the 100% control of Vespa because as you know, Vespa has an incredible value and it is a strategic product for the Group

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Gabriele Gambarova – Banca Akros

Okay. Crystal clear. Thanks.

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Monica Bosio – Intesa San Paolo

Thank you. I was asking for the CapEx but you have already answered, so thank you very much..

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Sébastien Lemonnier – INOCAP

Hi. Good afternoon. Congratulations on your result. Just a question on the opportunity that the crisis is leading in terms of newer markets. Because I remind that several times in the beginning of the situation, you mentioned like the Germany, you mentioned the luxury segments of like scooter Vespa in China, and I guess, some other market that historically was not so big in term of two-wheels, and especially scooter that I imagine.

Can you update on that who -- what are those countries basically because we have all in mind the classical country like Italy, like France, but maybe like some other ones? So can you remind me what will be our -- how much does it contribute today to the sales contribution at the group level? And when you're going to make , to try to see how big this market could become in the near future if there is some structural improvement because it looks like that's something side. Thanks a lot.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Sebastien, Raffaele Lupotto speaking. Can I ask you -- can you ask again the question because we have some problem with an echo here?

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Sébastien Lemonnier – INOCAP

Sure. Okay. So the question is -- yeah. The question is the COVID gave basically to new opportunity, especially new country like Germany, like some others, like to the luxury segment in China, for example, with Vespa because we all have in mind that France, Italy are like core historical countries for scooter basically and two-wheels. But maybe Germany is much less. So I'm just trying to assess how much this crisis is maybe leading an opportunity for you to penetrate new markets, new geographies that historically was not much in terms to the -- that kind of product? And if you can say what are those countries today, what could be the new one tomorrow? And how much of sales they represent today? And then we will all do our maths and different type of (inaudible) just to get more color about this topic?

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Alessandra Simonotto – Chief Financial Officer

Okay. Alessandra Simonotto speaking. As of now, we can say that COVID is something that opened for Piaggio some new markets. We are able to say that COVID is something that has given the opportunity to people to go back to scooter and two-wheels as vehicles that they can use not only for leisure, not only for some short period during the year, but more or less for give them the freedom to go everywhere without public transportation and so far. So in this moment, we don't see some new markets, but we see this -- the markets we have are growing month-per-month. I don't know if this answers to your questions.

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Renato Gargiulo – Fidentiis

Yes. A very quick one. And you were talking before about a good pipeline of new products for next year. Can we assume -- what can we assume in terms of price mix, this should have also a positive impact going forward on the evolution mix? Thank you0

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Raffaele speaking. Yes. We okay. There are several launches, I think Mr. Colaninno said, and also in the motorbike sector or medium motorbike sector. So you can expect to have maybe a positive mix effect. But we have to wait. I don't know if Mr. Colaninno wants to add something more. I cannot anything else.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. So if there are no more questions, I think that we can conclude now the conference call. Thank you, everyone, for participating in the call. And call me any time for any follow-up questions. Thank you. Have a great day, evening and wee- end. Bye.