

Piaggio Group

First Half of 2019 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

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

Yes. Hello. Thank you very much for taking your time today to follow this conference call on the First Half of 2019 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Chairman and Chief Executive Officer; and by Mr. Simone Montanari, Piaggio Group's Chief Financial Officer.

During today's conference call, we will use the presentation that you can download from our group website. And 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.

Now, I would like to turn the call over to Mr. Simone Montanari.

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Simone Montanari – Chief Financial Officer

Thanks, Raffaele. And hello everyone, and thanks for attending our quarterly call. I'm glad to start the call with the slide number 4, which summarizes the strong and sound results achieved in the first semester of 2019. First of all, I'd like to underscore, as you can see at the bottom of the slide, the healthy results achieved at cash generation level, which is our key priority. Notwithstanding high Capital Expenditure to support new initiatives for future growth, we have been able to generate EUR64 million of Free Cash Flow to Equity or Cash Flow available. Thanks to this significant results and even after the payment of 2018 dividend in April, we have been able to generate positive cash flow to push down the Net Debt EUR31 million below year-end of 2018. Healthy performance, at cash flow level came on top of and from strong improvement of all key operating metrics. Volumes grew close to 6%. Guzzi stood out, growing around 43% behind the success of the new bike V85 TT. Net Sales went up by 12% that has been the highest growth rate to date with all geographies positively contributing. Operating margins rose significantly, notably with the EBITDA reaching the best absolute result since 2007, while keeping the percentage on sales at 2018 level, which represent an all-time high.

Having these strong results in mind, we can move to the following page 5, to have a snapshot of the key market trends. We ended the first semester with mixed market trend, with positive trend in Europe and overall weakening market in Asia and India. Europe kept on posting sound demand, although the growth has

slowed down in Q2, ending up around 12%. More importantly, the positive trend was widespread among all product segments with scooters up 12% and bikes up by 8%, and among all displacement segments with 50cc vehicles up by 20% and over 50cc vehicles up by 8%. Additionally, all key countries ended on the rise with Italy, Germany, France and Spain all up double-digits. In our view, this picture suggests that the long-awaited structural reversion trend may finally be underway. With this positive European context, Piaggio Group kept the market share in line with the first half of 2018. In Asia, demand confirmed to be mixed and volatile. Indonesia, kept on posting the best demand growth, ending up high single-digit. Conversely, Vietnam kept on trending down mid-single digit. Among other major countries, Thailand confirmed to be the lackluster trend over recent quarters. As expected, in India, three-wheeler light commercial vehicle market ended down, exclusively affected by the extremely tough comparison base of passengers, which demand had been boosted by the release of new licenses in some big cities in the first half of last year. I would like to remind that the passenger demand ended 2018, up 57% against 2017. Therefore, excluding the 2018 one-off effect demand for this kind of vehicles in India is still very robust. LCV cargo, were on a different path, ending slightly up against prior year. On the other side and on the other business, two-wheelers demand kept on trending down across the semester, both in bikes and scooters, mainly affected by tough comparison base. Furthermore, the negative trend had been amplified by the price hike, mainly linked to the regulatory changes. In this context, Piaggio gained market share in both three-wheelers and two-wheelers.

Let's move now to page 6, to have an in-depth analysis of trend of Piaggio results by business. As you can see, we ended the first quarter with overall volumes progressing by 6%, leading to a 12% revenues growth, or 11% at constant ForEx. These healthy results stemmed from synchronized growth in all cash-generating units and in all businesses, with both light commercial vehicles and two-wheeler growing around plus 6% in volumes and around 12% at the Revenue level. More in detail, looking at the performance by geographic area. India, although slowing down, ended with revenues on the rise in both light commercial vehicles and two wheelers. Notably, in light commercial vehicles, we have been able to grow in the domestic market against the demand contraction. This positive result coupled with ongoing strong exports, led to the total revenue growing around 10%, over EUR180 million that has been the best performance since 2011, with no relevant ForEx effect. Indian two-wheelers performance has been sustained by the surging exports more than compensating for the increasing weakness of the domestic demand trend. In addition, I'd like to highlight that both in light commercial vehicles and two-wheelers, our average selling prices were on the rise despite unsupported market demand. Asia Pacific, surprised again, on the upside, with positive performance accelerating across the semester. Volume rose 20% that is in Q1 plus 17% and in Q2 plus 23% and the Revenues 29%, again Q1 26% and Q2 31%. From a country standpoint, the strongest contribution in Asia came from Indonesia with Revenues surging around 60%, followed by China and Thailand. Vietnam too despite the slowdown in the second quarter, ended with Revenues growing double-digits. Also in Asia, average prices were on the rise also excluding the positive ForEx effect. Lastly, we kept on posting strong results in EMEA and Americas, both in two-wheelers and light commercial vehicles. European two-wheelers, despite the reduction of dealer stock versus prior year, posted healthy growth in both volume and revenues, with the latter growing around 9% also benefitting from positive price and mix effect. Notably, all major countries, Italy, France, Germany and Spain gave positive contribution to growth. Americas, reverted the negative Q1 trend in Q2, ending the semester on the rise both at volume and revenue level. Light commercial vehicles, kept on posting outstanding results with revenues up around 19%, driven by the synchronized growth of European and export sales. To sum up, we ended the first semester with the strongest Revenue growth rate to date, benefiting from widespread and positive performance across all regions and businesses.

Let's move now to page 7. To look at the breakdown of the performance by product. First of all, I'd like to highlight that the revenue growth stemmed from all product segments. Scooter performance accelerated

across in the semester with Revenues on the rise in all geographic areas with volume growing up to 192,000 and Revenues at nearly EUR400 million. Namely, growth has been driven by the most diverse scooter and brands in our product line up, from the MP3 and the Vespa, as well as we will see in the following slide. Looking at the bikes, the mismatch between the volumes decreased minus 6% and Revenues plus 14% has been driven by the mix shifting towards high displacement segments. With this regard, the performance of the recently launched Moto Guzzi V85 TT outperformed our expectation as showed by the info we added on this following slide. Slide 8.

So let's move to slide 8. On this slide, we have highlighted the strong results achieved by some of our top brand vehicles. Vespa positive performance accelerated across the semester with Revenues growing from mid-single-digit in Q1, up to 17% at the end of the semester. To be mentioned, the outstanding result in Asia Pacific plus 28% in volumes, plus 34% in Revenues, mainly in Indonesia with volumes surging around 50%. Also MP3 Revenues accelerated across the semester, ending up plus 20%, also reflecting the successful launch of the new 500cc and 300cc versions. All major countries positively contributed in particular in France who was 15%. Lastly, both the MP3 and Vespa average prices went up across the board, further proving the strength of the brands. Moto Guzzi kept on benefitting from the success of the recently launched V85 TT with over 3,000 units sold, ending the semester with revenues up around 50%. These strong results and the brands power bodes well for the second half of 2019.

Let's move now to page 9, to have a look at the EBITDA bridge. As said before, EBITDA not including IFRS 16 effect grew by 12%, reaching EUR131 million that has been the best absolute H1 performance since 2007, keeping the margin on Net Sales at 16%, which represents together with last year performance an all-time peak. Notably, excluding ForEx effect, the EBITDA margin would have been 16.1%, the best performance to date. This result was driven by the sound performance at Gross Margin level, which grew by EUR22 million on the back of the strong improvement of Net Sales, which had largely offset the slight negative effect stemming from the dilutive product mix, as well as the negative ForEx effect on the Gross Margin percentage on Net Sales. It is worth noting, that excluding the negative currency effect, the percentage Gross Margin would have been 30.8% that means well above our long-term target of 30%. Cash operating expenses ended up versus prior year, reflecting higher marketing expenses to support new initiatives and upfront cost for new product development. To be mentioned that in terms of our ratio to Net Sales, cash OpEx decreased from the 17.5% in 2018, down to 16.5% in 2019 first half. Lastly, as you can see IFRS 16 adoption, brought a positive effect lifting the EBITDA to EUR134.3 million and the margin on sales to 16.4%, up from the 16% of last year.

Going now to slide 10. We can analyze the Net Profit bridge. Net result excluding IFRS 16 surged by 30% or plus EUR8 million against prior year. With marginal Net Sales reaching 4.2 percent points, 60 basis points percentage above last year. This outstanding result stemmed from higher EBITDA, as commented before. As expected, slightly higher D&A coming from the past year higher investment level, and again, as expected lower financial expenses, as we kept on reaping the benefit of lower level of debt and lower cost of funding arising from the recent initiative at debt level. Higher taxes driven by the higher earnings before tax, with flat tax rate at 45% in line with the full year '19 target, but not including the impact coming from the recent agreement we signed with Revenue Agency on Patent Box.

We can now move to page 11, which summarizes the figures just discussed. To provide a better comparison of information from different years on this slide, 2019 data are presented excluding IFRS 16 effect. Net Sales from EUR730 million up to EUR817 million, 12% or 10.7% excluding ForEx, mainly driven by US dollar and Vietnamese dong revaluation versus euro. Gross Margin from EUR228 million up to EUR250 million, 10% or

8.8% excluding the ForEx effect. With marginal Net Sales slightly down to 30.6%, or 30.8% excluding the ForEx effect. EBITDA from EUR116 million of last year, up to EUR130 million of 2019, plus 12%, and also plus 12% at constant ForEx, with marginal Net Sales stable at 16%, but on the rise to 16.1% at constant ForEx. EBIT from EUR62 million up to EUR75 million, plus 21% with marginal Net Sales 70 basis points better from 8.5% to 9.2% on Net Sales. Net income from EUR27 million of 2018, up to EUR35 million, meaning plus 30% with ratio to Net Sales from 3.7% up to 4.2%. Furthermore, you can notice at the bottom of the slide, the positive performance at cash flow level that led the Net Debt at EUR398 million, well below both June and year-end 2018 level.

We can now move to the following page, page 12, where you can see the results including the IFRS 16 effect. As said before, IFRS 16 brought a positive effect on the EBITDA, which reached EUR134.3 million, up 15.2%, a slightly positive effect on the EBIT, which reached EUR75.1 million, not material negative effect on Net Income, which landed at EUR34.6 million. And the negative effect on the net financial position for EUR20 million, reaching EUR418 million including IFRS in any case, well below, June 2018 EUR431 million and December 2018, EUR429 million levels.

Let's move to page 13, to have an in-depth analysis of the evolution of the Net Debt. In my opinion, this is the most significant slide, since it testifies our ability to reduce the Net Debt, while increasing CapEx for future growth and returning value to the shareholders. In details, Operating Cash Flow grew against last year, primarily on the back of the higher EBITDA. Working Capital drove a very positive cash generation of around EUR30 million, that has been the strongest achieved to date, mainly driven by the strong containment of inventories, higher contribution of payables, while we have been able to rein in the receivables despite significantly higher Net Sales and factoring in line with prior year. As expected, higher Capital Expenditure significantly higher than last year, plus EUR13 million, driven by higher focus on new product launches, but consistent with the full year target in the range of EUR125-130 million. Lastly, the change in equity that was higher than last year, reflecting the dividend paid in April 2019. As a result, we produced more than EUR33 million of cash, which pushed down the Net Debt excluding IFRS 16, lower than EUR400 million at EUR388 million, well below EUR431 million of June 2018 and EUR429 million of year-end 2018. As a result, the leverage went down to 1.8 against 2.2 of 2018, which testifies that we are fully on track with our long-term goal to keep the leverage below two. Even more importantly, we had the strongest generation of free cash flow to equity to date around EUR64 million. Lastly, including the IFRS 16 effect, the Net Financial Position ended at EUR418 million, also in this case, well below June and year-end 2018 level.

Thanks to these sound results, the Board of Directors decided to distribute an interim dividend of EUR5.5 cent per share, taking into account several factors. The positive performance of financial and economic indicators during the current year, the need for Piaggio to align with leading international companies in the two-wheeler sector with which investors may make comparisons and the need to stabilize the company's cash flow. Additionally, I'd like to underline that this decision relies also on the commitment to generate strong free cash flow to equity, allowing us to combine a double goal: to reduce Net Debt, while returning value to shareholders and continuing to invest for future growth, with the full year guidance for CapEx at around EUR125-130 million.

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

Ok. So, now we are ready to answer the questions you may have. Thank you.

QUESTION AND ANSWER SECTION

Monica Bosio – Banca IMI

Good afternoon, everyone and thanks for taking my questions. The first one is my usual question on consensus, but I believe it makes sense. I remember that in occasion of the first quarter figures the company guided for an EBITDA in the range of EUR220 million. But as a matter of fact the second quarter was better than our expectations and my feeling is that an EBITDA in the range of EUR225-230 million might be more reliable or might have sense. Do you share my view? And this is the first question. The second one is on the European two-wheel market. The momentum for volumes is positive. Can you please give us some indication or some anticipation on the July trend in Europe for two-wheels? And very last, it's on India. You managed to increase the volumes in LCV in India by 2.6%, but the market is suffering from an unfavorable comparison base, you have the exports. So I'm just wondering, if you can give us a rough indication of what are you targeting in terms of volumes growth for the Indian market both in LCV and in two-wheels? Thank you very much.

Simone Montanari – Chief Financial Officer

Thanks, Ms. Bosio. I will answer to the first question and then I will hand on to Mr. Lupotto for the second one. Guidance, consensus figures excluding IFRS 16 are pointing to Revenues up around 8% at the moment, reaching around EUR1.5 billion revenues and to an EBITDA excluding IFRS 16 around EUR219 million. I think that given these H1 strong results and, in particular, with the performance we experienced in Asia and in Europe, that exceeded our estimates, I think that we can be a bit more positive compared to this guidance. And we may arrive to something in the region of -- I'm talking about EBITDA excluding IFRS 16 from EUR220 million up to EUR225 million then it will be up to you. If we speak including IFRS 16 effect, I think that we may move to EUR230 million, roughly speaking. Additionally, and more importantly, given the current cash flow generation and notwithstanding the payment of the interim dividend that we saw today. I think that we should be able to keep the Net Debt, excluding IFRS 16, at the end of the year, lower than year-end 2018 and in line with the first guidance we gave at the beginning of the year that was to end at 2019 with the net debt at EUR420 million level. I think that we may stay with this guidance considering the positive cash flow generated and also notwithstanding the dividend interim that we saw today.

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Monica Bosio – Banca IMI

Ok. Thank you.

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

Ok. Monica, Raffaele speaking. So going to your second question regarding the European market. I'm glad to say that in the first three weeks of July, the European market went up in the region of 10-12% with all major countries growing, I mean France, Italy, Spain and Germany. I can add also that both scooter and motorbikes were growing in the region of 10% or even more.

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Monica Bosio – Banca IMI

How much, sorry?

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

10%. More than 10% in both segments scooter and bikes. And also in term of displacements, both 50cc and over 50cc, they both went up double-digit. So we have a sort of widespread positive trend in the first three weeks of July.

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Monica Bosio – Banca IMI

Ok. Thank you very much.

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Simone Montanari – Chief Financial Officer

Thank you.

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Monica Bosio – Banca IMI

And for India?

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

For the Indian market, considering the month of July, we have seen that we can go on growing in the export market. You know that there is a little bit of soft market in term of demand or domestic demand. But overall our volumes, we have just view on our volumes, should be broadly in line with last year. The month of July.

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Niccolo Storer – Kepler Cheuvreux

Thank you for taking my questions. I have three. The first one, if you can a little bit elaborate on the drivers of the strong price mix effect reported in Western Countries. And if you see these effects continuing into the second part of the year? Second question, Southeast Asia was particularly strong against a weak market. So if you can help us understanding what drove this outperformance? And how this outperformance could be sustainable going forward? And third question, if you can help us in reconciling figures on two-wheelers volumes in India. Because implicit volumes from your press release and presentation in the second quarter of this year is 18,000-19,000 units, while from the SIAM reports that we get from Raffaele every month, we are at 24,000. So I would like to understand why this gap? That's it, basically.

Simone Montanari – Chief Financial Officer

Thanks, Mr. Storer. I will start with the first two questions. In particular, drivers behind the positive price mix that we're experiencing in Western countries indicate a matter of mix, obviously. Product mix in particular higher than 50cc displacement contribution to our 100% total sales. And higher than 2018 bikes, and in particular, high displacement bikes compared to 2018 level brought the average prices up. Together with a sound policy of more or limited discounts even in these markets enough. I think that this will stay also for the second half of the year, so I do not see any risk on this. Southeast Asia, which has been the driver behind the growth, I'm not looking at Vietnam. Vietnam is pretty stable compared to last year. The growth has come from Thailand and Indonesia. You know that we have different approaches to these different countries. In particular, in Thailand, we are commercializing our products to an importer, while in Indonesia we have a direct presence with our subsidiaries. You know also that when we enter into a market, it takes time to have success in this market because we do not push very hard on commercial or marketing activities while we leave the marketing activities being our product itself. This approach is very effective in terms of cost, but it takes time. I think that it's quite a long period of time that we are there and we are starting again collecting positive results together with the switch of management that we had in the area last year and you -- maybe you remember we commented on this 12 or 18 months ago. As for the third question, I leave the ground for Mr. Lupotto.

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

Yes. Essentially, if you sum up all the data you can find in the SIAM report you should land at more than 40,000 vehicles sold in two-wheeler in India compared to the 36,000 that you see in the presentation. The reason is that some of the exports from India are going to Middle East or America or Europe and so we consolidate this data in the EMEA and Americas cash-generating units. That's the only difference.

Niccolo Storer – Kepler Cheuvreux

OK. Thank you.

Simone Montanari – Chief Financial Officer

If I may, it's Mr. Montanari again. On Southeast Asia result, we had also more than positive contribution higher than our expectation of the results coming from China. The volumes are still quite limited, but the value is very high. It brings the average price high and also the profitability definitely interesting in this area.

Niccolo Storer – Kepler Cheuvreux

OK. Thank you.

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

Thank you.

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Francois Robillard – Intermonte

Hi. Good afternoon, everyone and thank you for taking my question. First one is on the new products pipeline. You're investing quite a lot to develop new products. And I guess also to comply with new regulations in Europe and Asia. Can you give us some more visibility on what are the next products and when we can expect some new items coming out in those markets? Second question, quite related, is about the Indian electric vehicles that were announced for the second part of this year. Again, some more visibility on volume expectation and date to launch the commercialization? And that's it. Thank you.

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Simone Montanari – Chief Financial Officer

Thank you. Starting from the first one, new product pipeline. So you're right in pointing out that we are investing with new regulation and in particular in Euro 5 for Europe and in Bharat VI in India. Then we are investing on the four-wheel vehicles on the project with Foton that is proceeding in line with our expectation and that will see the life, in terms of commercialization, by the second half of 2020. We are investing on the electric vehicles in particular in Asia and in China, not only for the Asian and Chinese market, but also for the European one. As for the two-wheels product range that is scooter and bikes, we are investing more than we did in 2018 and definitely more than what we did in 2017. I think that to add some comments on the new product we have to wait for the EICMA in order to disclose also the new launches. Coming to India electric vehicles, we are working on this and I can confirm that by the end of the year, we will have three-wheels electric in India. I do not expect any materials out on 2019 data. So the P&L would be the one that we commented before when we were speaking about guidances with miss Bosio. But again something that we will start this year and I think that it's a good start from the next year.

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Francois Robillard – Intermonte

Sorry just a follow-up one. In terms of volume or value implementation on your Indian data. If you can give us a taste of what are your expectation on the electric vehicle?

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Simone Montanari – Chief Financial Officer

Overall volumes in India will be higher than last year, as Mr. Lupotto was commenting before, but we didn't disclose how many electric vehicles we will sell in 2019.

Francois Robillard – Intermonte

Ok. Thank you.

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Simone Montanari – Chief Financial Officer

Thank you.

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Emanuele Gallazzi – Equita

Yes. Good afternoon everybody. Just two quick questions. The first one is on India and in particular on Bharat VI, which is going to be implemented in April 2020, which kind of expectation do you have on the potential impact of this regulation on the market? And the last one is a follow-up on new products. If you can give us an update on GITA and the hybrid Vespa?

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Simone Montanari – Chief Financial Officer

Hello. Starting from Bharat VI, clearly, we have to adapt our product range to the new regulation in India, not only in India, but it is what we already and always do around the world. We do not have any technical issues at the moment and neither we see technical issues for the future. And we see also it as an opportunity to strengthen and enlarge our product lineup. As other players, they likely will adjust the product price in order to compensate for the cost increase that will occur. As for the new product and in particular, referring to GITA and to the hybrid Vespa. Let's start from the hybrid Vespa. The hybrid Vespa is a new vehicle that has been already developed. With the marketing approach, for marketing choice. At the moment, we didn't launch the vehicle into the market, also considering the fact that the market, the electric market in particular in Europe is still very limited. It is true that it is very interesting, but at the moment in terms of absolute terms it's very limited and we thought that adding one single product for now would be sufficient in order to meet the market request. As for GITA, you know that Boston activities have to be considered and R&D laboratories working in not only one product but in a set of new ideas. GITA is one of these new ideas that we are working on. The development level of GITA is 90% I would say, very likely something more. And we plan to have final step in terms of commercial activities by the end of this year, by Christmas time. This is not something that will affect our P&L in terms of the material on our P&L, but it will be a commercial approach that we will start during this year.

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Emanuele Gallazzi – Equita

Ok. Thank you.

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Simone Montanari – Chief Financial Officer

Thank you.

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Gabriele Gambarova – Banca Akros

Yes. Thanks for taking my questions. So the first one is on the expectations on the Indian market. During the year you were pretty optimistic. Now I see that's the numbers are basically in line with last year. So I was wondering if you could update your view for the fiscal year 2019 in terms of volume on this side both for three-wheelers and two-wheelers? And the same for Far East because if India is a little bit behind the curve, it seems like Far East is offsetting or is doing even better than originally expected. So if you could give me an idea of what are your, let's say, expectations on the margins on these two important markets? Thanks.

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

Yes. Raffaele, speaking. So for India, as expected we have seen a slowdown in Q2. The market should stabilize and also our volumes in Q3. And finally we should resume growth in Q4. I mean both for two-wheeler and light commercial vehicles. As you know for light commercial vehicles, there is a very tough comparison base. I remind you that market is still close to 60% higher than 2017. So that's the reason why we are slowing down a little bit. In any case going forward, given the fact that we are introducing new models and given the fact that we are speeding up with dealer network widening, we think that we can reach 200,000 vehicles. And this is the new target that we have or close to 200,000 vehicles for light commercial vehicle. Similar trends for two-wheelers, you know that we have recently launched the Aprilia Storm. The Aprilia brand is performing quite well in India. We are outperforming the market, I forgot to say that we are outperforming also in light commercial vehicle. And in this case are also helped by this strong expansion on the dealer network. We are targeting more than 300 point of sales, which we'll be able to again start growing at the end of Q3 and then in Q4, to reach, I would say, volumes in the region of 96,000 - 97,000 vehicles. Conversely, and you are perfectly right, probably we will be more aggressive for Asia Pacific. I know quite well the consensus figures. We started the year with 93,000-94,000 vehicles and now is very easy to say margin to grow 96,000 or even more vehicles by the end of the year. And as we were mentioning before, we are doing extremely well in some countries, namely Indonesia, Thailand and China. So then more prudent on one side and more aggressive on the other.

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Gabriele Gambarova – Banca Akros

Okay. Can I ask you, I don't know if you mentioned them, but is it possible to get the breakdown on the Far East volumes. You said that Vietnam was basically flat, but if you can give the numbers from Indonesia and Thailand?

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Simone Montanari – Chief Financial Officer

Rough numbers. Vietnam flat, Indonesia is roughly plus 50% compared to last year. And Thailand it is plus 30% and then flat results on other minor countries as well in Taiwan and South Korea, very positive in China, which is more than plus 30%.

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Gabriele Gambarova – Banca Akros

Okay. Thank you very much.

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Simone Montanari – Chief Financial Officer

Thank you.

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Renato Gargiulo – Fidentiis

Yes. Good afternoon, quick one. I'm referring to your sales data for Vespa and MP3. Could you give us any more indications in terms of volumes and in terms of major growth drivers in terms of market? Thank you.

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

Yes. Raffaele speaking. So for Vespa, I can give you some rough numbers so the volumes went up more than 7%. So now, we are close to 110,000 vehicles sold in the first six months. I remind you that already last year we achieved the best results ever. So it bodes very well for the remaining part of the year. In term of MP3 volumes, we are growing and I can give you some indications. I will say that we are growing close to double-digit. And clearly, in term of revenues, there is a positive mix effect. The most important country as you know for MP3 is France. This is what we can tell.

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Renato Gargiulo – Fidentiis

Ok. Thank you. Thank you very much.

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

Thank you.

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Saul Rubin – Wellington Management

Yes. Hi, thank you. Two questions related to cash flow and dividends. Can you just talk about seasonality of cash flow between the first half and second half. I guess, second half is normally not as strong as the first half, but what you're expecting for this year? And secondly, what kind of cash flows do you think you need to be generating in order to be able to increase the dividend from the current levels?

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Rubin. Mr. Montanari, speaking. In terms of cash flow. Traditionally, the first semester is cash positive, while the second one is cash neutral. This year as you know we will have the interim dividend

distribution on the second half. So I expect that the second half will be slightly cash negative. In any case, if I consider that in this moment that we have around EUR30 million of advantage compared to the situation of Net Debt of June 2018. I think that we will close the year with lower than EUR30 million advantage compared to December 2018, but in any case lower than December 2018. At the beginning of the conference call, we said that our expectation is to close the year, excluding IFRS 16 effect, with Net Debt down to EUR420 million.

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Saul Rubin – Wellington Management

Okay. So just to clarify you expect slightly negative to the second half?

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Simone Montanari – Chief Financial Officer

Slightly negative after the payment of the interim, while positive before the payment of the interim dividend.

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Saul Rubin – Wellington Management

Okay, fine. And the current dividends, if you're paying every six months, it's about half of your free cash flow, right, that you're paying out in dividends and your leverage is now down to about 2 times. So how do you think about it?

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Simone Montanari – Chief Financial Officer

Well, I think that this is the right approach that we have to consider while considering the dividend distribution policy that we have in place. That is if I consider the operating cash flow on a yearly basis and then I consider that this has to be sufficient in order to fund the Capital Expenditure, the dividend shareholder remuneration and the reduction of debt. If you look at the last three years that is where I actually remember this, as well that managed by me, you see that notwithstanding and after the Capital Expenditure and dividend distribution, we always had positive cash flow, reducing the Net Debt on a yearly basis. This is what is going to happen also for 2019 and this is our key priorities for the years to come.

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Saul Rubin – Wellington Management

Okay, great. Thank you.

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Simone Montanari – Chief Financial Officer

Thank you.

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

Okay. I think that now we can close the call. Thank you everyone for attending. Okay. Bye.