

Piaggio Group

First Quarter of 2017 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

SIMONE MONTANARI – CHIEF FINANCIAL OFFICER

RAFFAELE LUPOTTO – S.V.P., HEAD OF INVESTOR RELATIONS

MANAGEMENT DISCUSSION

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

Hello. I'm Raffaele Lupotto, responsible for Investor Relation at Piaggio.

First of all, I would like to thank you all for joining us today to analyze the Piaggio Group first quarter of 2017 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and Mr. Simone Montanari, Piaggio Group Chief Financial Officer.

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

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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. After the presentation, we will be available to answer the question you may have.

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

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Simone Montanari – Chief Financial Officer

Hello, everyone, and good afternoon. I start the conference call giving you a snapshot of the main demand trends. As highlighted on page 3, even if we had a weak start to the year in most of Piaggio key investments markets, we saw an encouraging trend across the quarter that bodes well for the remaining part of the year.

As expected, in Europe, where we experienced a slow start to the year, with demand in January and February that was still compensating for the strong volume growth of the latter part of 2016. Growth that as you probably may remind was boosted by the need to reduce the stock of vehicles with Euro 3 engines to be compliant with the new European regulation. Starting from March, the trend reverses to positivity in all major markets, confirming that the replacement cycle is well in place.

In Asia, the first quarter was mirroring the trend of the last year. So, Vietnam kept growing mid-single-digit; Indonesia kept trending down; while other countries in the area showed mixed, but overall positive market dynamics. In India, especially during last conference call, the demonetization effect was still taking its toll,

namely in the light commercial vehicle passenger segment, while its impact is gradually in other CV segments as well as in the scooter market.

Moving now to page 4, we have a snapshot of Piaggio performance. I would like to highlight that both improved in Western Countries. And in India, Piaggio outstripped market trend, notably in Western Countries. The group trends and its positioning with the strong market share gain in scooters 26.4%, that is plus 1.9 percentage point versus previous year and grew in North America against a negative market trend.

Vespa was, as usual, the bright spot with volumes and the revenues up close to 20%. In India, although hit by demonetization in the market, Piaggio gained a market share in the Light Commercial Vehicle segment and continue to enjoy from the successful launch of the Aprilia SR in two-wheeler market, as well as from resilient sales of Vespa, limiting the impact on the top line.

Asia, by contract, remained on the a different path with the good performance of Thailand, China and Indonesia, still enable to counterbalance the negative phase trend in Vietnam. Again, the good performance on Vespa has posted positive revenue trends across the board, confirming the brand potential in this area.

Let's move now to page 5 to have a quick summary of Piaggio financial performance. Piaggio achieved what we believe are strong results against market demand headwinds, that led the group to reach a profitability peak. In particular, EBITDA grew around €4 million up to €41 million with advancing EBITDA margin uplift of 1.2 percentage points that pushed the ratio on net sales up to 13.3%. This is the best margin on the revenues to-date.

It is important in our position to notice that this result had been driven by a significant improvement of the gross margin profitability that grew again by €4 million up to €95 million, with a significant uplift of the ratio on net sales that reached 30.8%. That is the best first quarter performance to-date. At the same time, we have been able to mitigate the seasonal cash absorption by €15 million compared to the cash flow of the first quarter 2016, pushing the net debt well below the first quarter, March 31, 2016.

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Let's move now to page 6 to have an in-depth analysis of the volume trend. Overall, volumes were in line with prior year. The result stemmed from diverging dynamics. Two-wheeler, overall, grew by 10%, that means 8,000 units, on the back of the strong relative performance in Western countries and then growing good momentum in India, more than offsetting the weak performance in Asia, namely Vietnam, while commercial vehicles declined by 17%, mainly fit by the Indian demonetization and the weak exports as we discussed earlier.

In more detail, in two-wheeler, Western countries, we grew mainly in Italy, in Germany, the Netherlands, France and U.S., always outstripping market trends. In Asia, the decline was driven by Vietnam.

By contrast, our volumes stood around 70% in some other countries of the Asia Pacific, and in particular, in Thailand and in China.

Moving to page 7, we can have a look on the revenue trend by business. As a whole, we ended up with revenue slightly up versus prior year, with two-wheeler, overall up by 5%. That is up €11 million. And commercial vehicles down by 9%. That is down €9 million. As you can notice, the sound price policy allows Piaggio to mitigate the effect of volume decline, both in Asia and in commercial vehicles, while the diluted effect in two-wheeler India, and in two-wheeler Western countries stemmed exclusively from the mix effect of product we recently launched.

To give you some more color and details on our net revenues trend, I can add to that, in two-wheeler Western countries, the best performance came from Italy, the Netherlands and U.S., all up double digits. In Asia, Thailand posted the best performance with revenue surging around 90%. This result is particularly important, because the recent entrance in the premium motorcycle market with the premium Moto Guzzi should drive growth acceleration also going forward. By contrast, Vietnam continued to be with revenues down double-digit.

Let's move now to page 8 to have a look at the breakdown of revenues by product. I would like to underline again, the strong performance of Vespa among the scooters and Vespa brand. In fact, Vespa revenues grew by 20% in Western Countries, with double-digit growth of 50cc and over 50cc in almost all countries. Similarly, in Asia, Vespa posted a robust revenue growth around 10% even in a highly competitive market as Vietnam. These trends coupled with our resilient performance in India despite the demonetization effect confirmed our view the strong brand potential. In bikes, the growth was mainly driven by Moto Guzzi brand on the back of the double-digit revenue growth of the new range, namely V7, V9 and California.

Moving to page 9, we can have a look at the EBITDA bridge. As said before, we achieved a record EBITDA result, primarily on the back of the very positive performance at a gross margin level. In particular, cash gross margin grew by 1.2 percentage point above prior year, leading to a €3.5 million contribution of positive effect on this bridge of the EBITDA. In the meantime, we have been able to contain the operating expenses despite heightened marketing expenses. Overall, these results testify our ability to sustain the firm pricing policy discipline and to deliver efficiencies throughout the year.

Moving to page 10, we can have a quick view on improvement on EBITDA and on the net results. In particular, the improvement in the EBITDA fully offset the growth of the D&A. D&A growth coming from past year investment and led net results above prior year also in terms of ratio to net sales, with an absolute result of €1.5 million that has to be compared to the €1.3 million of last year.

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To sum up, moving to page 11. We may summarize the profit and loss figures that we just discussed and went through.

Net sales grew from €307 million up to €309 million, up 0.7% or minus 0.6% through ForEx effect mainly Indonesian rupiah and some U.S. dollar.

Gross margin grew from 29.6% up to 30.8%, a relevant, significant plus 1.2 percentage points. EBITDA margin grew from 12.2% up to 13.3%, and the net income grew from €1.2 million up to €1.5 million, meaning 17.9% plus 0.1% in terms of percentage growth compared to last year.

Furthermore, in the bottom down of this slide, you can notice the healthy performance at the cash flow level, which led to the net debt €22 million below prior year March 31, 2016, compared to March 31, 2017, with a cash absorption, typical of the first quarter of the year, that improved by €15 million compared to the same period last year.

If we move on the next page, we can have a better look at the evolution of the net debt and of its main trends. On page 12, you can see the operating cash flow that was roughly in line with prior year, €30.6 million compared to the €30.2 million. The change in working capital that was slightly lower than the first quarter 2016. And the CapEx, capital expenditures, that were lower the prior year, €18.3 million compared to the €26.2 million last year on a favorable comparison basis, 2016 was hit by investment for the completion of the European painting facility. As a result, we ended up with the first quarter 2017 with around €11 million

of better free cash flow compared to the same period of last year, which led the net debt €22 million below March 2016 level at an absolute value of €532 million.

So, now we're finished with the presentation, and we are ready to answer the question you may have. Thank you

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QUESTION AND ANSWER SECTION

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

So, now we're finished with the presentation, and we are ready to answer the question you may have. Thank you

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Ms. Monica Bosio – Banca IMI

Yes. Thank you for taking my questions, and I would ask three questions.

The first one that is, if you can give us some update on the European scooter market in April, especially in Italy and in other markets such as France?

The second question is on the guidance for the full year. I know that you don't give any specific guidance, but the consensus now stands at the €185 million of EBITDA level. I was wondering if you are still confident with this level, or if you see some potential move?

And just a housekeeping question related to the 2017 figures. Could you please give us an indication for the D&A?

And lastly, a question from a strategic standpoint. Do you expect that the demonetization in India could continue to hit in the second quarter or should we factor a zero impact for the second quarter.

And what about Vietnam? I understand that Thailand is going very well, Vietnam is still a very tough market, and if I remember well, it seems that the company is going to appoint someone in-charge for the Asian operations. So, I was wondering if you have some actions underway in order to resolve the situation in Vietnam. Thank you very much

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Simone Montanari – Chief Financial Officer

Thanks, Mrs. Bosio. Thanks for your questions. I start on the first one. That was the European market in April. We do have a view only on the Italian market, as European market data, as you probably know yesterday, had been released Italian registration data that have been affected by three less working days compared to the same period 2016. So, they were in absolute term, negative, it was minus 9% compared to last year total market. But if we consider, and if we take into account that three days missing compared to the last period, the results are good at being either the same or positive.

What we know is that, if I look now at our sell-in data and our sellout data for April and if I look to the whole European market and not only to Italy, they were definitely positive compared to the same period, same

month of last year. And so, we are pretty confident that the cycle and the replacement cycle in Europe is sound well, in place, and we remain for the whole year.

I take this change to have a reply to your second question, that was a guideline for 2017. We believe that in 2017, the group will benefit from a possible acceleration of the growth in European scooter and bikes volume. And if these will have an impact mainly in the Southern Europe as we already saw during the first quarter, and these will be additionally boosted in their second half of the year, also considering the application of the new Euro 4 regulation that will impact the 50cc scooter. We believe to be a well-positioned player to benefit from these positive market trend that we are expecting for 2017.

In India, we are already been hit hard by demonetization on the first quarter. And coming to your third question, we believe that this will last also a little bit on the second quarter, while the comparison will ease on the second half of the year.

In Asia-Pacific volumes, we think that had bottomed down in the first quarter 2017, while we'll expect a gradual recovery in the second part of the year.

Moreover, at a group level, the price mix should also be positive in 2017 compared to last year, confirming our fair price policy.

All-in-all, we believe that the expectation that in these moments, I see in the consensus with an EBITDA of around €185 million are still achievable

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Ms. Monica Bosio – Banca IMI

Okay. Thank you very much. Very clear. Thank you.

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Simone Montanari – Chief Financial Officer

Coming to, I think it was one another question that you had with this D&A.

Yes, D&A, actually D&A for the full year definitely higher compared to the one that we add in 2016. And in particular, we expect to end up with €120 million of D&A in 2017, but that will be compared with a €110 million that we had in 2016. So, yes, there will be an increase in D&A, and this will be a gap between the EBITDA results. and the EBIT result, gap that we already seen in the first quarter significant improvement in the EBITDA, while more or less the same EBIT.

If I can add also just some more information on this. This will be a peak coming from the peak of investment that was did in 2011 and 2012, but this peak will go down, starting from 2018 coming back to our usual level of D&A that should be in the region of €105 million, \$110 million.

In Vietnam, you are absolutely right. We went through a full reorganization in the area. We went through it in March 2017. And we switched the Chairman of the area and the CEO of the area and now the new CEO of the whole Asian region is Mr. Gianluca Fiume, who was the former commercial responsible of the whole European countries. He just took responsibilities starting from the mid of April, and so we are waiting for him and his results starting now from the second quarter of 2017 on.

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Renato Gargiulo - Intermonte

Yes. Good afternoon. My first question is on gross margin. Could you elaborate a little bit about what are domain drivers of the strong performance in the first quarter? Is it product mix or other important drivers? And also looking forward to the next quarter, so what kind of trend can we assume?

The second question is on the price mix. So, you are expecting a positive price mix for the full year. Regarding Europe, in particular, do you expect a more positive trend over the next quarter and during the high season? And my last question is on CapEx, could you please provide an updated guidance for the full year? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Gargiulo. I'll start from the first question that is the gross margin growth, good performance. I think has been definitely positive on this level on gross margin. The improvement has been especially in the result of two main drivers. On one side, as I said before, would benefit from a positive product mix and in particular from the positive performance of the Vespa and on some high-end bikes. On the other side, we also benefited from the efficiency improvement on purchasing in particular in cost of materials coupled with a higher utilization of the European plans.

Going forward, I expect to keep an improvement on percentage gross margin throughout the year. Even if, if I look at the first quarter results, the positive gap versus prior year will narrow, as we expect an increase overall material cost throughout the year.

The price mix, yes, yes, I expect that this will last also during the next part of the year. And the reason behind this are mainly two. In European countries is the contribution of bikes compared to scooter and in particular high-end bikes and Moto Guzzi . And in Asia, mainly the decrease of Asia hit in particular Piaggio volumes, but not Vespa volumes. And so, these words are positive contribution to the price mix effect.

The last question was on CapEx. Our expectation is to end the year with a €100 million CapEx for the full year.

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Renato Gargiulo - Intermonte

Ok thank you

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Simone Montanari – Chief Financial Officer

Any more questions?

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Operator

Nota t the moment.

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Simone Montanari – Chief Financial Officer

Okay. We're fully available, as we got to give you any additional clarification for any doubt or information you may need, either myself or Mr. Lupotto.

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Operator

There is another question

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Michele Gambarova – Banca Akros

Thank you. Good afternoon to everybody. I was wondering if you can give us a flavor of what happened on the Indian market in April. If you can, and if you see any, let's say, lower impact of the demonetization already in April? And then, if you could provide me some more details on the volumes in Q1 in Vietnam, Indonesia? I mean, a little bit of a granularity on Asia in Q1, again, in terms of volumes?

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Gambarova. So, I'll start with the first question, April, India. We do not have still a clear view, because we do not have the final data. What I know is that the demonetization is still there. And so, I do not expect to see positive results in terms of market in April in India still. But on the other end, as we already saw in the first quarter, and I think we will saw also in April, the market share for us will show an improvement. So, the market is negative. Our performance in this negative scenario is positive, because we are gaining market share.

Coming to your question or adding additional information on two-wheels, you know that we do not provide explicit information and this kind of level of details, what I can say is that, that the decrease of the Asian region is mainly focused on Vietnam. That is decreasing more than 20%, so basically more than the average for the area. On the other hand, as I take, for example, the best performance we had in the area, it came from Thailand, where in terms of volume evolution, we experienced a notably plus 70%. Then positive performance comes from China also and from other Asian countries, while we see neutral performance in Indonesia and the negative impact in Taiwan due to some regulation in Taiwan, that impacted basically in the last quarter.

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Renato Gargiulo - Intermonte

Yes, a very quick one. Still, on your strategy in Asia. You are recently talking was about the possible answer in new models, in particular the possibility of a new electric scooter, could you provide some more details about that? Thank you.

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Simone Montanari – Chief Financial Officer

Well, the electric strategy is still ongoing. That's not being communicated up to now. What I know is that we already presented, the electric Vespa in the last EICMA, and this new vehicle will be launched with priority on European countries and only in the second step and second phase in the Asian market. So, we're not expecting that this will have a significant impact on the volume trend of 2017 of the Asian countries

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Ms. Monica Bosio – Banca IMI

Yes, thank you. Just two follow-up. But do you disclose or can you give us an idea of the cost for the participation to the GP? Can we imagine something in the region of €15 million per year, or I'm completely wrong? And the second question is on the eBikes. I have seen that the revenues from the eBikes have gone down. I can imagine that maybe there are some problems in term of commercialization. What do you expect for this revenue lines?

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Simone Montanari – Chief Financial Officer

Starting from the first question, we didn't disclose in the past any total operational expense and the impact on the GP activities and we had to go on with this policy. So there are no information, we do not disclose information on this.

As for your second question, the Wi-Bike, we still believe that the vehicle is right. We are very proud of the product. We still believe that the eBike and the electric vehicle strategy will be a key pillar of our growth strategy both in the medium term and in the longer term, not only in Europe, but also in Asia.

Come back to the question that I had before also from Mr. Gargiulo, I was mainly and particularly referring to 2017 sales.

Well, I do not expect in Asia an impact coming from the electric vehicle, while if I look at that medium to long term future, yes, I expect that there will be. As for Wi-Bike, I think that I could agree with you, that is, again, we are satisfied of the product. We are not satisfied with the commercial approach and we have something to change in particular with the distribution channel.

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

Thank you very much. I think now we can close now the conference call. Thank you. And if you have further questions, as usual, you can call me later, also tomorrow. So, I'd like to thank you all for joining us today. Thank you very much. Bye.