

Piaggio Group

First Nine Months of 2016 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Hello. Good afternoon, everybody. Thank you for joining us today to analyze Piaggio Group First Nine Months of 2016 Financial Results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and by Mr. Gabriele Galli, Piaggio Group General Manager, Finance.

During today's conference call, as usual, we will use the presentation. You can download from our website. As usual, I remind you that we can use forward-looking statements and results can be materially different from what we're saying.

Going forward, I think that we can start the conference call.

So I am glad to hand over the call to Mr. Gabriele Galli.

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Gabriele Galli - General Finance Manager

Hello. Good afternoon to everybody. So we can go through the slides, and we'll start by slide number three which shows the market demand. The demand during this last quarter in June, the first nine-month, was positive in all the main markets.

Starting from Europe, we had a positive demand with two different dynamics. So, basically, some countries went up double-digit, especially Italy and Spain; some other countries went up single-digit; and some of them started to increase in the second part of the year, such as France. In terms of different products, the total demand went up by 5%, with bikes going up by 9% and scooters going up by 0.5%. The situation was a bit different in U.S., where the demand went down, especially in scooter going down double-digit compared to last year.

In Asia Pacific, the demand, apart from countries such as Indonesia, was positive. Vietnam went on high-single digit, and especially the automatic scooters went up double-digit. Asia, ex-Vietnam, went up mid-single digit in all the main markets, including Thailand, Malaysia and Philippines.

In India, the demand was positive in all the different segments. Three-wheelers went up by 15% with Pax pushing very much at the beginning of the year and losing momentum in Q3; and Cargo starting to improve in the second part of the year. Four-wheeler went up by 3%, after ending flat in Q3. Scooters went up double-digit posting a growth of around 22% year-to-date.

Moving to slide number four, we can have a look at the Piaggio results. Starting from Western country, the European performance was good. We've been increasing our market share in the scooter market by 1.5 percentage point to 25.9%, with the very successful launch of the new products, namely Liberty and Medley. The positive trend in Europe went on, with volume up single-digit mainly in Italy, which was very good, Germany, France, Switzerland and the Netherlands. In North America, as we said before, the scooter market decrease was very important and our total volume went down by around 20%, reflecting this worsening in the demand trend. In terms of brands, Vespa and Guzzi sales in Europe were very good and posted robust growth. In terms of pricing, the introduction of Liberty and Medley decreased a little bit the product mix. So we had some dilution in the price effect. But in terms of margin, the performance was good. As a total result, the revenue went up mid-single digit, with Italy and Germany as top market, ending up double-digit.

Moving to Asia Pacific, the Q3 was good, Vietnam improved in Q2 and Q3 compared to Q1; and at the end of the period is in any case a little bit negative due to the strong competitive environment, especially due to the competition of Honda. All the other countries, except Vietnam, were good with volumes up by around 40% in Q3, leading to a positive result year-to-date and showing how this market may be still a growth opportunity for the Piaggio growth. In terms of pricing, the regional price was very much in line with previous year, also including a slightly negative ForEx effect. As a total result, the revenues were a little bit higher than previous year.

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Moving to India, the performance in absolute terms was good, but in relative terms we lost some market share, especially in the three, four-wheeler market. This is due, as during the first six months, to an affordable product mix in the Pax segment. As we said many times, the market for Pax went on very much in the series, where our competitors have a much higher market share than us. And so, I mean following the switch in the market, our market share diluted by a couple of percentage points. In terms of total volume, since the market was up, the Light Commercial Vehicle volume in any case went up domestically. In total terms, it was a little bit down because of the contraction of the export market, namely in Nigeria and Sri Lanka. In terms of two-wheeler, we launched the new Aprilia SR in September. The performance of the first month was good. And as a total result, the volume are higher than the volume in previous year. As you know, there was a devaluation of Indian rupee versus the previous year. And so, the total net revenues were slightly down. But if we exclude the ForEx, the revenues are up by around 3.3%.

Moving to slide number five, we can look at the key financial of the group. We have a good cash flow generation; and also, we had a good cash flow generation from working capital. As a total result, that is significantly below 2015 level. Starting from sales, the total turnover was up by around €29 million or plus around 3%. If we exclude the negative ForEx effect, it could have been plus 4.7%. The EBITDA was up by €6 million, plus 4.3%; excluding the ForEx effect, plus 7.6% with a ratio increasing from 13.5% to 13.7%. The net profit was up by €0.2 million. In terms of gross margin, we had an increase of around €13 million, with the ratio on net sales up from 29.5% to 30.0%, showing a rigorous price discipline and showing efficiency on product cost.

The OpEx slightly increased by around €11 million, mainly reflecting higher depreciation following the higher CapEx we had in 2011 and 2012 and also due to new initiatives and marketing expenses such as the one related to the launch of new Aprilia SR in India. In terms of financial expenses, the performance was good. Thanks to all the ongoing initiatives in terms of all new financing, which also allowed to strengthen the debt restructure.

Tax rate, which is an expectation of the tax rate at the end of the year, is a bit higher than the usual 40%. Our esteem at the moment is around 43%. The difference in any case is not linked to cash item, but to accounting item, namely deferred tax assets. So nothing changes by a cash flow point of view. In terms of CapEx, the total amount was €66 million, which is slightly below compared to previous year. This is perfectly in line with the full year target of around €100 million. And in terms of cash flow generation, we had a good performance. The net debt at the end of the nine months is at €470 million, which is €26 million below 2015 and €29 million below December 2015.

Moving to slide number six, we can have a look at the detailed number of the profit and loss. So as we said before, revenues are up by 3%, 4.7% without ForEx effect. Gross margin is higher by 4.5%, 5.5% without the ForEx effect. The gross margin in percentage term is 0.5 percentage point higher than the previous year. The EBITDA is €5.8 million higher than previous year with a ratio to net sales higher by 0.2 percentage point, from 13.5% to 13.7%. The depreciation charge is higher by €3.4 million, leading to an EBIT higher compared to previous year by €2.4 million and ratio to net sales of 5.9% versus 5.8% last year. In terms of financial expenses, we have saving of around €0.7 million. The income before tax was €3.1 million higher than previous year, up €33.6 million versus €30.5 million. Tax were €14.5 million due to the higher tax rate of 43% versus €30.5 million with a tax rate of 40% last year, leading to a net income which is higher compared to last year by around €0.8 million with a ratio to net sales of 1.9% versus 1.8% last year. In terms of net financial position, as we said before, we ended up at €469.5 million versus €498.1 million, which is €28 million improvement compared to beginning of the year. And compared to last year, the cash flow generation was €28.6 million versus an absorption of €3 million last year, with a net change of €31.6 million.

Moving to slide number seven we can have look at volume. So the volumes were up by 3.9%. Western country performed with a good 6.3% increase excluding U.S., which went down as we said before. The European performance would be increasing by around 8.3%. The Asia Pacific went up by 3%. The India two-wheeler, also thanks to the introduction of new SR Motard in September, was up by 13.1%. The commercial vehicle in Europe up by 15.3%, while the commercial vehicle in India down by 1% due to negative performance in export, due to the very weak market namely, as we said before, Nigeria and Sri Lanka, and with an increase in local sales which posted an increase of 6,400 units or 5.6%.

Moving to slide number eight, we can have a look at the net sales. The net sales were up by 2.9% to €1.031 billion versus €1.002 billion last year. Excluding the ForEx, it was plus 4.7%. Western countries were up by 4%; excluding ForEx, namely the British pound, plus 4.5%. Asia Pacific plus 3.1%; excluding the ForEx, plus 4.3%. India two-wheeler plus 17%, could have been 23.7% excluding the ForEx. Western country commercial vehicle plus 14%, and finally, Indian commercial vehicle minus 3.4%; without the ForEx would have been plus 1.8%. The effect of Indian rupee's devaluation was of around €14 million negative.

Moving to slide number nine you can have a look at the sales by kind of product. So scooters were up by 4.8% from €475 million to €498 million. Bikes were up by 1.2%. Then, there was a introduction of Wi-Bikes. Of course, the growth is not meaningful in absolute term as the total turnover was around €3 million. The commercial vehicle were a little bit down minus 0.6%, but all the decrease is due to the ForEx effect we commented before in India.

And finally, with spare parts and accessories, are up by 1.4%. Moving to slide number 10, we can have a look at the EBITDA. The EBITDA moved from €135.7, million, 13.5%, to €141.5 million, with an increase coming from gross margin of around €13 million and an increase of cash OpEx by around €6 million.

Moving to slide number 11, we have a look at the net result. So the EBITDA was giving a positive contribution of €5.8 million. Then, we had an increase in depreciation and amortization by €3.4 million. A positive contribution of financial expenses by €0.7 million. And then an increase of taxes by around €2.2 million, out of which €1 million is due to the increase in the tax rate.

Moving to slide number 12, we can see the net financial position evolution. So we had an operating cash flow positive by €104 million versus €91 million last year, so a significant increase by around 15%. The working capital was released in cash by around €16.6 million versus a reduction of €0.7 million last year. CapEx were very much aligned to last year, €66 million versus €68 million. And then, change in equity and other namely dividend and buyback was very much aligned to last year, €26.7 million versus €26.9 million, with an overall result of €469 million.

In the next slide, we can have a look at the single item of the balance sheet. As you can see, we had a good performance in terms of accounts receivable, down from €110 million to €92 million this year in September. The inventory were very much aligned to last year despite higher flows of material and finished products coming from Asia. So just an increase of €5 million. The commercial payable was aligned in terms of total – in terms of days payable outstanding and increases – reflecting the increase in turnover. Other assets and liabilities are a bit higher due to the deferral tax asset accrual end of last year. In any case, the working capital was negative by €48.6 million versus a total negative of €16.8 million last year. Tangible fixed and unfixed, no major movement and mostly due to the ForEx effect. Financial investment and provision very much aligned as well led to a net invested capital lower by around €43 million compared to last year in September.

In terms of net debt, we already commented a reduction of €28.6 million versus last year September. Equity remain €393 million versus €410 million mostly due to ForEx effect. Just let me conclude with the ratio on net debt to sales, which was €1.19 million in a slight improvement compared to September last year when it was €1.21 million. Now, we are ready to answer your questions.

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QUESTION AND ANSWER SECTION

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Ms. Monica Bosio – Banca IMI

Good afternoon, everyone. I hope you can hear me. I would have three questions. The first one is on the major markets. We've seen a two wheeler European market – strong two-wheeler European market, especially for southern countries whereas the export trends in Germany the situation is a little bit different. So I was wondering if you can give us some indication on the trend in France and maybe in Germany, if you have, and what kind of growth do you expect for major markets by the end of the year?

The second question is on India. I've seen that in the Cargo segment you suffered from competitive pressure. I think that the competitive pressure comes mainly from Bajaj. And I was wondering if we should expect a

similar trend in 2017? Finally, I would like to know some more details for Aprilia SR in India, if you can give us some indication on the volumes? And I would say it's enough for the time being. Thank you very much.

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Gabriele Galli - General Finance Manager

Okay. Thanks to you. So basically the market in October is still good in Europe. Of course, as you know, I mean, going to October, November, December, I mean the market is decreasing to the seasonality. So most of the indication for the end of the year would be very much aligned to the indication we had in September. Anyhow, in France, during the month of October we had some result up to yesterday, the market is still increasing, is around plus 11%. So as we commented many times, the market was negative during the first six months of the year. Then starting from July, August, September, it started to increase. So it reversed the trend. In October, this trend continues. So let's cross the finger. In Spain as well it is improving. The growth is around 16%. Again, Spain suffered very much during the last seven years. Today, I mean it seems that is going to recover, but the total number is very much reduced compared to the normal number we had five, six years ago. In UK, the market is flat. Probably it will suffer in the future because to price increase that everybody will have to do for sure due to the valuation of the pound. At the moment, all the main manufacturers are starting to increase the price, but the market stays pretty stable. In Italy, it is increasing by around 5% in the scooters, the motor bikes are higher around 20%. In Germany, we don't have actual data, but in any case it should be improving a little bit, so to say, some low-single digit.

Going to your second question, of course, I mean competitive pressure in India is very high at any level. So it is not something new. This year, it was particularly strong, because Bajaj, it is very significant reduction in the export volumes. All the major markets such as Nigeria went down, and Bajaj was having a significant portion of all this turnover in this market, but also other markets for different reason went down. And so, Bajaj started to pressure very much in India in order to have some higher volume to counterbalance the reduction in exports and in order to achieve some sort of fixed cost splitting. So probably if spot market will start to grow up next year, some pressure will be lower, but in any case we know that India is a very competitive market in any case.

Going to your third question, SR Motard we launched in September. So at the moment there is some sort of good performance. People is asking more than the quantity we are able to produce. Of course, we are in start-up of production, so the ramp up in production is going up after month after month. During the first month, we have been selling 3,000 units, so a volume which is in line or a little bit higher than Vespa. And the trend should go on the same way absolutely in October and November. So I will say that the performance is good and we are satisfied about it.

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Ms. Monica Bosio – Banca IMI

Okay. Thank you very much. Maybe just a little bit strategic follow up about the net debt. You generated cash from the working capital side in the third quarter, if I understood well, and you are supposed to do the same in the fourth quarter. The consensus now stand at €470 million – €480 million of net debt. Would you expect to beat it given that it seems to me that third quarter net debt was better than the market consensus?.

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Gabriele Galli - General Finance Manager

So usually what happens, if you look back in the years, the fourth quarter is a quarter where the debt stays pretty line with the third quarter. So last year we had some sort of absorption, €5 million to €10 million. It depends very much on what it is happening in some particular items. So one item which is very important is the refund of the VAT in India. Just this item is worth around €11 million to €12 million. So, I mean, it may happen December 28 or January 1. But in any case, without saying that we want to improve, we think that the value of €469 million or €470 million is something, which we can maintain also during the fourth quarter. So at the end of the year, we should be able to post an improvement of net financial position worth around €20 million compared to last year, where we ended up with €490 million. So, of course, I mean, a small variation may depend on this item such as VAT we were commenting before. But it is something, which if it doesn't up in December, it will up in January sales. So something very neutral at the end of the life of Piaggio

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Ms. Monica Bosio – Banca IMI

Okay. Thank you very much.

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Renato Gargiulo - Intermonte

Yes, good afternoon. My first question was about the outlook for the remaining part of the year, given that last quarter is typically low season period of the year. Could you please provide us an update of your guidance on sales/EBITDA? Then my second question is about price mix. Should we expect a confirmation of the trend we saw in the first nine months of the year for the last part of the year? And then my third and last question is about factoring, could you provide us an update about the level of factoring at the end of the nine months? Thank you.

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Gabriele Galli - General Finance Manager

Okay. So for the end of the year, I think, I mean, in terms of EBITDA, we are very much aligned with what the consensus is saying . So we want to achieve an EBITDA higher than €170 million, so that might be €171 million, €172 million, but we think we can achieve absolutely €170 million. In terms of turnover, the turnover should be around €1.31 billion, €1.32 billion. So these are the basic numbers. Then, I mean, as you know, going down depreciation is increasing. So in order to elaborate estimate, we are to assume depreciation which is increasing compared to last year. Financial expenses should be good compared to last year, but the saving may be around the €1 million we posted after nine months. And as we said before, the tax rate we expected is higher compared to last year although this item is not cash. So we are thinking about some release of deferred tax assets. In terms of price mix, we don't see anything, I mean, different in the last quarter compared to last year. Probably the only single item affecting the overall performance is the introduction of SR Motard. The introduction of SR Motard, of course, is something new for the group. The price is around INR 65,000. And so, of course, the increase in the volume we will have is not followed by a similar increase in net revenues.

Last question is the factoring. So, again, in terms of receivable, we had total factoring of around €80 million. And the last question on the reverse factoring, I am talking about the amount of reverse factoring we're using in order to manage our payable, so I'm not talking about something improving the balance sheet. So the total amount of reverse factoring managed through payable managed through reverse factoring is at €174 million, which is in between, compared to last year, €147 million in September – sorry, is €200 million, which is a little bit higher compared to September 15 when it was €174 million. But, again, this is a technical so something that we managed through reverse factoring in terms of having direct payment to suppliers.

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Michele Baldelli - Exane BNP Paribas.

Good afternoon to everybody, and thanks for taking my question. I just wanted to understand the development of the gross margin in the last quarter. Because with volumes in Europe and in Southeast Asia growing, I was wondering why you have seen a sort of compression compared to the first two quarters of the year? Thank you.

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Gabriele Galli - General Finance Manager

Yes. As you remember, last year in June we had a not very, fantastic net financial position and this was because the warehouse during the previous month was very high. So last year in May and June, we decided to cut the production in order to realign the warehouse and we cut the production by around €9,000. So as a total result, after the first six months, we had an under absorption of fixed costs resulting in June 2015 with lower gross margin. Then, after six months, we saw the benefit coming in terms of cash flows because the reduction in warehouse really helped us in order to reduce the purchasing of component, so the payment to supplier at the end of the year. This year was a bit different because we arrived in June, but we wanted, I mean, to make the same operation in terms of reduction of finished products, not during the months of May and June, but during the months of June and July. And as a total result, we cut the production during these two months. So during the third quarter, we had lower production especially in Europe compared to last year. And, of course, this gave us a lower contribution in terms of gross margin because there was a lower absorption of costs. If you look at the total performance after the nine months, which includes the cut of production last year in May, June and the cut of production this year in June, July, August, the gross margin is in any case higher by 0.5 percentage points. So, again, we are not going to a reduction gross margin, but what you saw in the third quarter was absolutely due to these different allocation of production in these months.

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Mr. Filippo Prini – Kepler

Good afternoon. I've got two questions. The first is on the operating expenditures. You mentioned that there was an increase related to new commercial initiatives, new launch. Then, if you could give indication of OpEx for the last quarter of the year and for next year, in 2017?

And the second question is on commercial vehicle on India. Do you believe that your price, the increase that you've implemented on commercial vehicle contributed to your underperformance in terms of volumes on domestic market? Thank you.

Gabriele Galli - General Finance Manager

So operating expenses, as we saw, increased by around €11 million. A part of this increase was due to depreciation, so the depreciation was high following the increase of CapEx in 2011 and 2012. Another part, so around €6.3 million, was due to cash OpEx as we present in slide number 10. Out of these €6.3 million, we have some new initiative, namely the initiative we have in Boston for making some innovation inside of the group and some increase in commercial expenses, especially, as we said before, in India and Asia because there we present the new SR Motard and the Medley. So, the increase is due mostly of course through commercial expenses and a limited part, around €1 million, to the new initiative in Boston. Going through the end of the year, you can imagine a trend very much in line with the trend we're posting after these nine months in the sense that the depreciation is going to be higher compared to last year. You can assume depreciation in line with the third quarter in terms of increase to third quarter of 2015.

Second question, the commercial vehicle in India performance. Again, I don't think it was affected by the price increase, but it was very much affected by the switch in different mix of product in terms of market growth. As we said many times, there was a strong increase in the small Pax market, especially in the cities; and most of the growth of three-wheeler parts happened in the urban market. In this market, Bajaj is very strong, while we're much stronger in the rural market. And so, Bajaj took full advantage of the market increase. But they didn't reinforces the absolute position. It was just – we followed the market which was growing. In terms of pricing, we did more or less what the other players did. So there was not any direct impact.

Raffaele Lupotto – Head of Investor Relations

Okay. So if there are no other questions, I think that we can close the call now. If you need to know something else, you can call me later or on Monday too. Thank you very much for attending the conference call. Bye.