

Piaggio Group

First Quarter of 2019 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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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 Q1 2019 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group's Chairman and Chief Executive Officer and Mr. Simone Montanari, Piaggio Group's Chief Financial Officer.

You can download the slides supporting this call from our homepage. As usual, I remind you that during today's conference call, we can use forward-looking statements that are subject to risks that can cause actual results to be materially different.

And now, I would like to turn the conference call over to Mr. Simone Montanari.

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Simone Montanari – Chief Financial Officer

Hello everyone, and thanks again for attending our conference call. Before I start commenting on our results, I would like to highlight that Piaggio applied the new IFRS 16 starting from January 19. In this presentation to provide a better comparison of information between the year 2018 and 2019, 2019 data will be presented also excluding IFRS 16.

We can start from -- we can now start from Page 4. As you can see, we started again 2019 with what we believe may be considered a strong set of result. In fact, all key metrics were on the rise. At volumes level we grew more than 8%. In this context, Guzzi stood out growing around 25%, boosted by the sales of the new all-terrain bike V85 TT. Net Sales went up double digits, the highest growth rate since 2010, with all geographies positive contributing besides the US. In terms of margins, we posted a strong growth in all operating metrics, reaching an all-time profitability peak at EBITDA level despite the negative ForEx effect. And lastly, at cash generation level, notwithstanding the higher Capital Expenditure to support new initiatives, we achieved an outstanding result with the lowest seasonal cash absorption since 2007. So all-in-all, a strong start to the year; we are very satisfied. Having these strong results in mind, we can now move to Page 5 to have a snapshot of the key market trends.

We ended the first quarter with mixed market trends. Europe has been finally the bright spot that this is the most important positive news of the quarter. With demand surging around 24%, exceeding growth to our

expectation. More importantly, the strong positive trend in Europe has been widespread among all product segment with the scooter up by 26% and bikes up by 22%. And among all displacement segments with 50cc vehicles up by 40% and over 50cc vehicles up by 20%. Additionally, all key countries ended on the rise, with Italy, Germany, France and Spain all up double digits. In our view, this trend testifies that the long-awaited replacement cycle is well underway and it's the best driver we may have for the full year results. In this context, Piaggio Group kept the same market share of last year. In Asia, the first quarter demand trend were mixed and volatile. Indonesia ended up double digits, while Vietnam demand took a downward turn versus prior year, ending down mid-single digits. Among other minor countries, Thailand kept the flattish trend of prior year. As expected, India, three wheelers light commercial vehicle market, ended down primarily on an extremely tough comparison base for passenger, with last year, whose demand had been boosted in 2018 by the release of new licenses in some big cities. Conversely, cargo-like commercial vehicle posted a robust mid-single-digit growth in Q1 '19. Two-wheeler demand, drifted lower in India, on a tough comparison base. Furthermore, the negative trend has been amplified by the price hikes mainly linked to the new insurance and safety regulation. In this context, Piaggio gained market share both in three wheelers and two wheelers India.

Let's move now to Page 6 to an in-depth analysis of the trend by business on our results. As you can see, we ended the first quarter with overall volumes progressing by 8% leading to a 11% revenues growth meaning +€35 million compared to last year; 10% at constant ForEx. More importantly, these healthy results stemmed from a synchronized growth in all cash generating unites Similarly, positive contribution to growth stemmed from all businesses, with both light commercial vehicles and two wheelers adding around €17 million each of revenues versus prior year. More in detail, looking at the performance by geographic area. India confirmed to be the main engine of growth in absolute terms. Light commercial vehicle positive performance was driven by the synchronized healthy contribution of both domestic and export sales, that led total revenue up to € 94million, that has been the best performance since 2011. Notably, Piaggio posted positive domestic performance despite the negative market trend. India two-wheeler performance has been sustained by surging exports more than compensating for domestic demand weakness. Lastly, I'd like to highlight that both in light commercial vehicles and two wheelers, we achieved positive results with average prices on the rise against the negative demand. Asia Pacific surprised on the upside, posting strong performance acceleration with volume which arose 17%, leading to a 26% revenue growth, 20% at constant ForEx. Notably, Vespa with revenues surging close to 30% has been the key growth driver in the region. From a country standpoint, I'm glad to highlight that Vietnam together with China, gave the highest contribution to revenue, followed by Indonesia and Thai. Also in Asia, average prices were on the rise, also excluding ForEx effect. Lastly, and more importantly, we posted positive results in Western countries as well, both in two wheelers and light commercial vehicles. European two wheelers, despite the significant reduction of dealers' stock seasonal employees versus prior year, posted healthy growth both in volume and revenue, more than compensating the protracted weakness of Americas. Notably all major countries, Italy, France, Germany and Spain gave a positive contribution to growth. Growth stemmed also from light commercial vehicle, which posted sound results both in volumes and revenues on the back of strong performance of domestic and export sales. So, to sum up, we ended the first quarter with the strongest revenue growth rate of the last nine years, benefitting from widespread positive performance in all countries and businesses.

Let's now move to Page 7 to look at the breakdown of the performance by product. First of all, I would like to highlight the strong momentum in scooter, which posted revenues on the rise in all geographical areas. Namely, the growth has been driven by the most diverse scooters and brands of our product line up, the MP3 on one side and the Vespa on the other side. MP3 revenues climbed up double digits, +15% also reflecting the successful launch of the new 500cc version in the latter part of last year. And more importantly, these

outstanding results came ahead of the introduction of the new brand, new 300cc version of the MP3 that will be launched in Q2, and which bodes well for a positive performance in the remaining part of the year. Vespa volume on the other side, the revenues grew boosted by outstanding results in Asia Pacific, +23% in volume, 30% in revenue, namely with revenues in Vietnam and Indonesia surging around 40%. Lastly, MP3 and Vespa average prices went up across the board, further proving the strength and broad appeal of these two brands. Looking at bikes, the mismatch between volumes -14%, and revenues +4%, was driven by the mix shifting towards high-displacement segments. At this regard, the performance of the recently launched Moto Guzzi V85TT has been impressive as showed by the info we added on the next slide.

So let's move to Slide 8. As you can see, the launch of Moto Guzzi V85 has been up to now a huge success, around 10,000 test rides have been booked and we have already sold around 1,200 units around the world, essentially in one month, struggling to meet customer demand. These results allow us to foresee a rosy for this motorbike and are driving us to raise our internal volume on the full year.

Let's now move to Page 9 to have a look at the EBITDA bridge. As said before, EBITDA excluding IFRS 16 effect, grew by 10%; 13% at constant ForEx, reaching €48 million and 13.8% of margin on sales. The best Q1 performance to-date, both in absolute and percentage terms. This very positive result was driven by the sound performance at gross margin level, which grew by €7 million on the back of strong improvement of Net Sales, which had more than offset the negative effect stemming from dilutive geographical production mix and negative ForEx effect, mainly from the dollar valuation compared to last year. It is worth noting that excluding the negative currency effect, the percentage Gross Margin would have been 30.4%, well above our long-term targeted hedge of 30%. Cash operating expenses ended slightly up against prior year, reflecting higher marketing expenses to support the new initiatives and upfront costs for new product development. Lastly, as you can see, IFRS 16 adoption brings further positive effect on the EBITDA lifting the EBITDA up to €49.5 million and the margin on sales to 14.3%.

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Going to Slide 10. We can analyze the Net Profit bridge. Net result excluding IFRS 16 doubled the one of last year at €7.9 million with a significant uplift of margin on Net Sales that reached 2.3 percentage points, which is 1 percentage point better, above last year. This positive result stemmed from the higher EBITDA, that has been commented in the previous pages, lower D&A compared to last year and, as expected, lower financial expenses as we keep on reaping the benefit of the lower level of debt compared to last year and the lower cost of funding arising from last year actions, mainly the issuance of the new €250 million bond and the refinancing of the €250 million revolving credit facility. Tax rate has been 45%, in line with our guidance. Lastly, IFRS 16 has a slight dilutive effect stemming from the higher D&A and financial charges more than offsetting the higher EBITDA, setting the net profit reported including the IFRS 16 at €7.8 million or 2.3% on Net Sales.

We can now move to Page 11, which summarizes the figures just discussed. To provide a better comparison of the information from on the slide, 2019 data will be presented excluding IFRS 16. On the following page, we can -- we will see the effects of the IFRS 16 implementation. Net Sales went up from €312.3 million up to €346.2 million, up 10.8% or 10% excluding the ForEx effect. Gross Margin went up from €96.7 million to €103.9 million, up 7.5% or 8% excluding ForEx effect, with the margin down to 30% or 30.4% excluding ForEx effect. EBITDA from €43.2 million up to €47.6 million, namely +10.2% or 12.5% at constant ForEx, with margin on Net Sales stable at 13.8%, but on the rise if we do not consider the ForEx effect at 14.3%. EBIT from €14.5 million to €20.5 million, up 40%, with margin on Met Sales up 1.3 percentage points from 4.6% to 5.9%. Net income doubled from €4 million of last year to €7.9 million this year. Furthermore, you can notice at the

bottom of the slide, the strong performance at cash flow level with the lowest seasonal cash absorption since 2007, the Net Debt down at €456 million, well below the level of March 2018.

We can now move to Slide 12, where you can see the results including the IFRS 16 effect. As said before, IFRS 16 will bring a positive effect on EBITDA, which reaches €49.5 million, up 14.5% or 16.8%, if you do not consider the ForEx. Higher D&A compared to last year, including operating leasing that will be reclassified in financial leasing. A slight positive effect at operating results, which reaches €20.7 million, higher financial expenses -- slightly higher financial expenses compared to the not including IFRS 16 situation. A slight negative effect on net income, basically neutral, which lands at €7.8 million reported, double the result of last year. As you can noted on the bottom of the slide, the biggest impact of IFRS 16 is at Net Debt level plus €20 million compared to the situation excluding IFRS 16, leading the Net Financial Position at €476 million, which is again +€20 million compared to €456 million excluding IFRS 16, but in any case lower compared to March 2018.

Finally, and before starting the Q&A session, let's move to Page 13 to have an in-depth analysis of the evolution of the net debt. Operating Cash Flow grew versus last year on the back of higher EBITDA. Working Capital seasonal cash absorption was significantly lower than last year mainly benefitting from higher contribution from payables compared to the first quarter of 2018, lower increase of the inventories with the positive contribution of +€15 million compared to the first quarter of 2018. And we have been able to rein in the receivables despite significantly higher net sales and factoring in line with prior year. As expected, Capital Expenditure was significantly higher than last year, +€7 million, driven by higher focus on new product launches consistent with the full year target in the range of €120 million, €130 million. As a result, the total cash absorption has been €29 million lower than last year. And that being the lowest level since 2007, which boosts the Net Debt, excluding IFRS 16, at €456 million. Lastly, as commented before, after including the IFRS 16 impact, the net financial position ended €20.3 million higher, at €476.4 million. Thanks for your attention and we are ready for the Q&A session

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QUESTION AND ANSWER SECTION

Monica Bosio – Banca IMI

Yes. Good Afternoon. And thanks for taking my question. Three for my side. The first one is on Europe. Can you give us some flavor on the month, on the current month as for the European two wheelers market and more in detail for the scooter segment? Likely, if you can split between 50cc and over 50cc, I would really appreciate.

And the second question is, my usual one, given the beat on the estimates at the EBITDA level, and considering that the replacement cycle is gaining pace, don't you believe that the current consensus, which is pointing to an adjusted EBITDA at €215m might be too conservative? Excluding the impact of IFRS 16, would not be more reliable or a better consensus in the region of €220m plus, obviously, the impact of IFRS 16?

And the very last one is on India. We will have the election in the second quarter. Do you expect a slowdown for your volumes and for the market and are you still confident in the high single-digit growth in India for the year-end? Thank you very much.

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Simone Montanari – Chief Financial Officer

Hello. Thanks Miss Bosio. Thanks again for your questions. Starting from the first one. Europe we have some very rough data, together with the Italian one. The growth had been in the single month of April around 10% that, basically, is split by scooter and bikes, the growth rate of scooter is higher compare to the one of bikes. If I look the growth rate of scooter, the 50cc segment is growing around 20%, while the over 50cc segment is growing around 7-8%. Again, these are preliminary data.

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Monica Bosio – Banca IMI

That's for Europe?

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Simone Montanari – Chief Financial Officer

That is for Europe. Yes. Consensus: you pointed out that, at the moment, the consensus at the EBITDA level is €215m. I think that the first quarter, the start of the year, is been very positive for us, I do agree with you. And it is a sound pillar for full year. It is still a quarter, is the first one, that is not the most important one, but it is a very good start. Considering this and considering the forecast we have I think that there is some space to improve the consensus estimates on the EBITDA level. You mentioned something in the region of €220m, and I agree with you.

India. Q2 Election. Yes, they are an issue. I think that for Q2 we will not expect volumes higher than last year, due to the election, both for the market, that will be a weakness of the market; we already experienced a weakness in the first quarter, also considering the tough comparison base and we will be in line with the market, at least for domestic sales, then there will be exports, so I think that all-in-all in Q2 we will have volumes both commercial vehicles and 2 wheelers in line with last year. If you ask me the full year guidance for India, I think that a mid-single-digit growth would be fine for us.

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Monica Bosio – Banca IMI

Okay. Thank you very much.

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Simone Montanari – Chief Financial Officer

Thank you.

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Niccolo Storer – Kepler Cheuvreux

Yes, thank you. Thank you for taking my questions. Two if I may. The first one on South-East Asia. You posted very strong figures against a quite weak, or at least, difficult market background, in particular in India. So I was wondering if you could elaborate a little bit more on what is happening there and which are the

expectations going forward and if the performance of Vietnam, the market one, is been influenced by policies to limit circulation in city centres.

The second question is a clarification on the IFRS 16. To make an estimate on the full year impact is right just to multiply by 4 the effect that we have seen on EBITDA, D&A and financial charges in first quarter? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks Mr. Storer. Starting from the first one, on Asia Pacific results. They have been very good, we are satisfied of them. There are been no new policies or new regulation at the country level or at the cities level, this is just the result of the efforts we put in organizing our structure in Asia. Efforts that have been started one year and a half ago and finally we are collecting the results. So, no discontinuity from a market stand point. We performed very well thanks to the efforts put in place in the last months. If I look at the full year, after this very strong first quarter performance, I think that we believe we should be able to grow in Asia double digit on a full year basis.

On IFRS 16 impact, you are right. If you have to evaluate, to forecast the impact on the full year basis it is correct to forecast that at EBITDA level the results is a quarter one times four so basically around €8m of EBITDA in addition to the estimate that I was referring before. This is true for the EBITDA, this is true for the D&A, this is true for the financial costs. At Net Debt level the plus €20m referring the first quarter will be flat and stable throughout the year, so also at the end of the year.

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Niccolo Storer – Kepler Cheuvreux

Thank you.

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Emanuele Gallazzi – Equita SIM

Yes, good afternoon everybody. I just have two questions. The first one is on the US market, if you can give us an update on that market. The second one is on the Gross Margin, just because the Gross Margin was slightly lower than in the first quarter in 2018 so I was wondering if you see some pressure on costs, in particular on raw materials. And if you can give us an indication on the trend that you expect on the trend during the year. And the last one is a follow up on the APAC just to understand if you can give us a little bit more color on the trends in the different markets. Thank you.

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Simone Montanari – Chief Financial Officer

Thanks Mr. Gallazzi, it is nice to speak with you. Starting from the raw materials one, then we will leave the ground for Mr. Lupotto for the US market trend. Raw materials is not correct, we did not see any particular increase in raw materials costs. The slightly lower Gross Margin compared to last year is basically driven by two effect. The first one is a ForEx effect that is the revaluation of the US dollar compared to last year, has diluted our Gross Margin, at Gross Margin level, but, again, at EBITDA level we are quite neutral in terms of

forex effect, but at the Gross Margin level we lose something. The second effect that has an impact on our Gross Margin compared to last year has been the lower production in Europe compared to last year, because, due, to the effect that we wanted to decrease the proprietary stock, together with the dealers stock. So producing less than last year has been less efficient compared to last year.

Asia Pacific level. To give you more flavor, more color, of our results. If I compare the growth rate that has been +17% compared to last year, positives feeds, well, all the countries were positives compared to last year. In Vietnam, that is our most important one we grew by 7% in terms of volumes, but by 20% in terms of Revenues, then we grew in Indonesia, 30% in terms of volumes and 40% in terms of Revenues and in China, even if we have very small numbers, but we grew 50% in terms of volumes and we doubled our results in terms of Revenues. Leaving the ground to Mr. Lupotto for US market trend.

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Raffaele Lupotto – Head of Investor Relations

Yes. As far as US market concerned, the market went down again and namely in the scooter sector. So, scooter went down around 10% and motorbikes around 2%. And we kept on the contrary our market share stable.

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Emanuele Gallazzi – Equita SIM

Okay. Thank you.

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Francois Robillard – Intermonte

Hi. Thank you for taking my questions. My first one is on tax rate. It has remained 45% again this quarter; is there any plan, so far or later in the year, or a foreseeable reason to tackle that high tax rate issue?

And the second one I saw in the press release a share buyback, can you give us a bit more color on this condition, like if you were waiting the right stock price to buy? Or are the 37m, sorry 7m, will they be spent for sure by October 2020 deadline?

And finally, yes, on guidance again can you tell us if you planned on upgrading your guidance soon on EBITDA, Net Debt and maybe give us some more color on top line? Thank you very much.

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Simone Montanari – Chief Financial Officer

Thanks Mr. Francois. We start with tax rate. 45%, in my opinion, is a good and a reliable level also for the full year guidance, so I would stay with the 45%.

Share buyback: there is no news compared to the last year, no discontinuity, it is just the renewal of what we had in place up to now, and it was approved by the last shareholders meeting, but no plan, no specific plan on this. It is just a maximum amount that we are allowed to do in case and we fully decided to do it.

The guidance at the EBITDA level I have just answered to Miss Bosio question so I would stay with the €215m lowest, €220m more reliable one at the EBITDA level. At the Net Debt level, I would not change the guidance that we have, the consensus. I see that the consensus has a €411m for the Net Financial Position by the end of the year. I would stay with this one, because even considering the higher EBITDA I see that we might have higher Capital Expenditure compared to the consensus, because we are targeting €120-130m in Capital Expenditure for the full year. And in terms of top line, at the moment the consensus is €1,480m I think that this may be increased a little bit, you may choose the size of this increase, but there is space also to increase this result.

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Francois Robillard – Intermonte

Thank you.

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Michele Baldelli – Exane BNP Paribas

Hi. Good afternoon to everybody. Have a couple of questions and the first one is about the amount of the final de-stock of dealer network in Europe. If you have a feeling of how much the stock there was in Q1. And then the second question is, can we say that you are anyway increasing the sharing in the Asian regions, so South-East Asia? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks Mr. Baldelli. So starting from the first question, the stock, you know that in the first quarter the trend of the stock of the dealers is improving, is increasing, because they do buy, because, you know, they need to be ready for the second quarter for the sales. So this increasing trend, if I compare the increasing trend of last year, compared to the one of this year the one of this year has been the half compared to the one of last year. In particular, in details, the level of increase in the stock is been 5,000 vehicles less compared to last year one. The second question was market share in Asia, Mr Lupotto?

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Raffaele Lupotto – Head of Investor Relations

We have some good data from Vietnam, because even if Vietnam went down around 6% in term of market, we gain around 5% in terms of market share. This is what we can give you in terms of market share gain.

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Michele Baldelli – Exane BNP Paribas

Ok. Thank you very much.

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Simone Montanari – Chief Financial Officer

Just an highlight on the first question in case you compare, or you are comparing, the sell-out data, the market data, the market share data and the sell-out data compared to the sell-in data, I agree with you that the sell in growth would have been higher if no destocking hasn't taken place.

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Michele Baldelli – Exane BNP Paribas

Yes. Thank you very much.

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Tom Tharayil – Neuberger Berman

Hi. Good afternoon. I just have a question around your capital structure consideration. It reads from your last, at least from your last report that at the moment you have 2.50 of the 25 outstanding. And you have a lot of local bank financing and less than the 30m of 22m. What is your intention with these notes or at least with the bank loans, would you seek to come the capital markets to try and refinance the existing bank loans? Is that approach something that you would consider or would you intent to pay down the bonds. As you stand, I guess, the reason I ask is bond market is considerably attractive for your name, so I was wondering if you would consider a coming doing something in the near future. Thank you.

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Simone Montanari – Chief Financial Officer

Thanks Mr. Tharayil. Regarding the Net Financial Position situation. You know that in 2018 we did two significant action in order to renewal our growth debt situation. The issuance of a new bond and, the issuance if a €250m credit facility. So we already did a lot in 2018. It is true that, if we go to the market today for a new bond maybe, we will add some savings. But it is also true that there are a number of one-off costs that we would incur in. So in this moment is not possible, to think something of this type and not foreseeable in the near future that we go back on the market in order to issuance a new bond.

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Tom Tharayil – Neuberger Berman

Ok, so just to confirm: you will continue with the existing local bank financing and, not understand, it's 1/1,5 point additional to call the bond but as you stand you are comfortable with your financing structure as it stands today?

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Simone Montanari – Chief Financial Officer

At the moment yes. At the moment yes. Once we will see that the potential saving would be higher than the one of cost. We may consider also to, we may consider this situation.

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Tom Tharayil – Neuberger Berman

Ok. Thank You.

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Simone Montanari – Chief Financial Officer

Thanks.

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Monica Bosio – Banca IMI

Yes. Thank you. Just a follow up. Can you give us some flavor on the rising CapEx for this year? €120-130m is quite of a rather high level for Piaggio so, I would just wondering if you can give some this indication about this.

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Simone Montanari – Chief Financial Officer

Thanks Miss Bosio. We are going through a quite significant investment plan, in terms of product, during this year and very likely also the next one. But in particular this year. Basically, we are working both on commercial vehicles, as you know, also thank to the agreement that we have in place with Foton, and on two wheelers both in scooters and in bikes where we have strong investment plan together with scooter. In addition to this there are the new regulations coming in, in particular the Euro 5 that will take place in 2021 and the Bharat Stage – VI in India in 2020, so considering all these factors the €120-130m range of Capital Expenditure is reliable for this year.

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Monica Bosio – Banca IMI

Ok and you are sustainable or, let's say, at the steady state are you planning to come back at the €100-110m?

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Simone Montanari – Chief Financial Officer

Yes. In the following years I think that, let me say: it is true that in 2019, €120-130m is quite a higher level of CapEx compared to last year, but it is also true that, considering this EBITDA is in balance with this EBITDA level. So if and when, as we think the EBITDA level would be like this or higher than this I think that €120-130m may be a balanced level of CapEx compared to this profitability level. In case something lower compared to this will come, we are ready to push back the CapEx level again down to the €80-90m that we saw in 2017 or 2018.

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Monica Bosio – Banca IMI

Okay. Thank you very much.

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

Ok. I think that now we can conclude the conference call. As usual if you need further information, you can call me later or tomorrow. Thank you very much for attending the conference call. Bye.