

Piaggio Group

Full Year 2022 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ALESSANDRA SIMONOTTO – CHIEF FINANCIAL OFFICER

RAFFAELE LUPOTTO – EXECUTIVE VICE PRESIDENT, HEAD OF INVESTOR RELATIONS

MANAGEMENT DISCUSSION

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Hello, everybody. Welcome to our 2022 earnings call. Joining me today are Roberto Colaninno, Chairman and Chief Executive Officer, and Alessandra Simonotto, Chief Financial Officer. You can access the slides supporting today's conference call on the Internet at the Piaggio Group website in the Investor Relations section.

As you may expect, before starting the presentation, I need to remind you that during today's conference call, we may use forward-looking statements based on Piaggio's current expectations and projections about future events. By their nature, forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to be materially different. Also, I remind you that the press has been invited to participate in this conference call in a listen-only mode.

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

Roberto Colaninno - Chairman and Chief Executive Officer

Good day to everybody. Just yesterday, Italian Motorcycle Association reported that the in first two months of the year the sales of scooter and motorbikes grew. The same flow, positive flow came from the Vietnam and all the South Pacific area. Question is in India, where despite the situation after the COVID and after all the other problems following the pandemic area, the situation seems beginning to change in the positive way. The same feeling, positive feeling we get from European countries. So despite the question of Ukraine and Russia, the market in EMEA area is positive.

So if I look at the first two months of the year, I can say that I'm quite positive for '23. Now, we never forget that we got just two months. And two months is too short to have an indication of the flow of the total year '23. But, I want anyway to underline that problems that in the past were very important and that the negative influence now disappear: transportation, material cost, difficulty on the supplier is really in different and good situation in relation with the last – same period over the last year.

The pandemic situation seems to be over in all the areas we sell. United States, India, Pacific area and EMEA or otherwise, the European countries. So, I want to say that this total scenario of the first two months of the '23 is completely different and positively changed in relation to the same period of the last year.

In this scenario, we have the first results of our new investments in Indonesia. That is quite good. It is better than our expectation in the area. And what surprised everybody were the results of Vietnam, Philippines, Thailand and all the country around Asian area. We have increased investments in Vietnam to produce more in term of vehicles and in terms of engines than last year. We forecast that all these investments will be ready by the second part of the year. And we are sure to be able to respond to the positive demand of the market. So, I want to say that, all the difficult situation of the last year has now disappeared. All the area, Asian area, excluding for a moment, China, is quite clear and positive. Same is in Europe. In all the country in Europe, the market is quite good. And the same is United States.

What I want to say is that, in terms of our organization, we have put in place some management model that guarantee us productivity growing and cost reduction. And also, our stock is in line with our budget where we target to have a big reduction of stock of finished products and components and material started from the second part of the year. This is the scenario where Piaggio now is moving. So positive. We expected to be able to grow up on sales, and what is more important to grow up in productivity. And finally, productivity is the real positive thing that we want to achieve to support the results of '23.

I am ready for your questions.

.....

QUESTION AND ANSWER SECTION

.....

Monica Bosio – Banca Intesa San Paolo

Thank you very much. Good afternoon, everyone, and thanks for taking my question. First of all, thanks for the follow-up on Europe. As Europe is performing well, how do you see it? Do you see as reasonable or may be too conservative a full-year decreasing Europe in the region of 7%, 8%, as the consensus is projecting? Or do you believe that the market might be more or less flat or at least down at the most 3% for 2022 in Europe?

And my second question is on the shipping costs, which are materially decreasing? So do you expect the savings on the shipping cost for this year in comparison with the previous year? And if yes, can you give us a rough indication on the savings side please?

And the very last is on the tax rate, which was below our expectation. The tax rate for '23 and going forward?

.....

Roberto Colaninno - Chairman and Chief Executive Officer

Yes. Okay. Starting from the market, as I told you before, exactly yesterday, the Italian Motorcycle Federation announced that the sales of the first, two months in Italy is growing in scooter and motorbike and is growing on the two-digits on the market in relation on last year. We get positive reaction also from the market of, if you divide, how we divide Europe, Spain, France and Germany, these three markets are in line with our budget, and especially, on bikes.

We see that sales is growing. The reason speaking about Europe is that people thinking that it's much better, it's much more convenient to buy two-wheeler now than four-wheelers. We don't see that the market is... we see that the sales is quite regular and we don't see any peak in some market. All the markets are moving on the same scenario, on the same logic. So, for Europe, my opinion is that we are, from the market point of view, in a positive point, in a positive moment, waiting on what happens on the electrical market. In the meantime, we see that the market is oriented to buy two-wheelers more than other products.

Regarding transportation costs and material costs, as I told you before, we see that transportation, especially through transportation by boat is quite quiet. We don't see that the cost of transportation is moving as last year, by contrast reached levels that are lower than last year. And I believe that also the cost of the gas and electricity give a big improvement on the material cost reduction. But, I want to underline also that the sign of the control of interest, control quite well the inflation, has a positive impact on the market. So if I want to consider the first two months talking about Europe, for the rest of the year, my feeling is totally positive.

About tax, I ask Alessandra Simonotto to say what is her feeling about?

.....

Alessandra Simonotto – Chief Financial Officer

Yes. Thank you, Mr. Colaninno, about the tax rate as we have written in the specific slide Page 23, we are benefiting of different entity, geographical mix, and as you have seen read in the slide, you have seen that the impact of the APAC market on our revenue, is the growth of the APAC market is more than 57%. So if the geographical mix of our business will be more or less the same of the 2022, I expect that tax rate of the 2023 year --of the next year would be more or less about the one that we have used on '22 financial statements.

.....

Michele Baldelli – BNP Paribas

Yes, good afternoon to everybody. I have a couple of questions. The first one relates to Vietnam. If I'm not wrong, you should increase also capacity in Vietnam, if you can quantify how much you are going in case to expand capacity? Why, and if it's also all the scooters or also motorbikes, so to give a little bit more granularity on these investments what time period?

The second question relate to India. We have seen some volumes coming out from your competitors on the market and other volumes. If you can provide some data also for your volumes in February how it went, it would be great? Thank you very much.

.....

Roberto Colaninno - Chairman and Chief Executive Officer

Regarding, Vietnam, we have invested there already about \$75 million to be able to increase production of products till 400,000 units. And to increase on the same way the engine production. Consider that the production today is about 250,000 scooters. Consider that we have to supply the Indonesian plant, where we send some components to be assembled in that market. Consider also that we are expecting a big quantity from this country, Indonesia, because in term of two-wheeler market, as you know, is a huge market. And in the same way, we also follow the Thailand market.

Thailand's market we expect it to grow on '23 and much more than '22. We will sell in Thailand's, let's say, between 60,000 and 80,000 pieces. And this is all exported from Vietnam.

So in this area, let me say, in the South Pacific area is a huge market for two-wheeler with big growing rate where Vespa, particularly, is very welcomed. So you have to consider the value of the trademark beginning to be the reason why the market is so positive for Piaggio. Vespa is a trademark that is very, very positively accepted on those markets. And the policy that we have introduced in term of advertising and in term of style and design of the products is very welcomed from the young people. So, all these countries that, for us, are very important. Let's say Thailand, Vietnam, Indonesia, Philippines, if you put all together, we are speaking about millions of products every year. So we follow with high interest in this area.

Then you have to consider China. China surprised us, because it's a big importer of Vespa products even if the price is not low. Now, we have a budget for China. We, let's say, we are very conservative. We don't want to be too much positive for huge market as China. But in case, we make a mistake in term number of sales, we are ready to respond and to satisfy the demand eventually coming from China. So, when you see this area, you have to consider this area that for Piaggio and for Vespa, for Moto Guzzi and for Aprilia, that is a big surprise to us, very, very, very important.

.....
Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay, thank you. And Michele for -- concerning your second question, the data that you should see very soon on SIAM should be in the region of 9,000 units per month in light commercial vehicles and around 3,000 two-wheeler per month for -- clearly two-wheelers, scooters. So those are the numbers.

.....
Niccolo Storer – Kepler

Good afternoon, everybody. Congratulations on this set of results. Very strong. Thank you. The question is on pricing of vehicles. So should we expect any further price increases in 2023? And related to that and to Monica's question, what should we expect in terms of gross profit, gross margin? We have had in 2022, the lowest gross margin in many, many years, probably at least since the IPO and probably beyond. So should we expect the an expansion return towards the average 30%? Or should we expect a more gradual return to normal? Thank you.

.....
Alessandra Simonotto – Chief Financial Officer

Talking about pricing for '23, we will not expect another growing on pricing on 2023 as of now. Then if all the material cost will be crazy, then our expectation or something will be very different from the basis of our thought about this year, something would be changed. But as of now, we don't expect any price increase, nothing more than 1%. So this is not an increase having in mind this inflection rate that we are seeing on EMEA market in the last six, nine months.

About the gross margin, we are seeing and we are more or less waiting for a gradual return to some better figures. Because as Ms. Bosio asked us before, the shipping costs in 2023, as you know, will be lower than

2022 and 2021. The same is for energy in EMEA. So we expect that this is kind of production cost we'd be asked will be help us in getting some better results.

.....

Anna Frontani – Berenberg

Good afternoon. Congratulations on the record results. Just one quick question from my side. If you can please elaborate on the investments planned for 2023 in terms of new products? Because you mentioned that in the press release as well. I was wondering, what is that you're doing in terms of new products investment? Thank you.

.....

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So, Anna, Raffaele speaking. So essentially, we don't give a breakdown of our investments. But the vast majority of investments, the good part will be clearly focused in the introduction on new technologies and new products. This is what we can tell you. But we can't give you more granularity or detail on the investments by product. Okay?

.....

Gabriele Gambarova – Banca Akros

Yes, good afternoon, and thanks for taking my question. Regarding Asia, I saw that volumes grew around 45% in 2022 or 60,000 units. I was wondering if you can give us a flavor what you expect for 2023? I mean, do you expect, do you think it's possible to grow the volumes in absolute terms, more or less the same way you did in 2022, this would be around 60,000 units?

And regarding India, if you can give me some more flavor, even in this case, on the expectations for 2023. So what do you see basically from this market? Thank you.

.....

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yes, Raffaele speaking. Yes, we expect growth for Asia for 2023 would be double-digits. Well, I won't say the same level of 2022. But absolutely double-digits, yes. And significant growth, yes, in term of volumes and even in term of a revenues. This is the first question.

The second one, can you remind me? No, it was on India. Basically, what do you expect from this part? India, as the CEO said, we see a good rebound of the market. So if we follow this rebound for light commercial vehicle, we should growth maybe, probably in-line with consensus figures. And we should expect also slight growth in two-wheeler in the second part of the year. But these are the trends that we're seeing. Clearly, the first sign of the light commercial vehicle market for January and February are quite encouraging. So the market here is really recovering. And as we have highlighted in our slides, there is still a lot to catch-up, because the market is still 42% below pre-pandemic levels. So there are good opportunities in India too.

.....

Gabriele Gambarova – Banca Akros

Okay, thank you. If I may follow-up on Indonesia, you said that basically the results exceeded your expectations. Is it fair to assume that the 40,000 unit production capacity there will be fully exploited this year, or am I too optimistic?

.....

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yes, we are really positive on Indonesia, so we will use a good part of our capacity in the country. Keep in mind that in Indonesia, we sell somethings made in Indonesia, somethings still fully made in Vietnam. But yes, the data and the prospects are very positive.

.....

Emanuele Gallazzi – Equita

Yes, good afternoon, everybody. Three quick questions from my side. The first one is on net working capital. If you can just comment on the net working capital dynamics you expect for 2023? And what do you expect in terms of free cash flow? The second one is on factoring, if you can quantify the factoring gap at the end of 2022? And the last one is on 2023 EBITDA. I know that there is no quantitative guidance on 2023. But I would like to understand how confident are you on the consensus EBITDA of around EUR310 million?

Thank you.

.....

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So Raffaele speaking. In terms on the factoring without recourse, this was around EUR167 million. And this is the number. Expectation in term of working capital going forward --

.....

Alessandra Simonotto – Chief Financial Officer

The expectation is that during 2023 the working capital will be lower than 2022, which is something that we are working on from the closing on 2022 now from the beginning on 2023, as you will understand. And -- so this is something we will expect for this year.

.....

Emanuele Gallazzi – Equita

And on the consensus EBITDA, any comment?

.....

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yes, yes, it's okay. No, we don't see issues, okay, so far.

Francois Robillard – Intermonte

Hi, everyone. Thank you for taking my question. First question, can you quantify for us the amount spent this year on energy and transportation for 2022? And give us a hint on what portion of this spend was basically linked to cost inflation, so higher freight cost and energy prices booming, exceptionally, let's say, this year in Europe? So that's my first question.

My second question is related to CapEx. So you said you confirm your CapEx spending targets, which I believe amounts to about EUR150 million a year. But you announced those targets more than a year ago now and in the meantime, you have rolled out some investments to increase capacity in Asia Pacific, mostly. Does that mean that you have had to cut on other projects? Or does it mean that the EUR150 million has become something more, say, closer to EUR165 or EUR160 million for next year? Thank you very much.

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Francois, Raffaele speaking. So essentially, total energy cost, you will find the detail in the Annual Report, end up around EUR28 million, so EUR15 million higher than prior year. Freight cost that we can save next year, at least EUR15 million. Okay. In term of CapEx, we can confirm more or less what you said, something more, something less and will include all the investments for products, for capital for -- sorry, for increasing production capacity. So we are hovering around EUR150 million and EUR170 million, we have to see. We retain clearly, as usual and we write in the slides, the ability or the possibility to reduce the CapEx if the situation will worsen. I think, these are all your questions. Am I mistaken or am I right?

7

Sebastien Lemonnier – INOCAP

Yes, hi, good afternoon, gentlemen and congrats for the results. Just a question on the electric vehicle, and especially, the scooter opportunity. Having in mind that there is more and more regulation in Europe, the installed base of scooter is relatively aged. Shall we expect and can you provide us more color on the new electric vehicle release of its swappable battery, which I think would be quite attractive for the customer? Thank you. Hello?

Roberto Colaninno – Chairman and CEO

Okay. This is a good question about the Indian market where the swap system seems very popular in relation to the European market. We said that in India, we are on the way to develop -- to investigate and to develop how to use the three-wheeler swap battery system for the Indian market. First reaction seems quite positive and we are looking now how is the best way to offer to our customer a real and practicable system to use the battery swap. Naturally, the market in India is totally different than the other part of the world because the cost of the electricity in India is quite low in relation to the diesel and the other one. But today, what is difficult as all the other countries is how to develop the infrastructure for battery swap machine. As I told you, we are looking now what is the best way to develop this type of system.

.....
Michele Baldelli – BNP Paribas

Yes, thanks for taking my question. And I've got two questions. First one, if you can share what is the percentage of Vespa inside your total revenues, more or less, just to make the math together with the motorbikes how they weight altogether? And then on 2023, do you see price declines for your products? Thank you.

.....
Alessandra Simonotto – Chief Financial Officer

Mr. Baldelli, beginning from the last question. So about the price increase, we are not thinking to a decrease of pricing. But, we are thinking that the pricing will be – not increased more than 1% during 2023. So this is not a decrease. We do not believe that we will need to increase more than what we have already done during this year, okay.

Okay. And on the other question about motorbikes, you have the information in the slide we have published

.....
Michele Baldelli – BNP Paribas

Yes, I know. But then on the Vespa, do you -- can you give us some details around just to say

.....
Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Michele, sorry, we don't disclose exactly the revenues coming from Vespa, clearly are very important, but we don't disclose the numbers so far...

.....
Michele Baldelli – BNP Paribas

Okay, no worries. And lastly, well, if you don't decrease the price, you gave similar news from transportation costs and the volumes in Asia are growing. My view is that consensus is not only fine, is probably cautious. But I don't know if –

.....
Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Michele -- sorry, Michele, we don't hear you very well. Can you ask the question again, please?

.....
Michele Baldelli – BNP Paribas

Yes. No, the question was related to the fact that you confirm the guidance, the consensus, and you said that is okay, but at the same time you are saying, Asia is growing, transportation cost of this EUR15 million will

flow through the P&L, no price declines. So -- and consensus implies only plus EUR15 million compared to last year's EBITDA. So, am I missing something or do you have an explicit negative view on some parts of your business?

.....
Raffaele Lupotto – Executive Vice President, Head of Investor Relations

No, it was prudence, it is a low-hanging fruit, let's put in this way, okay.

.....
Michele Baldelli – BNP Paribas

Ok, Thank you.

.....
Raffaele Lupotto – Executive Vice President, Head of Investor Relations

So, if there are no more questions, we can conclude now. Thank you very much for attending this conference call. As usual, you can call me later to have further info. Thank you. Bye.