Piaggio Group
First 9 Months of 2019 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Thank you very much for taking your time today to follow this conference call. Here with me are Roberto Colaninno, Piaggio Chairman and Chief Executive Officer and Alessandra Simonotto, Piaggio Group's Chief Financial Officer. All the relevant material is available in the investor section of our website and the end of the presentation, as we said before, we will be ready to answer the question you may have. So before starting to conference call as usual I need to remind you that during the conference call, we may use forward-looking statements, that are based on Piaggio' s current expectations and projections. By their nature forward looking statement are subject to risks that can cause actual results to be materially different. Finally, I remind you that the press has been invited to participate in this conference in a listen-only mode.

Now, I would like to hand over the call over to Alessandra Simonotto.

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Alessandra Simonotto– Chief Financial Officer

Thank you, Raffaele. Hallo everybody,

in order to make our call focused and productive, I will concentrate on few important points.

Let's move to page 4 of the presentation that gives you a snapshot of the outstanding results achieved, notwithstanding the high demanding basis of comparison and the persistent weakness of one of our most important markets: India.

The key point underscored in the slide is Cash Generation, which is, as you know, our top priority. We have been able to generate 95€m of Free Cash Flow to Equity, the best result in the last twelve years, despite the step up in Capital Expenditures to support new initiatives. Strong cash generation pushed down the Adjusted Net Debt down to 366 €m, €63m below December 2019.

This outstanding performance stemmed from the strong improvement of all key operating metrics:

- Net sales went up 10%, the highest growth rate to date, with all geographies positively contributing

- Operating Margins rose significantly, notably with the EBITDA reaching the best absolute result since 2007 and the best % on sales to date

- EPS grew 27%, again the best performance of the last 11 years.

Let's move to page 5 on which we summarize our industry's key demand trends. In a nutshell: Europe demand re-gained strength in Q3, while Asia lost steam and Indian demand kept shrinking.

The key point here is that Europe kept on posting sound demand ending up around 9%, with the upward trend widespread among all product segments and all major countries. In our view this picture may suggest that the long-awaited replacement cycle is finally underway. I would like to add that Piaggio Group kept the same market share of last year.

As said India was on a different path. Namely 2 Wheelers downward trend accelerated across the year, while 3-Wheeler Light Commercial Vehicles ended down essentially behind extremely tough comparison base as last year demand in the Passenger segment had been artificially boosted by the release of new licenses in some big cities. Excluding this one- off effect demand ended up 40% vs. 2017; this suggest that the underlying demand for this kind of vehicles is still very robust. In this context Piaggio gained market share both in 3 Wheelers and 2 Wheelers.

Let's move now to page 6 to have an in depth analysis of the trend by business. As said before revenues grew in the first nine months at the fastest pace to date, 9.8% or 8.2% at constant currency. This performance stemmed from synchronized growth in all Cash Generating Units and in all businesses.

Clearly, looking at the gap between volumes and revenues trend, we can notice that a key driver of growth has been the strong positive price/mix effect in all geographic areas and all business segments. This effect has been driven by our strict pricing policy coupled with our ability to pass through costs with selected price increases leveraging the strong appeal of our brands.

Looking more in detail at the performance by geographic area:

India revenues growth slowed down across the period affected by the prolonged market weakness.

Conversely, Asia Pacific continued to surprise on the upside, posting strong growth both in volumes and revenues. Growth keep on drawing strength from the outstanding performance of Indonesia, Thailand and China, all with revenues surging more than 40%. Also Vietnam, despite the heightened competitive intensity, ended with revenues on the rise.

I would like to spend more time commenting on the positive performance in 2 Wheelers EMEA & Americas. Namely in Europe our retail sales grew broadly in line with market demand trend, the slower trend of our sell-in volumes showed on the slide was driven by actions aiming at curbing dealer's stock. Despite that, revenues in the area grew around 8% behind the positive contribution of all major countries, apart from The Netherlands.

Lastly EMEA and Americas Light Commercial Vehicles kept on posting sound results with synchronized growth of European and exports sales.

Let's move now to page 7 to look at the breakdown of the performance by product.

As said before revenue growth stemmed from all product segments. Notably both Bikes and Scooters revenue growth had been driven by strong brands. Bikes growth accelerated as the year progressed mainly driven by the outstanding performance of Moto Guzzi, which revenues grew more than 70%. Aprilia bikes posted good performance too, with volume and revenues on the rise. Scooters kept on benefitting from the healthy performance of Vespa and MP3, the former ending with revenues up close to 10% and the latter with revenues growing more than 15%.

Let's move now to page 8 to have a look at the EBITDA bridge.

As said before EBITDA ex IFRS 16 grew by 10%, reaching 183 €m, the best performance since 2007, with margin on sales at 15.3%, which represents an all-time peak. Notably excluding the currency effect, the EBITDA margin would have been even higher landing at 15.4%.

This outstanding result was driven by healthy Gross Margin, in fact excluding the currency effect the % gross margin would have been 30.5%, broadly in line with last year. Notably as you can see in the chart the strong improvement of net sales had largely offset the negligible negative mix effect.

Cash Operating Expenses ended up versus prior year, reflecting heightened effort to support new initiatives and upfront costs for new product development.

Lastly as you can see IFRS 16 adoption brought a positive effect lifting the EBITDA to 188.8€m and margin on sales to 15.7%.

Moving to slide 9 we can see that Net Result ex IFRS 16 surged 27.1% +9.9€m with margin on Net Sales that reaching 3.8 percentage points, 0.5 percentage point above last year. On top of the positive EBITDA contribution just described we kept on benefitting from lower financial expenses reflecting lower level of debt and lower cost of funding arising from recent initiatives at debt level.

Lastly as you can see IFRS 16 had a negligible dilutive effect stemming from higher D&A and financial charges. I will skip now page 10 that summarize the figures that we have just discussed to move directly to page 11 to have an in-depth analysis of Cash and Net Debt.

In my opinion this is the most significant slide today, since it testifies our ability to reduce debt whilst returning value to shareholders through dividends and buy backs.

In detail:

- Operating Cash flow grew versus last year primarily on the back of higher EBITDA;
- Working Capital cash generation reached an all-time peak, mainly driven by the strong containment of inventories, higher contribution of payables while we have been able to rein in receivables.
- as expected Capital Expenditure was significantly higher than last year +19€m, driven by heightened focus on new product launches, but consistent with the Full Year target around 130 €m.
- lastly, Change in Equity was higher than last year, mainly reflecting higher dividend paid.

As a result, we produced 63 €m of cash which pushed down Adjusted Net Debt ex IFRS 16 at 366€m, well below September and Year End 2018.

Leverage went down from 2.0 in September 2018 to 1.8, which testifies that we are fully on track with our long-term goal to keep leverage below 2.

Lastly, including IFRS 16 the Net Financial Position ended at 405 €m, also in this case below year End 2018 land at the same level of September 2018.

Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

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

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QUESTION AND ANSWER SECTION

Monica Bosio – Banca IMI

Good afternoon and thanks for taking my questions. The first one is my usual question. In July the company guided for FY EBITDA, excluding IFRS 2016 impact, in a range of 220-225 million and in my perception was that the company was quite optimistic toward the high end of this range. Is it still the case on the back of the weakness of India or are you little bit more conservative? And in term of guidance given the very brilliant result in net cash flow generation and in net debt, can you give us an updated on the FY expected net debt? This is the first question. The second one is on India on one side and Europe on the other side. Can you give us an update of the India market trend in October and what do you expect in term of volumes by year end or in the next year? Do you expect the flat trend or a further downside? Can you also please give us an updated European two-wheels market by year end in October? Thank you very much.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. Hello Monica. So, the first question regarding in the consensus figures and our guidance. Given the first or the strong result in first nine months first nine months, and notably the performance, outstanding performance in Asia and in Europe, that are able to offset completely the weakness that we see in India. And so, I'm very glad to confirm that we can reach around the €220 million - €221 million of EBITDA, so we don't change our guidance. We gave a guidance in term of debt around €415 million to €420 million. I think that €415 million are achievable this year, again, thanks to the strong generation – cash generation that we reached in the first nine months of this year.

Going to India and then Europe. So, in India, Q4 or even October will be a little bit negative even if the rate of decline in October will be lower compared to prior months. There are some good news, essentially Retail sales are going up September, October, but we can't take these as a new normal. So, we want to be prudent. October maybe will be a little bit down. I will say that Q4 for light commercial vehicle can be down probably in the region of – mid-single-digit volume down.

Conversely for two-wheeler, after maybe a still difficult October, we should resume growth in November, December, so we should end Q4 with volumes in line or even above prior year.

In both cases, light commercial vehicles and two-wheeler, given the fact they have very positive price effect, I think that Q4 can be or can end up compared to prior year.

Clearly, that was referring to domestic market. Export market is doing very well. We went up double-digit in the first nine months. We think that we can go up even in Q4. In this case, we can give you also – we can be more confident concerning 2020, and we're expecting double-digit growth for export market for light commercial vehicles, also in 2020, so I gave you also our view on 2020.

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Monica Bosio – Banca IMI

And do you expect a double-digit growth, sir?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

In export markets. In export markets India. Okay?

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Monica Bosio – Banca IMI

In export market?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

In export market, yes. You've seen already in the first nine months; we went up double-digit.

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Monica Bosio – Banca IMI

Okay.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Double digit. We can keep this growth rate.

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Monica Bosio – Banca IMI

So, overall, do you expect a fourth quarter year-on-year improvement?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

In term of revenues. In term of volumes, we want to be prudent and so maybe not a double-digit decline as in...

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Monica Bosio – Banca IMI

Yeah, it's mid-single.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yes, exactly. Going to Western countries, in this case, we expect – I can give you more color on that, volume rising mid or high single-digit in Q4. I'm speaking about two-wheeler and your question was referring to two wheelers I think. And as you have probably noticed, in the first nine months, there has been a gap between sell-in and sell out, and that has been driven by our action to curb the dealer's network. Given the extent of the dealer stock drawdown achieved so far, we think that the delta between sell-in and sell-out could narrow significantly in Q4 and also on the back of some new product launches. So, that's the reason why we are confident to achieve very good results in Europe in Q4. Additionally, as certified in the first nine months results, we should benefit from some positive price/mix effect. That should drive our revenues up double-digits in Q4.

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Monica Bosio – Banca IMI

Double-digit?

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Yes. It is, I think. I hope that I answer your questions.

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Monica Bosio – Banca IMI

Thank you very much. Very clear.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Okay, thank you.

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Monica Bosio – Banca IMI

Thank you.

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Renato Gargiulo – Fidentiis Equities

Yes, good afternoon. Well, my first question is on cash generation. It seems that the main driver of the operating working capital improving is on inventories, which are down more than 300 basis points year-on-year. Could you give us any more indications about the main drivers there, if it's more related to European market or elsewhere? Then second question on the tax rate. Could you give a guidance for the full year, including the Patent Box agreements you signed and the India cut in the corporate tax rate? Thank you.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

So, working capital. Again, we have been very, very strong in term of inventories; so inventories end up just €1 million above December 2018 and €17 million lower than September 2019. So, we did extremely well, and this is, again, the result of our deliberate strategy. Receivable increased a little bit, but again, with a lower weight on sales. So, we did quite well also in term of revenues, or sorry, receivables compared to revenues.

And again, giving you the same answer to the question that I answer to Monica Bosio. So, we drawdown a dealer network. So, we don't need to push sales, giving several days of payment and so, we are able to reduce strongly receivables. So, good results in term of receivables; so good results in term of inventories.

Receivables, also, if you consider the factoring has been pretty much in line with last year also went down on the percentage of sales; so it's been a very good result. Then, as usual, we achieve a good result in term of payables. But again, payables are pretty much in line with last year if I compare to the total cost of purchases. The second question is concerning the tax rate. Is that right? So, in this case, Alessandra can give you...

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Alessandra Simonotto - Chief Financial Officer

About the tax rate, as you can see in the figures that you have read in our presentation, the tax rate adopted at the end of September is 43.5%. We are working for the end of the year for a tax rate between 42% and 43%, taking account of Patent Box and the tax rate in India that has changed last month.

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Renato Gargiulo - Fidentiis Equities

Okay, thank you. If I may, two follow ups. On net debt, is your guidance already including around €8 million payment following the lawsuit with a supplier? And second question, can you give us, if any, any update about the agreement with Foton, if you have any more indications about your expected production? Thank you.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Yeah, when I gave before the guidance in term of EBITDA, in term of net debt, we are already including the potential negative effect into these judgment, you are mentioning.

Going to your second question, Foton. Probably, you've seen some picture of our product already on the news. Yes, everything is going on, fully on track with our expectation. And very good news, we are able to sell the first product I would say at the end of next year. So, I think that this is something very important because I know that a lot of analysts do not include the potential positive impact stemming from revenues of new products at the end of next year. So, everything's on track. You will see the first product come in and to be sold in Q4 next year and probably you have to update your data.

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Renato Gargiulo - Fidentiis Equities

Okay, thank you. Thank you very much.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Thank you.

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Massimo Vecchio – Banca UBI

Good afternoon to everyone. Two questions from my side, the first one is a follow up on the stocking in Europe. You already said that destocking will be lower in Q4, but still there will be some de-stocking. I was wondering if you were in a position to give indications on 2020 or at least to the first half. So, put it in other words, are you happy with the stock level dealers or you wish to further reduce that in 2020? Second question is on your product lineup and future launches, if you can give some more color on what do you expect to launch in terms of electric and hybrid models, ideally articulating by geography and by two and three wheelers? Thanks.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Hi, Massimo. So, in term of mismatch between sell-in and sell-out, yes, we think that this gap, as I was mentioning before, will go down going forward; so we have already done a lot in term of drawdown. So, gradually going also looking at next year, you should see a sort of reverse trend. So, at one point, you will see probably sell-in going more than sell-out meanly in the second part of the year. But again, the gap between sell-in and sell-out will narrow starting from Q4. Okay?

Then, as far as product launches, so you were referring to electric vehicles I think. So, first of all, I would like to say that we are very happy with our sales of Vespa Electrica. So far, it has been sold mainly I will say in Europe and US. For the next year, 2020, we don't expect to have a new electric two-wheeler. So this is. But clearly, we are working on these kind of vehicles. And probably we'll see something new in 2021. On the other side and this testifies our attention on these new topics and new engine, probably you'll notice that we already launched a new three-wheeler in India. So, it's called the Ape E-City and the product is targeting urban area clients. So, it city-pax vehicle, with a battery range in the region of 100 kilometers and will be equipped also with swappable batteries. The other good point is that as you probably know, for electric vehicles, there are some discounts. So, law taxes, GST, are lower. So the total price or the road price will be pretty much aligned with the price at which we are selling our normal CNG version. So again, three-wheeler, we are there; two-wheeler, we are there. We are working on that; in 2021, probably you will see other two-wheeler coming to the market.

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Massimo Vecchio - Banca UBI

Okay. Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Clearly the market is important; went up in the first nine months of this year in Europe around 70%, total amount of 40,000 vehicles sold. So far in Europe, it's still mainly focused in B2B sales. So sales to scooter renting companies.

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Massimo Vecchio - Banca UBI

Thank you very much. Very helpful.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Okay. Thank you.

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Niccolò Guido Storer – Kepler Cheuvreux SA (Italy)

Yes, good afternoon. Thanks for taking my questions. The first one is on the price / mix effect that we continue to see in Western countries, if you can elaborate a little bit on the reasons behind that and what should we expect going forward? And the second one is on the Gita launch, are you including any potential revenues or margins for the year 2019 on your guidance? Thank you.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

So, in term of price / mix, you are right, and probably you have noticed also looking at the slide that we had a strong, very strong performance with motorbikes. So, revenues went up strongly quarter after quarter. So, there has been an acceleration in revenues. So, this explains a little bit or a part of the price / mix effect that we have in Europe, namely Aprilia grew in term of volumes and revenues as Alessandra said before during the speech. And then clearly, you have this outstanding performance of Moto Guzzi, with revenues that are going up more than 70% compared to last year. So, this is a part of the explanation. Then, if you look at our core scooters, so for example, Vespa and MP3, we had a positive price effect also for these two vehicles in Europe. So, this is the reason why you see these positive pricing effect. Then there was the second question concerning Gita. So, yes. So, we are very glad because Gita will be sold and available in market starting from mid-November and will be priced at $3,250 per unit at the very beginning just for the US market. The potential and the positive results of these sales are still not included in the figures that I gave you before. So, it's just upside going forward.

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Niccolò Guido Storer – Kepler Cheuvreux SA (Italy)

Thank you. Maybe a final one on the European scooter market. I noticed that at the end of June, the market was up 12%. Now at the end of September, we are at plus 9%, so apparently sharp slowdown in Q3. So can you confirm this and what you see going forward at market level? Probably, we are going to see more normalized growth rates going forward or it's just a temporary slowdown? Thank you.

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Yes. I don't know maybe I have to check my data again. But according to my data, we went up 26% in scooters Q1, around 5%, the market I mean, in Q2 and then again yes, it's plus 4% in Q3. Clearly the only part that went down a little bit in term of speed was a 50 cc market that has been artificially inflated in the first part of the year by B2B sales, so sales that had been sold to scooter renting companies.

So that's the reason why you see we have seen the growth rate for 50 cc scooter going down from plus 40% in Q1 to plus 6% in Q3; this is the only point. But again, if I look at the split in the first nine months, over 50 cc scooter went up 6.5% and 14%, 50 cc. So we don't see a big problem there.

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Niccolò Guido Storer – Kepler Cheuvreux SA (Italy)

Thank you.

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Emanuele Gallazzi – Equita SIM SpA

Yes, good afternoon everybody. Just two quick question. The first one is on the APAC area. The third quarter confirmed the strong trends seen in the first half, so I just would like to have a little bit more color on the trend on this market. The other one is on the Indian market, a quick one. If you can give us an update on Bharat VI and expectation about the impact of the new regulation for 2020?

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Yes, Raffaele speaking. So, again, Asia. You did well, you notice that we have a very strong performance there. So the visibility also improved strongly for this area. As you probably know, we changed a lot in the last few years. We changed the head of the Asia-Pac activity, we changed the way we manage the dealer network, mainly in Vietnam and we are speeding up in the opening of new point of sales in other areas such as China and Indonesia.

So performance went very well. There are three markets that are growing or outstripping market trends. These are Thailand, Indonesia and China. So in this case, volume and revenues are surging, speaking about more than 40% - 50% growth.

Vietnam, as Alessandra was mentioning before, has a very difficult situation. So the margin first of all is negative, around 5%. We are outstripping market trends, so our sales are far above this trend, revenues are positive. So, we are able to couple with this difficult situation in Vietnam. So Q4 and now we see next year will be in our idea a positive year for Asia again. Then the last question was Bharat VI transition.

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Emanuele Gallazzi – Equita SIM SpA

Yeah, correct.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

Yeah. So first of all, we have already received and we have been the first to receive a certification or one of our Bharat VI CNG engine at the end of September. Recently also for the LPG version, I'm speaking about light commercial vehicles and also for some two-wheeler. So, we expect that the transition across all products will be completed before the end of the year.

In the meantime, we are gradually starting production of Bharat VI vehicles, aiming at producing 100% of the Bharat VI vehicles by the beginning of next year. This is essentially and I don't know if you need something more.

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Emanuele Gallazzi – Equita SIM SpA

No. It's fine. Thank you very much.

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Francois Robillard – Intermonte Sim SpA

Hi. Good afternoon, everybody. Thank you for taking my questions. Most of my questions have been answered already actually. Just quickly if you could give us an update on the North American market for two-wheelers. Thank you.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

So, essentially as I wrote in the slide, the scooter market is still negative. So our performance is improving probably you have noticed a pickup in Q3, but again, is very weak because it's already several years that the scooter market is negative in US. One good point is on the contrary that there has been the negative trend reversed for motorbikes that end up 1% compared to last year. So this is what we can say regarding the market trend in US. The situation is not helping us, put it in this way.

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Francois Robillard – Intermonte Sim SpA

Okay. Thank you.

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Raffaele Lupotto - Executive Vice President, Head of Investor Relations

So, if there are no more questions, I don't know, operator, there are other questions?

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Raffaele Lupotto – Executive Vice President, Head of Investor Relations

Okay. So, I think that we can conclude the conference call now. And as usual, you know from now on, you can call me if you need further clarification or information. Thank you very much for attending this conference call.