Piaggio Group
First Nine Months of 2018 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

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Yes, hello, thank you very much for taking your time to follow this conference call on the first nine months of 2018 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Chairman and Chief Executive Officer; and by Mr. Simone Montanari, Piaggio Group Chief Financial Officer.

During today's conference call, we will use the presentation; you can download that from our website. And, as usual, I remind you that during today's conference call, we may use forward-looking statements that are subject to risk that can cause actual result to be materially different.

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

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Simone Montanari – Chief Financial Officer

Hello, everyone. Thanks for attending the call. As usual, I will start the conference call from page 4, providing a quick snapshot of the main market trends. We ended the first nine months of 2018 with positive demand across all our major regions. In particular, Europe posted an encouraging improving trend while Asia and India confirmed the positive momentum of the first half of the year. More in details, Europe, after the negative start to the year, took an upward shift in Q2; Q1 it was minus 4%, Q2, plus 1% and strengthened the growth in Q3, plus 12%, leading the market to end around 1% above the prior year.

As highlighted during the last conference call, market demand came from diverging dynamics, a sharp decline of the 50cc segment, that was still compensating from the strong growth of the latter part of 2017 linked to the shift from EURO2 to EURO4 engines, and sequentially stronger demand for over 50cc vehicles which ended up high single-digit with positive demand spread all over the major European countries.

In Asia, Q1 positive trend strengthened in the following quarters. In particular, Vietnam confirmed that in Q3 the mid single-digit growth rate of the first half, plus 4%; Indonesia, kept their robust high single-digits growth, plus 9%; and the Philippines' demand further accelerated ending the first nine months is more than 20% higher than prior year.

In India, three-wheelers like commercial vehicles, strong momentum continued with demand up 50% against 2017 and more importantly around 30% growth against 2016 which testifies that the positive performance wasn't exclusively linked to today's comparison base with 2017. Indian two-wheelers kept on posting strong growth with scooter ending up plus 10% despite the flattish trend of Q3.

Moving to page 5, we'll have a look at the positive result achieved so far from the financial perspective. In particular, some highlights: Volume improving trend accelerated across the period leading to an overall, plus 10% growth. Similarly, Vespa positive performance strengthened, leading to an overall volume growth in the first nine months of around 14%.

Net sales upward trend accelerated strongly in Q3, plus 11% despite negative Forex effect. Without Forex, it could have been plus 13% , leading to an overall growth in the first nine months around 4% year-to-date that could have been plus 8.4% excluding Forex.

The Group reached a profitability peak at EBITDA slevel which grew around €6 million against last year, up to €166 million with a margin uplift of 0.1 percentage point that led the ratio on net sales up to 15.2%; the best first nine months performance to-date.

Also the cash level results have been sound, in particular notwithstanding the forecasted higher capital expenditures that we will have in 2018 to support the initiatives for the years to come. We have been able to generate a positive cash flow that pushed the net debt both below year-end 2017 and below September 2017 level. Noteworthy, we generated around €63 million of cash flow available for shareholders in the first nine months.

Let's move now to page 6 to have in-depth analysis of the trend by businesses. Overall volumes continued to trend up in the first nine months. We ended Q1 up by 7%, Q2 by 9% and Q3 by plus 13%, ending in the first nine months is plus 10%. This trend led revenues to go around 4% year-to-date. Again, 8.4% at constant Forex after taking a strong acceleration in Q3 plus 11%, which benefited from a growth in all geographic area. Additionally, if we look at the brakdown by business, the group grew both in light commercial vehicles with revenues up around 13% plus 19% at constant Forex and in two-wheelers with revenues around plus 1%, plus 3% that comes from Forex.

More in detail, looking at the performance by geographic area. India, confirmed to be the main engine of the growth, both in absolute and the relative terms. Indian two-wheelers volumes and revenues kept on surging despite weak market trend in the latter part of the period, namely with Vespa which volumes grew more than 40%, actually 45% against prior year with the Vespa.

Indian light commercial vehicles kept posting healthy performance, driven by a bold contribution both of domestic and export sales. I would like to underline, again, that domestic volumes were not only on the rise against 2017, which represents an easy comparison base, but also around plus 3% of 2016. Both in two-wheelers and light commercial vehicles which is the result with average prices on the rise excluding Forex.

Moving to Asia Pacific, volumes rose plus 8%, leading to a plus 7% growth in revenues at constant Forex. Clearly, this result bodes well looking at Q4 2018 when the comparison with prior year will soften a little bit.

From currency standpoint, the strongest contribution to growth came from Indonesia, which grew more than 40% and thus it is set to achieve at the end of 2018, the best result from the record. And on the other countries, it is worth mentioning the ongoing sound performance of China and Taiwan and Thailand.

Additionally, I would like to underline the speedy improvement of Vietnam, whose volume trend shifted to positive already since in Q2 and again in Q3 with revenues of almost high single-digits in Q3.

Western Countries had been the brightest part in the Q3. Two-wheelers volumes grew high single-digit in Q3 plus 9% in the wake of improving demand trend and the successful launch of new products, namely the new version of Vespa and the MP3. This successful result was achieved despite the persistent decline of the 50cc segment and the weaknesses of U.S. market. Also for Western Countries, I'm would like to highlight the sound price increase which justifies the strength of our brand.

Let's move now to page 7 to look at the breakdown of the performance by product. First of all, I would like to underline again the strong performance of Vespa amongst scooters. Vespa volumes growth accelerated throughout the period, it's growing a plus 14% in the first nine months on the back of positive performance across all geographic area. Notably, the average selling price went up across the board, further improving the strength of the brand.

Among other scooters, I would like the highlight the positive performance of the MP3 whose performance strengthened also on the back on the introduction of three new version at the end of Q2, beginning of Q3.

Looking at bikes, the mismatch between volumes plus 8% and the revenues minus 7% has been linked to negative mix effect and in particular in the U.S. where a big portion of our sales are represented by high displacement vehicles, our volumes declined, dragged down by the prolonged market weakness.

Moving to page 8, we can look at the EBITDA bridge. As said before, the EBITDA grew 4.4% or 6.2% at constant Forex, reaching €166 million and above all with a margin on sales of 15.2%. That has been the best performance to-date. This result was driven by the top line growth which more than offset the slight decrease in gross margin, mainly linked to different geographical mix of results, in particular Indian contribution was higher than previous year and the raw material cost increased. Lastly, the cash operating expenses ended slightly up or in-line with prior year, reflecting heightened marketing expenses to support new initiative and new product launches and upfront costs for new product development.

Coming to slide 9, we can analyze the net profit bridge. Net result surged 45%, plus €11 million compared to last year with a significant uplift of margin on net sales at 3.3 percentage point. Notably, this very positive result has been achieved despite the tax rate hike to 45%, that reflect the different geographical mix of result and in particular the strong growth in India where we have the higher tax rate among our businesses and has been the sum of higher EBITDA that had been commented before, as expected and very important, lower D&A after the peak reached last year and again, as expected, lower financial expenses as we target reaping the benefit of lower level of debt and of the recent actions to lower the cost of borrowing. Additionally, it is considered that the bond issuance generated a one-off positive effect of €1 million in terms of financial positive effect.

Moving to page 10 – I think we have on page 10, we may have a look at the financial highlights we commented and in particular net sales up €43 million from €1,050 million up to €1,093 million. Gross margin in-line with last year 30.6% against 30.7% of last year. EBITDA higher than last year, both in absolute term and the relative one €166 million against €159 million, 15.2% against 15.1%. Depreciation lower than last year €81 million against €90 million of last year. Operating results €15.8 million higher than last year €85 million against €69 million of last year. Financial expenses notably lower than last year €18.8 million against the €25 million in the last year, that is €6 million saving.

Income before tax plus 50% compared to last year €66 million against €44 million. Tax higher obviously than the last year; and the net income that grew up to €36 million against €25 million of last year.

At the bottom part of the slide, you can also appreciate the reduction of net financial position compared to the September of 2017 which was €431 million. In September 2018, we accounted for €405 million and the cash flow contribution in the first nine months that has been €41.6 million in the period compared to a €60 million of last year, basically due to the higher capital expenses.

In particular, let's look at page 11 to have a more detailed view of the cash flow. Operating cash flow grew versus last year on the back of the higher EBITDA. Working capital generated a positive contribution, notwithstanding tough comparison base because we already reduced a lot of our working capital level. Capital expenditure has been significantly higher than last year, but consistent with the target of €100 million to €110 million for the full-year 2018.

Change in equity that has been higher than last year also reflecting around €4 million negative effect linked to the first-time adoption of IFRS 9. As a result, we produced €42 million of cash that pushed down the net debt level at €405 million and let the gearing that is net debt on equity down at 1.05 that has been compared to the 1.11 of September 2017.

Thanks for your attention. We can now move and now start the Q&A session

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QUESTION AND ANSWER SECTION

Monica Bosio – Banca IMI

Thank you and thanks for taking my questions. The first one is Europe. Finally, the European market is delivering some sign of growth and in the third quarter, the growth has been visible. Year-to-date, the market is plus 1%. I was wondering if you can give us some indication on the October trend in Italy and if it's possible in the rest of the European countries? And your assumption on the total final year growth for the scooter market in Europe and, if I may, your feeling on 2019?

The second question is on the usual question on the final year EBITDA. I remember that you have always been guided for something in the region of €200 million and €205 million. Each quarter, you beat the market expectation at least a little bit, but for each quarter. So I'm wondering if you now feel more optimistic for a qualitative guidance more in the region of €205 million-€206 million or if you keep the €200 million?

And the last question is on India. Now, the monetization set is over, there is no more any favorable comparison base, but market in India is still growing. I was wondering if you can give us some indication on the expected growth for 2019 on the India light commercial vehicle market and if you are still expecting to growth double-digits in 2019?

And the very last is on two-wheels for the Indian market, can you give us an indication in term of expected volumes for the next year for two-wheels? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Miss Bosio for your question, and let's start from the first one. You will see our market it is true that finally in Q3, the European market growth has been visible. In particular, the plus 3.6% in Q3 that has been accounted has, again, two very different diverging dynamics, the 50cc was minus 15% while the over 50cc has been plus 11%; and plus 11% is definitely a positive trend for the European market. I expect that we will stay with the same trends also with Q4 and so basically, we will end up in the European full-year 2018 market with something higher than plus 1% with the Q4 growing plus 10% on the over 50cc while keeping a minus on the 50cc market. If I look at the October year-to-date results, basically they are confirming this trend.

Moving to the second question that is the EBITDA for the full-year 2018, again, we are staying with our guidance. Our guidance is to end up the 2018 between €200 million and €205 million, then we may have something even above the €205 million, but I think it is more reliable to stay between €200 million and €205 million and we may also beat this consensus, but I don't think that this is the key point. The key point -plus or minus €1 million - is that for the second year in a row, we gave a guidance on the EBITDA and we were able to maintain this guidance. We were able to maintain the EBITDA level to reduce to the net debt and I think this is the very positive strong point.

Coming to the third question that is India for 2019, it's very early to comment on 2019 or to give guidance on 2019. I expect that the growth rate of the market will soften a little bit compared to what has been accounted in 2018, but will remain a growth rate of double-digits in India in light commercial vehicles and I expect also that the two-wheels market will grow higher than double-digit for 2018. And so, basically, if you ask me what our expectation for the region, 2018, yes my expectation, net of Forex, is that we will grow basically double-digit in the region.

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Niccolò Storer – Kepler Cheuvreux

Yes. Thank you. Thank you for taking my questions. The first one is on the Electric Vespa, just if you can give us some color on how the selling process is doing and the general market reception of the vehicle?

The second one is on factoring, if you can give us an update on the level at the end of the nine months and how this level compares to nine months last year and previous quarter? Thank you.

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Simone Montanari – Chief Financial Officer

Okay. So let's start from Electric Vespa. First market feedbacks have been very, very positive. The interest that is coming from the market, again, it's strong and positive and so we are very, very positive for sales also in the last quarter and in 2019. Obviously, the electric market is still lower and limited compared to the overall European market but if I look at the medium-term, I think that this is a very positive opportunity that we are going to catch.

We will present again and restart the selling of the Electric Vespa early November at the EICMA Exhibition and so we will see the first-selling volumes and sellout volumes starting from November and December and so on. We've just started collecting pre-orders and pre-orders are going above our expectation.

If I move to the factoring result at the end of September, factoring of receivable has been around €100 million. That is nearly €8 million above September 2017.

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Alberto Villa – Intermonte

Hi, good afternoon. Three question from my side. The first one is on net debt at the end of the year. Can you give us an indication of what we can expect in terms of net debt if the positive trend we have seen up to September is going to continue, if there are any element we should bear in mind in modeling for the rest of the year?

And the second one is on the fact you mentioned in the press release that you were looking at opportunities in Asia Pacific and India. If you can elaborate a little bit on that and what could be the – I mean the outcome of this analysis?

And the last one is on trade and tariffs and so on. Have you seen any specific change in markets due to that? Are you concerned about potential risks related to this kind of activity, especially for the export you make out of India for example or within the Asia region? And basically, that's it. Thank you

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Simone Montanari – Chief Financial Officer

Thanks, Mr. Villa, let's start from the first question, net debt. I can underline again that the net debt reduction has been and will be a key priority of this group. And particularly, we had a guidance of using the net debt at the level of €425 million for the year-end 2018 and we are fine with this guidance. The last quarter, from a seasonal perspective, as you know, has been always a quarter in which the cash flow is negative because of a weaker operating result, basically compared to the average of the previous quarter, and the level of CapEx instead in-line with the previous quarter ones. So, usually, the cash level in the last quarter is negative. It will be like this also this year but we will reduce the debt compared to December 2017 at the level of 2018 in the region of €425 million.

If I come to the second question that was related to Asia Pacific and India, there is no discontinuity in the short-term. So we will go on focusing on two-wheelers in Asia Pacific and in particular in regaining position in Vietnam and developing the other Asia Pacific countries. And in India, we will go on in investing in light commercial vehicles and in two-wheels.

If we look for some kind of discontinuity or expanding the product range, we will have to wait in two-wheels for the mid of 2019, where we will launch a new Aprilia vehicle. And in 2018, we already launched in commercial vehicles, our product range of alternative fuel that will be the base for developing sales in the quarters to come. As for the last question, trade and trade war, no, I don't see any relevant impact up to now.

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Monica Bosio – Banca IMI

I appreciate the comment on the divergent trend between scooters below 50cc and scooters above. I'm trying to figure out what could be the trend for 2019. I know it's very early but on theory, the scooters below

50cc should at least remain flat or should improve a little bit thanks to a better comparison base and scooter above 50cc should post a sound growth. Do you share this view or do you see a different trend or still negative trend for the scooters below 50cc in Europe in 2019?

And the second question is just a curiosity, I've seen that in India, the two-wheel market has flattened and I was wondering if do you know if there is an explanation for this flattish trend for the market in India? Thank you.

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Simone Montanari – Chief Financial Officer

Thanks, Ms. Bosio. So, coming from European market, if you were referring to 2018 last quarter, basically we share roughly the same view, that is over 50cc growing, let's say, in the region of plus 10% while 50cc decreasing goes due to the comparison base because I remember that in the last quarter of 2017, there was the anticipation of the change of regulation between the EURO2 to EURO4, so there was peak in volumes in 2017 that will result in a significant or relevant decrease in the comparison with the last quarter of 2017.If I look at 2019, we do share the same view that is a flattish market for our 50cc vehicles. I hope that we reach the bottom and by growing high single- – from mid to high single-digit in the over 50cc European.

If I move to two-wheels India, no, I don't think – I don't see any relevant factor that we have to comment. It is true that in September, not only in September, the market was flattish but I think that we've kept on growing in the months to come, and again, we are close to consider that for two-wheels India, if we have an issue in to face is the development of the dealer network more than competing with the market over the market share.

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Niccolo' Storer – Kepler Cheuvreux

Yes, sorry. Thank you for taking my follow up which is on Southeast Asia and volumes. I saw a subtle deceleration in the third quarter to just plus 4% in terms of volume while at the beginning of the conference call, you discussed about very healthy markets. So, I was wondering which – how this 4% is made of? And if you can elaborate a little bit more on the performance by different geographies and how to we get to this plus 4%? Thank you.

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Simone Montanari – Chief Financial Officer

Thank you, Mr. Storer. So again, let's start on the Q3 performance. Q3 performance in Asia Pacific has been plus 4% as we were commenting before. If I look at this result by region, we move to a plus 4% in Vietnam, so in-line with the average to a plus higher than 10% in Indonesia. While on the other side, we do have a minus 10% in Taiwan and South Korea. So it's the result of different market trends.

Overall, we, and if I look now, not only the Q3 but in the first nine months of 2018, in Asia Pacific and in particularly in Vietnam, we went through a full reorganization of the commercial approach and small reorganization also of the dealer network. We also went to a reduction of the stock inventory compared to what has been in the previous year and this resulted in lower than the market growth.

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Niccolò Storer – Kepler Cheuvreux

Okay. But is it correct to assume that you're kind of losing market shares in more advanced countries where probably the trend is moving towards other forms of mobility or also electric mobility?

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Simone Montanari – Chief Financial Officer

No. Well, personally, I don't think so. We kept and we are maintaining our position in Vietnam. We are maintaining our position in Indonesia. We are maintaining our position in Thailand; that they're basically are the countries where we do play in a more effective and important way in terms of volumes. They are the factors are basically linked also to specific importers' performance or a specific market performance but I don't see an issue in the positioning of our sale compared to the competition in the whole Asia Pacific area.

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

Okay. So if there are no more questions, I think that we can end the call now. As usual, if you need more information you can call me later, also tomorrow. So thank you very much for attending this conference call. Bye