

# Piaggio Group

## Full Year 2013 Financial Results

### CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

GABRIELE GALLI –GENERAL FINANCE MANAGER

RAFFAELE LUPOTTO –HEAD OF INVESTOR RELATIONS

---

### MANAGEMENT DISCUSSION

#### **Raffaele Lupotto – Head of Investor Relations**

Thank you for joining us today to analyze the Full Year 2013 Financial Results. Here with me are Mr. Roberto Colaninno, Piaggio's Chairman and Chief Executive Officer; and Mr. Gabriele Galli, Piaggio Group's General Finance Manager.

We will use the presentation that you can download from our website and after introductory remarks, we will be available to answer the questions you may have. I also remind you that during today's conference call, we can use some forward-looking statements that are subject to risks that can cause the actual results to be materially different. I also kindly ask you to limit the number of questions to maximum of two per person.

Thank you very much. And now I'm ready to turn the conference call to Mr. Gabriele Galli.

---

#### **Gabriele Galli - General Finance Manager**

Hello, good morning to everybody. So, I would go quickly through the presentation you can download regarding the full-year results and then we can go to some questions. So starting from slide 3, as you can see, 2013 has been another year affected by a poor macroeconomic scenario and, of course, the demand for scooters and motorbikes and three and four-wheeler has been affected in some of the key reference areas.

In Western markets, were shrinking for the fifth consecutive year, so 72 months with a minus, and the total market was down by 12% compared to 2012. In Italy and Spain, the market, just to give a number, was down by 70% compared to 2012. In Asia Pacific, there were some sign of, were faltering, especially in a couple of countries, Vietnam and Thailand, which went down by more than 10% in terms of market.

In Indian 2 Wheels, the market was up, especially thanks to the contribution of scooter. In Indian 3 wheeler the market was declining and especially it was declining in the second part of the year with an acceleration in the past month. Everybody in India is waiting for the future of Prime Minister election and so, I mean, we hope that the economy would revert to a positive in the next months.

Going from the market condition to Piaggio, in Western Countries, of course, we leveraged on our strong competitive positioning, but, of course, as the market condition hurt. We kept constant our market share in line with that prior year confirming that we still have leadership at a European level.

Our sales of Vespa and Moto Guzzi went up despite the market contraction. The sales in North America as well went up against the market which was negative. And also, in terms of pricing, we have been able to maintain our high price and the price has been increased both by the mix effect and the price increase item by item.

So, I mean, despite a very tough market condition, we didn't enter in a tough competition with other players. In any case, we say that the market contraction was very important, and as a result, the sales were down double digit, reflecting I mean the longer ever market fall. In Italy and France, the situation was particularly difficult. While some other countries started to show some improvement in the last part of the year, Spain, for example, Holland as well. North America is of course on a different path while the sales went up for the third consecutive year in 2013 despite the margin contraction.

Moving to Asia Pacific, the performance was subdued. And also, as we said before, the market environment was not supportive. We have been suffering particularly in Vietnam because of market weakness and also some attack from Honda. But across the region, we went on growing our volume in sales in very important market such as Indonesia, Thailand and Taiwan.

Vespa goes on enjoying a very strong momentum and the total sales of Vespa went up double digit. And also in terms of pricing, the average went up, showing that despite the geographic enlargement we still keep our premium positioning across the region.

In terms of sales, there was a contraction of Vietnam, which was not fully compensated by the grow in Indonesia, Thailand, and Taiwan. But in any case, I mean, I'd like to highlight that I mean the performance of the future in the region would be very much little linked to our ability to perform in a good way, not only in Vietnam but also in other countries. And the fact that turnover in this country went up. It's absolutely positive but we will discuss today in the Investor Meeting about future growth.

---

2

Moving to slide 4, India, there was, I would say, good performance because, I mean, in a tough market we have been able to maintain our market share and especially we accelerated that in the last part of the year. So, especially in the fourth quarter we have been able to gain market share versus Bajaj.

The export was on double-digit and it is good because as you know, I mean, the export market is very important. Worldwide accounts for around 400,000 to 500,000 vehicle. And today we have a very limited market share, so it's a great opportunity and we are in the part of catching it.

The price is holding up very well, of course, if we exclude the forex because as you know, I mean, starting from July, August last year, there was a strong devaluation of the Indian rupee. So, in order to have an apple-with-apple comparison, you should not taking into account the forex variation, which is around 13%. And Vespa it's still a tough situation. We are expanding, of course, but a weaker phase than what we were expecting. Today, we will look at some changes in the strategy which will help in the future to revive the sales.

As a result in this region, the sales are very much in line with the previous year without including forex effect, including the forex effect. I mean, of course they are down.

Despite the decrease in net sales the group performed very well in terms of product mix and in terms of cost efficiencies, and the leveraging on these two items we've been able to sustain the EBITDA, EBIT and Net Income ratio. Our price position here was the premium and this is confirmed by very high gross margin very much in line compared to last year, 29.5% versus 29.7%. And, as you know, we are an industrial

company, so it's not very easy to achieve such a performance while volume going are down because we have fixed cost in the plants.

We went down reducing the OpEx. There was another reduction of around €26 million compared to 2012 even after restructuring costs of €11 million which was €4 million higher compared to 2012. And this restructuring costs were the one we had in order to close Derbi plant.

In terms of financial expenses, there was a higher debt level, which more than offset the lower cost of funding. And then I think there was a non-recurring items, which affected entirely, in 2013, the net result by around €25 million leading the adjusted net result which would have been of €18.1 million to a loss of €6.5 million. The financial impact of this one cost item is limited to €5.1 million which is the year up impact. Why all the IRES impact have been offset against the deferred tax assets.

The CapEx were up €88 million showing that after previous year of – two years of investment in order to build up plants in India and Vietnam, the group can do everything it needs with CapEx much more aligned to the €100 million and the Debt increased by around €80 million that's due to absorption of working capital because as you know, Piaggio is a company working with negative working capital in the sense that you should compare receivable with payable, I mean payable much higher. So in a moment such 2013, when turnover has gone down, there is a negative effect due to the contraction of commercial payable much higher compared to commercial receivable.

Moving to slide 5, we can have a look at the key numbers with the very quick turnover down by 13.8%. If you exclude the forex, the reduction would have been 10%. In 2012, we are also had the deal we Poste Italiane which accounted by €25 million. So if you also exclude the deals compared in order to make apple with apple, the turnover would have been lower by around 80%.

In terms of gross margin, as we said before, the percentage was kept pretty constant at 29.5% versus 29.7% last year. In terms of EBITDA, we kept a constant ratio up to 12.1% versus 12.5% last year. This depreciation is a little bit increase because of the launch of new plants in Asia, especially the plant of engine for two-wheeler equipping Vespa Primavera and Vespa.

And as we said, this financial expense increased a little bit or reflecting the increase of – I mean, the Net financial position. The tax adjustment, so without including the one-off items, could have been at 40% very much aligned with last year. Then there is the one-off item, so the non-recurring cost of 24.6 which led the result to 6.5.

Just to give you some explanation about that, we are talking about tax basis, the tax audit carried out by the Italian tax authority on Piaggio. This audit started in 2012, November and the end at the end of 2013 with some adjustments. The adjustments regarded here, 2009, 2010, 2011, and with focus on pricing related to services, not to good, because I mean, at this time, we were not importing any goods or exporting any goods from Europe. So, we are talking about royalties and services, Piaggio&C. made versus India and Vietnam. All of these countries are, of course, residents... all of these countries are with ordinary tax regimes so I think we are not talking about transfer pricing to black list countries or whatsoever. We are talking about transfer pricing versus countries such as India and Vietnam which are absolutely not black list countries. These adjustments will lead to a cash-out of €5.1 million which, as we said before, is restricted to IRAP and that will be paid in 2014 and 2015, but it has been fully expensed in 2013.

In terms of corporate income tax, IRES, the adjustments will be fully offset by tax losses without any cash out, so any cash out regarding €19.1 million. And of course, also this part has been expensed in 2013.

Of course, we'd like to highlight that we operated always strictly in a correct way by the tax law and to the guidelines imposed by OECD . And as a proof of that, all the services are not being charged, I want to say, there was any fine made by the *Agenzia delle Entrate*, but they absolutely judged the documentation produced as correct. And so, we are talking about just taxes related to transfer price without any kind of additional fine. That's basically , so maybe we can discuss later with some of you who have some particular questions. Absolutely. I'd say that it's not paying in the fine actually.

So, moving to slide 6 and looking at volume, there was a volume decline, as we say, which reflects the different market condition, weaknesses and that it compares on versus 2012 being further penalized by the presence in 2012 over the contract with *Poste Italiane*. The total volume last year was 615, this year 556, so minus 9.7%, which would have been minus 7.6%, including *Poste*. Across the region, you can notice minus 21% in Europe, in the U.S., which would have been minus 16.6% without *Poste Italiane*.

In Asia Pacific is minus 10%.

In India two-wheeler, of course, there is an increase, but the result is not really important because last year, we started sale in May.

India CV, minus 8%, Europe Commercial Vehicle, minus 2.3%.

Just to give you some detail, MotoGuzzi sales, overall, went up despite the difficult market condition and there was an increase of volume around to 7,000 units. Vespa went up by 14%, which is very good so to 188,000 units.

The new product we launched last year in India, which is the Ape City Pax 200cc, went up to 18,900 units and this is very good because as you know, this product may be exported to Latin America and Asian countries. And also to this product, we can have a direct competition with Bajaj in the urban area.

Some other pieces of information. The U.S. went up by 10.4% in terms of units. And ex Vietnam, all the other countries in the region went up, so Indonesia plus 7%, rest of Asia plus 12%, Thailand plus around 14%, Taiwan plus 140%.

So, I mean, there are, of course, some shadows, because I mean, due to the market condition, we went down in Italy, for example, by 28%, if you exclude *Poste Italiane*. We went down in France by 24% but all of this shadows are very much related to the market performance because as we said before, the market share was maintained.

Moving to net sales, slide 7. The total turnover went down by 13.8% minus 10%, excluding the forex and in the region we had a decrease of 17% which would have been 14.7% in Western countries; 8.4% which would have been 4.5% in Asia Pacific excluding the forex. So, in both of these regions, the average price went up, as you can notice, comparing the decrease in volume and the decrease in value. Minus 13.1% which would have been minus 0.9% excluding forex in India.

Some other key data: prices went up by 6.5% in EMEA. If we exclude *Poste*, just to be apple with apple also in this case, the price went up by 2%. Taxes went up in U.S. by 1.7%. And, I mean, going back to turnover. Turnover in Indonesia, double-digit up. Turnover in Thailand, almost plus 30%. So, I mean apart from the decrease of market there are, I believe, some good news also for the future development of the growth.

Moving to slide 8 looking at turnover by product , we can see that motorbikes also due to a market less negative than scooter went down by minus 3.8%, while scooter went down by 15.3%. A similar ratio of 13.2% was in commercial vehicles but, of course, I mean, forex affected by more than 10 percentage point and 9.6% in the spare parts.

Moving to slide 9, so our financial performance, EBITDA started last year at €176 million, this year at €146 million . So, there was a decrease of around €30 million, but in percentage term, we have been able to keep it cost-centered from 12.5% to 12.1%. The higher decrease, of course, is due to the decrease of turnover, implying a reduction in cash gross margin by around €60 million. In terms of percentage of sales, the cash gross margin went up by 0.4 percentage point, so from 32.1% to 32.5%. And there was an important reduction of OpEx – cash OpEx of €30.2 million, which could have been €34 million also including the differential in restructuring item.

Just to give you a piece of information regarding what we did in terms of reduction of OpEx over the past four years, in 2009, the OpEx in Western country were €323 million. In 2013, the OpEx were €195 million. So we have been able to contract the OpEx by €130 million, meaning minus 40%.

Moving to slide number 10, we can see here the net results. So, last year, the result was €42 million. There was reduction in EBITDA which we commented of around €30 million. There is an increase in depreciation because of the launch of new investments in Asia of around €4.5 million and the decreasing financial of around €3.7 million.

Of course, I mean, there is a lower taxable income so there is a lower tax charge, ordinary tax charge by the €3.6 million leading to a net adjusted result of €18.1 million. Then there is a non-recurring cost leading to the loss of €6.5 million.

Slide 11, net financial position. Last year, we started €392 million. Then we had generation of operating cash flow of €78 million. Of course, this includes the €24 million non-recurring items. So without this charge, the generation would have been €78 million plus €24 million, meaning €102 million cash generation.

Then there is a change in working capital of around €50 million especially due to the contraction of payable. CapEx reduced to €88 million compared to last year result, €147 million. And the change in equity of €23.6 million after dividend of around €34 million, leading to a next financial position of €475 million.

5

Last slide, and we're talking about the lower net financial position on balance sheet. Trade receivable of €74 million, increasing by 2014, especially due to some increase that we have in India, while all the other cars we experienced a constant DSO. Reduction of inventory of around €14 million and then – I mean payable going down by €50 million because of the contraction of the business.

Working capital absorbed the total of €50 million. We have been able to reduce the tangible fixed and the intangible fixed by a total €18 million. Financial investments absorbed €3.2 million, provision pretty constant with a net invested capital at €867 million, €36 million higher than last year.

Net debt, we already commended, increased by €80 million with an equity after absorbing the full charge of the recurring cost down to €392 million versus €440 million last year, with the ratio debt-to-equity of 1.2 million very 0.9 last year.

Ok we are pretty done, and open to your questions.

.....  
**Raffaele Lupotto – Head of Investor Relations**

Ok we are ready to open the Q&A session  
.....

## QUESTION AND ANSWER SECTION

---

### **Mrs. Monica Bosio - Banca IMI**

Good morning, everyone. I will have a lot of questions, but I would prefer to postpone the most in occasion of the business plan that you will disclose this afternoon. So just three basic questions.

The first one is related to the current consensus for 2014. On average, the market is pointing to an EBITDA for 2014 in the region of €170 million. Are you comfortable with this figure? Or maybe there is the possibility to have a better trend if and when the European market will restart again? We have just started to see some positive signs also in Italy for the last month. So if you can comment on this.

The second is very basic. On the tax rate that we should expect in 2014, and the third is related to Vespa. Do you have a target in terms of volumes for Vespa and Guzzi in 2014? Thank you

---

### **Gabriele Galli - General Finance Manager**

So regarding the future, I mean, we prepared today a big Investor Meeting. So I would like you to ask today. And of course, positive of what we said but not discussed today. That's discussed today because I mean there are very important news by organizational point of view, by colleague's point of view, also by market point of view, as we said, is all we would like to present then to you today.

---

6

### **Roberto Colaninno – President and Chief Executive Officer**

And if you allow to me, we would like to complete all the presentation because we have a very big event in the afternoon, that I suppose will surprise everybody. So, we want to disclose anything now just of the importance of the news that we have to say today on the presentation.

---

### **Mrs. Monica Bosio - Banca IMI**

Okay. So, we will postpone most of the question today, if that's your plan. Thank you

---

### **Nicolo Storer – Mediobanca**

Yes. Good afternoon, gentlemen. My question is just related to fourth quarter results. I was wondering if you could give us a little more color on the split of volumes sold in Asia Pacific. So, how much is Vietnam, Indonesia, and other countries? And also, in western countries, how much is Europe and how much is U.S.? Thank you.

---

**Gabriele Galli - General Finance Manager**

So, I mean, in absolute term, I think I can give you info immediately for the year and then also by quarter. At the end of the year, starting from western country, the EMEA as you say was down by 68,000 units. Italy accounted by 29,300, out of which more than 15,000 were *Poste Italiane*. So, without *Poste Italiane* in 2012, the reduction would have been minus 14.7%, no, minus 14,700 unit which is very much aligned to what the market is. The rest of Europe went down by 28,700 units out of which France was the most affected market minus 12,300. Germany was pretty good, because I mean was just minus 3.4k units in the market which decreased much more and Benelux was minus 4.3k units. Americas was up by 1,500 units.

Moving to Asia Pacific, Vietnam was down by 15k unit while Indonesia was up 1k. Thailand was up by 2,4k which means that plus 37%, because we moved from 6.5 to 8.9. And Thailand was up by 2,4k unit because we moved from 1.8 to 4.2. So, more than doubled the volume.

Other countries... India which you know that the detail on export we have already told plus 20% three-wheeler export from 12,800 to 15,400 units.

If you want detail on the fourth quarter, I can tell you. So western country was minus 6.8%; with EMEA minus 8.6%; and Americas up by 30%. So, in the western countries, there was a reduction of the negative effect which as you – we will be probably, will go on in the next years but we will discuss it today.

Asia was down in the fourth quarter by minus 8% with Vietnam at minus 15% and a positive performance of Indonesia, plus 20%; rest of Asia, plus 7%.

India, three-, four-wheeler was down by 4.2%. So I mean .Especially in this market, I mean there was a contraction but if you look at the SIAM data as well, we gained some market share versus Bajaj, especially in the second part of the year.

.....  
**Nicolo Storer – Mediobanca**

Ok thank you. Very detailed.  
.....

**Alberto Villa – Intermonte SIM**

Yes. A couple of questions, if I may. One is on the D&A going forward. Should we expect a run rate between €21 million, €22 million per quarter going forward? It has been a little bit volatile on a quarterly basis, so just kind of wondering, if you can give us an indication on that? And secondly, on the financial charges, given the higher financial debt I was expecting a little bit higher financial charges, can – are there any specifics driving a little bit down in the fourth quarter the cost of that? Thank you.  
.....

**Gabriele Galli - General Finance Manager**

So, in terms of D&A, I believe the next year will be very much align to what you saw this year, solid base, so fluctuated from 80€m and €90 million per year should be the proper number. There today when we look at the detail in the plan. But maybe this is our average number.

For financial charges, we have some savings from the current credit lines so the increasing net debt was more partially offset by this positive news. And we also have a positive coming from this revaluation at equity of our joint venture in China. As you know, I mean, we have a joint venture there. We have a realignment by 1 million in the last quarter, of participation because it was in our book, the lower value compared to the equity value.

.....

**Alberto Villa – Intermonte SIM**

Ok thank you

.....

**Nicolo Rolando – Citi**

Can you Hear me? Perfect, good afternoon, everyone. I've got a couple of questions, if I may. The first one is on the OpEx reduction. You mentioned, an OpEx reduction in Europe of €130 million since 2009. I was wondering if you could help me to get to a state between what is the structural cost that has been actually removed and what is the reduction which is linked to the reduction in volumes? And if you could give me a sense of what is the impact of the *solidarity contract*. This is the first question.

The second question, it's related to Asia Pacific. If you could just provide a split at revenue level, at turnover level of how much is Vietnam, how much is Indonesia and how much is the rest of Asia Pacific? And if possible, maybe I'm asking too much, if you could give us a split between Vespa sales and non-Vespa sales in the region? Thank you very much.

.....

**Gabriele Galli - General Finance Manager**

So, I mean talking about OpEx. So, OpEx, I would say that in Europe, we did a very tough job reducing by 40%. So, today, we are at the level which is perfectly sustainable in the future. Also, as we always need to get in the plan, I mean if the margins start to go out, probably it is the time to invest more in some areas, but we will be discussing it today. But in any case it is the ratio of OpEx, we can perfectly maintain and doing some structural action, we can even further reduce, it will be necessary. But we believe I mean, I believe it is not the case.

Going to split in sales for the full year, I can tell you that I mean Vietnam in 2013 was around €115 million while Indonesia accounted for around €18 million, Thailand around €13 million, Taiwan €7 million, and the rest of Asia around €15 million, so this is the split.

But of course, in this region plays a very important role, because I mean it was the first vehicle introduced there, to create a completely new market because before that product, average price was \$1,000, or very close. Today, there is in niche segment and this niche segment will grow in the future, so that part is, of course, very important. But we also have other products entering the upper part of the segment such as liberty for example, and there is also interest for motorbikes.



---

**Nicolo Rolando – Citi**

Ok Thank you

---

**Mr. Raffaele Lupotto – Head of Investor Relations**

Okay. that we can conclude now the conference call, so see you in one hour and a half and thank you for taking part in the conference call. Yes, thank you.