Piaggio Group
First nine months of 2014 Financial Results

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Hello. Apologies for the delay and thank you for joining us to analyze Piaggio Group's first nine months of 2014 financial results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and by Mr. Gabriele Galli, General Finance Manager of Piaggio Group.

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

And now, I would like to hand over the call to Mr. Gabriele Galli.

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Gabriele Galli - General Finance Manager

Hello. Good afternoon to everybody. As usual, we will go through the slides you have been able to download. So, starting from slide 3, the market, as you can see, has been mixed. Indian gaining momentum. Asia Pacific finally shifted to positive. European recovery remains weak. So positive but weakening a little bit versus previous quarters.

So, going into detail. The Indian 3 Wheel recovery, as you remember, started in Q2 and now is accelerating in Q3. And finally, the year-to-date market is up compared to last year single digit. The 4 Wheel are still slumping. The 2 Wheel are very strong at the moment.

Asia Pacific, the demand is easing. Vietnam is growing in Q3. And Indonesia is up middle single-digit as well. In Europe, the 2 Wheel trend started very strong in the first quarter, and then now is worsening a little bit. But the total market is still positive by 2% with Bikes up by 8% and Scooters down by 2%.

Moving from the market to our performance, the Western countries are showing a resilient performance in a flat market. We have are still undisputed leader in the Scooter. The shifting to Premium Scooter is going

on. And Vespa and MP3 are having a very good performance, outstripping the whole market trend.
We are going on with the expansion of mid-sized bikes in Latin America. And the average price is going up, confirming that the bottom vehicles are suffering more than the top ones.
As a result, we have total revenue in Western Countries up compared to previous year. Spain, France, Holland, UK are the best performer. Italy is still a little bit behind.

In Asia Pacific, after not so good performance in the first and second quarter, there are good signal from the market. Vietnam is still negative, but in Q3 is posting a good result, plus 17%. And probably the trend should go on also in Q4. The other part of the region, excluding Vietnam, goes on growing, especially in Thailand, Taiwan and Indonesia. As well as in Europe also in Asia, the premium segment is increasing at a faster pace than the market and that's good for Piaggio as you can imagine. If you exclude the negative ForEx, the average price is going up as well as it happens in Europe. As a total result, the revenue are up in Q3. We today are still down at year-to-date level, mainly reflecting the bad performance we had during the first quarter.

Moving to slide 4, India, the performance has been very good. There is an acceleration in the trend. As you can remember, Q1 was negative, Q2 was up by 12% and Q3 is today up by 23%. So the market is clearly booming. In terms of market share, we have a total market share in commercial vehicle up compared to previous year. The export is increasingly increasing and today the performance is up by 70% compared to previous year. And if you exclude the negative ForEx, the average price is going up. What is positive looking at India is that the ForEx trend is reverting positive. In Q3, it was pretty neutral. But with July down, August at the same level, and September positive. So for the next quarter, we can expect some positive performance coming from the ForEx. Vespa sales are still flat. So I mean, the market is booming, but our performance is not following. As a total result, the revenues of commercial vehicles are up by 0.6%, would be 9.2% excluding the ForEx effect. And we have a very strong upward acceleration in Q3, plus 19.3%.

Looking at the total financial results, we can say that the Q3 has been very positive. The net sales were up by 6.5%. And as we said before, the ForEx played a neutral role during this quarter. But we expect that the ForEx is going to be playing a positive role in the next month.
The EBITDA surged by 25%, with an EBITDA ratio up by 2 percentage point. The EBIT is up by 35% with the ratio up by 1.3 percentage point. And the net income almost doubled from €2.8 million to €5.4 million.
And thanks to this quarter, the year-to-date performance shows our revenue pretty flat, excluding the ForEx; and including the ForEx is minus 2.5%. So you remember that we started with a minus 9%, minus 6%, today, we are minus 2.5%. And excluding the ForEx, without the minus 6%, minus 4%, and today, we are a little bit up, plus 0.1%. And the same trend is also in terms of EBITDA. And EBITDA today reached one of the best ratio of performance since 2010.
In terms of total gross margin, we are up by 0.5 percentage point from 30.4% to 30.9%. In terms of OpEx, we are in line with previous year, even after the increase of OpEx in marketing we decided to do starting from this year. And in terms of financial expense, we are up. But as you know, we have some one-off effect, one in 2014, because we decided to make the redemption of the bond, and a couple in 2013, with the decrease in the financial expenses in last year, which were linked to higher capitalization of financial interest and the result of the participation of the joint venture we have in China. So excluding the two effects, the financial expenses could be higher by €1.8 million. But the trend is clearly decreasing because in terms of debt, the total amount has been reduced and in terms of cost of funding, we've been able to reduce the cost by 2.3 percentage point for the bond, and more than 1 percentage point through the refinancing of the revolving credit facilities.

Finally, compared to last year, we had a very good performance in terms of cash flow generation. Last year was not so good and we absorbed €63 million. This year, we've generated €38 million. So the difference in terms of cash flow of the third quarter – nine months last year versus nine months this year is around €100 million. And this cash flow generation [drives Net Debt below end of 2013 and below of September 2013.

Moving to slide 5, since this quarter is very important in terms of change of trend, we decided to post also the results of Q3 calculated as the difference between nine months and minus six months. This is the number that you look normally doing by yourself this kind of operation. So, as you can see, all the indicator shows plus, so revenues plus 6.5%. The gross margin plus 12%, percentage of gross margin plus 1.5 percentage point, EBITDA plus 25%, EBIT plus 35%, income before tax and net income plus around 90%.
So I mean, it has been a very good quarter. Looking at the performance of the nine months, we can see that in terms of revenue, we are still behind. But we are, I mean, reaching past year. And probably, this result would be achieved during the fourth quarter. So today, we are at minus 2.5%. But if we include the ForEx, we are positive by 0.1%.
The gross margin is a little bit lower. But the contribution in terms of percentage is much higher, 0.5 percentage point, almost 31%. The EBITDA reached 14.5%, which is one of the top results for Q3 ever. If you exclude the contribution of ForEx, the EBITDA increase would have been by 3.8%. Including the ForEx, it is 1.2%.
The EBIT is a bit negative, but in terms of percentage of sales is around previous years, so 7.5%. In total value, it is €1.8 million lower because of higher depreciation compared to last year. The financial expenses, as you can see, are higher compared to last year by €9.8 million. Most of this effect was already present during the six months. And today, if you exclude this 3 effects , so the buyback, the higher capitalization of financial expenses and the revaluation of Chinese participation, the true financial expenses are lower compared to last year on a monthly basis. This total amount would be higher by around 1.8 million euro instead of the €8 million that are posted including the two effects. The net result is around €22 million versus €27.8 million last year. And moving to the net financial position, you can see that today we are €438 million versus €475 million at the beginning of this year. And the cash flow, as we said before, is improving by €100 million compared to the performance we had than in 2013 nine months.

Moving to slide 6 very quickly, you can see the volume evolution, as well as in the P&L we posted the results of the Q3 similarly calculated the difference between nine months and six months. The performance of this period was up by 5.5%, minus 1.8% in Europe, plus 9.8% in Asia-Pacific, minus 8.7% in India 2 Wheeler and up by around 10% in Commercial Vehicle Europe and around 13% in Commercial Vehicle India. So, good performance coming from Asia, stable performance here in Europe.
Looking at the nine months, the volumes are still behind, minus 3.0% compared to previous year, but with a very positive result in India, plus 5.3% and this performance, if we go into detail, is also helped very good contribution coming from export which rise during 2014 by around 70% compared to 2013.

Moving to slide number 7, we can have a look at the evolution of turnover. Similarly to the volume, the turnover of the quarter was up by 6.5%. Europe or better Western Countries are up by 0.2%. So let's say very much alike to previous year. The Asia-Pacific is up by 9%. Indian 2 Wheeler is a little bit higher compared to previous year because we increased the prices, plus 0.9%. The Western Country Commercial Vehicle up by 2.2%. And finally, the Commercial Vehicle India up by 19.3%. And during the quarter, as we said before, the ForEx effect is pretty neutral because the change of the trend was during the last month, September.

Moving to the nine months performance, the sales are down by 2.5%, the total ForEx effect has been minus €25 million. So if we exclude it, the sales would be up by 0.1%.
And Western Countries are down by 1.3%, could be flat if we exclude the lower sales of engine and sales of racing motor bikes.
The Asia Pacific business is down by 9.3%; would have been minus 5.5%, excluding the ForEx. The Indian 3 Wheeler are – 2 Wheeler, sorry, are down by 36%, would be of course in the lower excluding the ForEx.
And finally, the performance of Commercial Vehicle was positive in Europe by 2.7% and positive in India by 0.6%; would have been up 9.2%, excluding the ForEx.

Moving to slide number 8, you can have a look at the evolution of the EBITDA. So EBITDA moved from 14% to 14.5%; meaning around €1.5 million higher performance. The performance is due to a reduction due to volume effect of cash gross margin by around €8 million and an increase of cash gross margin due to mix effect, percentage effect by €6 million. So the total gross margin performance was down by couple of million, while the cash OpEx effect was positive by €3.6 million, allowing the increase of the EBITDA by €1.6 million.

Moving to slide number 9, you can have a look at the net result evolution. So as we explained before, EBITDA is €1.6 million higher. Then we had a higher depreciation of around €3.3 million. Higher recurring financial expenses by €5.1 million. And as we said before, the IFRS 23 was around minus €2.1 million.The results from participation are down by €1.2 million. So excluding this €3.3 million, the real interest variation is around minus €1.9 million. Then, we have a positive effect from lower taxes by €2.6 million, allowing a net result adjusted of €23.6 million. To run through the accounting financial results, we have to deduct the nonrecurring financial expenses and the tax effect worth minus €1.7 million together.

Moving to slide number 10, you can have a look at the cash flow generation. So we start at the beginning of the year with a net financial position was €475 million. We had an operating cash flow generation of around €87 million, with generation from release of working capital by around €18 million during the nine months. Then, we had absorption of around €57 million of CapEx and then, the last component, change in equity and other, meaning dividend and conversion reserve, so on and so forth, worth minus €10.3 million, allowing net financial position of €438 million at the end of the nine month, which is better compared to last year performance of €454 million by around €17 million and better compared to the net financial position at the beginning of 2013.

Moving to the last slide, you can have a look at the balance sheet. So trade receivable increased by around €15 million compared to beginning of the year, which is better than last year performance which was €29.7 million. Inventory increased a little bit, €60 million. Last year, it increased by €13 million. One of the main explanation is that last year, we were introducing the new Vespa Primavera during the months of November and December. So there was a phase-out of old Vespa LX. And so, we could reduce the purchase of components and the stock of the old product in order then to produce a new one. So this had an impact on inventories, and of course, an impact on purchasing.So the reversal of that is that commercial payable increased, allowing the cash flow generation compared to beginning of the year by around €100 million. And last year, they were decreasing by around €10 million. So one of the explanation of this fact is the lower purchasing of components and we have the reverse of issue in the higher this year and lower last year inventories. Then as we've been discussing, we introduced both in Europe and in Asia reverse factoring , allowing to finance our operation in much more efficient way. Other assets and liabilities are aligned compared to beginning of the year, €39 million versus €32 million. And so the total working capital is negative by €48 million compared €30 million at the beginning of the year, allowing a generation of around

€18 million. Then we have total fixed asset, tangible plus intangible, increasing by around €8 million. And a part of this increase is explained by the difference in ForEx from beginning of the year to end of September. The financial investments are pretty aligned, as well as the provision. And so, we had a net invested capital generating cash by around €9 million.
The net debt, we already comment it, minus €37.7 million, and equity up by €28.4 million. In terms of ratio, the ratio improved by 17 basis point from 1.21 to 1.04 at the end of September. So we are basically done. You can ask your questions, yes.

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Raffaele Lupotto – Head of Investor Relations

I kindly ask you to limit number of questions to a maximum of three per person. Thank you very much.

QUESTION AND ANSWER SECTION

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Ms Monica Bosio – Banca IMI

Good afternoon, everyone. I would have three questions. The first one is related to Vietnam. Aside from India, the quarter in Vietnam seems to me one of the most important news. For the fourth quarter, the company still sees an improvement. I'm just wondering, is it a recovery of the market? Is it a sustainable recovery? And if yes, what kind of growth rates in volumes would you see for 2015? It will – would it be reasonable to factor in 15% increase in volumes in Asia, thanks also to the recovery of Vietnam?

And the second question is on Vespa volumes, not in Europe but in India. I think that you've been already appointed the new CEO. I was wondering if the company has done anything in particular as for the recovery of the Vespa volumes in India.

And the last very quick question is on the marketing expenses. Could you please quantify the total marketing expenses by year-end and maybe if you have some projections for the next one?

Thank you very much.

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Gabriele Galli - General Finance Manager

Okay. So, Asia Pacific performance during the third quarter has been really improving compared to last year. And this is not something we expect to end up at the end of third quarter. For fourth quarter, we have we have expectation of a similar increase.
For next year, I mean, it's too early to make statement because we are still working on budget. But the total increase versus full year 2014, so as I know, what kind of demand you have for the full year of 2014, but you can imagine through the fourth quarter, it would be improving compared to fourth quarter last year, the total increase should be around 10% to 12%, something like that.

India. India, we have a new CEO. The former CEO is acting as the Chairman. So we have discontinuity and continuity at the same time. The performance now is very good in terms of 3 Wheeler because I mean, we have been helped by the market, we have been helped by the launch of our product, since we have been maintaining market share in India. And we are being helped by export, which is one of the big level of growth for the future.
Vespa, as we saw before, stood pretty constant. The new CEO and we have also the new responsible for Vespa had much more a commercial experience than the previous one. So we hope that working together, we will be able to improve the results starting from, I mean, next monh. Actually the performance during the month of September was better compared to September of last year. And also for October, we have good expectation. But I mean, I'm not ensuring anything about Vespa because we have been discussing many time. So better to see first changes before commenting there.

In terms of marketing expenses, the marketing expenses increased compared to last year by around 20%. And I mean, our plan is to keep them at a level very much aligned to the level of this year because we feel that probably in the past, we have been investing a little bit less. We are investing in new shops. And so, we are building up a new network of dealers in terms of image. We are investing in racing. And as you know, we decided to enter the Moto GP starting in 2015, anticipating by 12 months the official entry we are forecasting in 2016. And we are investing also in something new in terms of understanding new trends, in order to anticipating the future trends, not in the medium terms of 2015-2016, but looking a little bit more ahead. These, together with of course higher communication expenses, are explained in this plus 20% expenses which has been fully compensated by reducing other kind of OpEx, such as structure OpEx, people OpEx, because I mean, our aim is to invest where we can have some sort of result on the future based on increase of sales.

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Niccolò Storer – Mediobanca

Yes. Good afternoon to everybody. First of all, let me congratulate you on the results which were quite strong. I've got then three questions for you.

The first one is related to sales of Vespa and MP3. If you can give us a little more details on volumes trend and price trends in these two categories and the relation between sell-in and sell-out. So, did you start the dealer network or you see a balanced situation on these two products?

The second question is related to Indian 3 Wheelers and very, very direct question. Why you are continue to losing market share in the country?

Third and last question is related to the entry in the MotoGP next year, which could be an impact from this on cost, if you have rough idea of that? Thank you.

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Gabriele Galli - General Finance Manager

So starting from the first question, in terms of Vespa and MP3 sales, so total Vespa sales were a little bit down. That is what we explained by the reduction of volumes we have in India, expecially. And also a little reduction was in Vietnam. Total sales of Vespa in Europe were up by around 2 percentage points. In terms of MP3, as you know, we've said just especially in Europe, and total increase of volume of MP3 was around

20%. So this was a very good performance. Looking at the balance of sell-in, sell-out, they are very much aligned. So, we don't feel we are stocking the network. Also probably, we have been de-stocking a little bit the network in total, but let's us assume it flat.

In terms of Indian three-wheeler, so, as you know, there are basically two segments: Pax, Cargo. And the Pax segment is divided into urban and rural. So, in Cargo we are not losing market share. In Pax, we are losing a little bit market share in three-wheeler because the increase of the Pax segment in terms of market is much more localized in cities than in the rural area. As you know, we are market leader in the rural area, while Bajaj is undiscuss the leader in the cities, and actually up to couple of years ago, we didn't have the product to take part to receive market in the cities. And we launched the product, the Apé City Pax, one year ago. So, despite our increase in performance in the city, because we've moved from basically zero to around 10% market share, the fact that there was this shift in sub-segment. So the sub-segment where we are limited, increasing much faster than the sub segment, we are – in which, I mean, we are market leader. This total movement explains the fact that we have been losing some market share eventually.
But if you are looking at the single segment, so Pax rural and Pax urban, the market share has been performing very well in both of the segments. So, of course, we have to weight that the – I mean, our weight in the urban area will increase in order to register better performance at the total level. Looking at the whole industry, so adding up three-wheeler and four-wheeler, since our performance in four-wheeler increased, we had a total gain in terms of market share, and on top of that, we had some gain in terms of exports.

The entry in MotoGP next year is forecasted by this year. We don't – never say it in official number about the cost. Of course it's going to be costing a bit more. You can quantify around €5 million to €8 million.

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Niccolò Storer – Mediobanca

Sorry. This €5 million to €8 million is the upturn EBITDA?

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Gabriele Galli - General Finance Manager

Yes, of course. I am talking about the net result. I mean the expenses, partially higher expenses are compensated by some higher entry because of sponsorship. So I think the range is between €5 million and €8 million and our plan is to stay in the bottom part of the range

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Niccolò Storer – Mediobanca

Okay. Perfect. And last – very last question, the plus 3% for Vespa in Europe and the plus 20% for MP3 refer to the nine months, right?

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Gabriele Galli - General Finance Manager

Yes, yes, Nine months

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Stefano Lustig – Equita SIM

Good afternoon. I have two questions. The first one is if it is possible to have details of the performance in volumes in third quarter in Asia, for Vietnam, Indonesia, and rest of Asia?

And the second question is on 2015 and I wonder if you have a plan to launch a new vehicle for 2015, one or more vehicles. I'm not referring to restyling, but actual new models for 2015? Thank you.

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Gabriele Galli - General Finance Manager

So, volumes in Asia for the third quarter, the total was up by 9.9% at the center. Vietnam went up by around 17%, Indonesia was down by around 40% because we de-stock the network. So in terms of sell-out, was very much aligned to last year. But we've decided to reduce the sell-in in order to lower the level of stock. The rest of Asia was up by around 35%.

Going to the model, of course I mean, we expect you will be visiting the next week the Milan fair

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Stefano Lustig – Equita SIM

Of course

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Gabriele Galli - General Finance Manager

But you can see all the new products, I mean the first week of November, the 4 – November is the official date. And we would be launching four new bikes…. So okay, you will see that, I don't say the names Then we would be launching a new scooter mid of the year, very interesting scooter and it would be also the – some other surprise in terms of enlargement of reachable customer. So don't make me doing anticipation because otherwise, our marketing guys would be very upset.

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Alberto Villa – Intermonte

Yes. Good afternoon. Couple of questions for me. First of all, I would like to better understand what are your expectations from the export from India and if there are any particular region that is particularly strong and going forward, if you expect any specific area that will contribute to the growth of the business and growth activity from India of three-wheeler products?

The second one is on the reverse factoring; can you give us an idea of how it played out in the – at the end of September this year compared to last year and what could be the impact going forward in terms of policy of taking advantage of reverse factoring activity?

And the third one is on the European outlook for volumes, we're seeing summer being weak in Italy, apart from September. Other European countries having very diverging trends with staying strong and so on.

Have you got any sense to what's happening right now and what are your feelings on the European markets for the next future? Thank you

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Gabriele Galli - General Finance Manager

Okay. So, the expectation of India for the fourth quarter are very good because I mean the market is increasing, the market share has been stay at the same level. The contribution of export is going to be very, very strong. I mean with last month, it was plus 70% of the total increase on volume as well as the total increase of values.
So I would say that we are positive about total volumes and more positive about total values because the fact that last year, there was a big change in forex around mid of August, really lowered the sales during the last quarter by something around 12% compared to the value of sales with the forecast – sorry – with the forex we have today. So I tell you that looking at India, we can be positive on three-wheelers, four-wheelers, and on export. For Vespa, I mean some signal coming, but we don't wanted at moment to say anything positive on that. In terms of Asia Pacific, this expectation are better than last year, not as much as India but of course, better than last year. Also in terms of forex, as I said that U.S. dollar reinforced in all the ForEx region are very much linked to U.S. dollar, that contribution should come also from forex effect. While during the first nine – six month especially the strength of the euro will be reduced in contribution of this region. In terms of the reverse factoring, the total amount is around €30 million and we are talking about a plan to increase month after month. So, the expectation for the future are this kind of level or a little bit higher we'd say because we are progressing in the program supplier after supplier

In terms of Europe we expect the market to have similar trend to the trend that we had during the last three months so – a weak market, pretty flat during the last three months, which would bring to total year slightly positive and especially in bikes versus scooter and this is one of the results because we are much stronger in scooter – motorbike, that really does not make us to go as much as the market in terms of volume, while in terms of sales, the favourable mix is improving and the second market is suffering much more in the bottom part than in the top part. This really allows us to compensate in terms of total revenues.

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Alberto Villa – Intermonte

Thank you. So a follow-up if I can; would you have any comment on the recent acquisition of Peugeot Scooter by Mahindra? Do you think it's going to change in any way competition whether in Europe or in India in the future for your products?

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Gabriele Galli - General Finance Manager

I prefer not to comment. Probably some sort of impact there would be, of course – talking good a good Indian manufacturer with I mean let's say generally good company here in Europe, but believe not be able to say what will change in the future after the acquisition.

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Luca Orsini – One investment

Hello everyone. Just a question on the working capital, you did very, very well in increasing the working capital. But when I go at page 9 of the – of your "rendiconto finanziario consolidato", I noticed a big increase in the, in your suppliers, in your "debiti commerciali" and a big increase as well in your warehouse – whatever stocks and also a decrease, an increase in your commercial credit which is a bit strange because your sales end up on the nine months have not grown, but – I'm much more kind of intrigued to try and to understand what happened on the stocks and on the suppliers which is a big swing of €100 million?

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Gabriele Galli - General Finance Manager

Yes. So let's start from the stock. Last year we have been increasing by €13.5m, this year by €59m. So I mean there is a net increase of €46m compared – higher this year compared to last year. And part of that is due to the fact that last year we were, I mean preparing to the launch of the new Vespa Primavera. So we have been de- stocking – reducing to zero the parts of the components, and also trying to reduce to zero the stock of property of Vespa LX in order to prepare for the launch of the new Primavera. So this increase in the stock this year is due to normal production, not phase – out of Vespa Primavera versus last year. So by doing that, we've increased inventory, but we increased also the amount of purchasing. And so the amount of purchasing has been higher also the impact on the net commercial payable is higher. So first part of the advantage you can see in the commercial payable is purely justified but a disadvantage we had in the inventory.

The second factor was due to the higher introduction of reverse factoring which we were commenting before. And I mean these program allowed us to enlarge on a structural way these payable outstanding and this will last also for the future.

Then, there is a third effect due to the forex, so of course we have some commercial payables made in rupee, Indian. The commercial payables made in US dollar or Dong The fact that last year, the Indian rupee and dollar were very down and this year are very up. When you translate the effect in terms of balance sheet, you translate much higher amount of euro compared to last year. I mean the difference between last year value and this year value compared to the beginning of the respective year is very significant.

So I would say that the three major components are higher purchasing of components during this year, especially during the quarter due to the launch of new Vespa Primavera last year, partially compensated by the increase of inventories, the new program of reverse factoring, and the devaluation in forex.

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Luca Orsini – One investment

Okay. Any guidance for what this number can , will evolve especially the suppliers and the stocks?

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Gabriele Galli - General Finance Manager

I mean there is of course, there are different situation between one quarter and the other, because we are a seasonal business. So telling you an actual number would be very difficult. One of the failures is that as we have been explaining many times last year, when we were absorbing cash in the working capital, so we were saying, you know Piaggio is a company with negative working capital. So whenever the business goes down, we absorb cash, whenever the business goes up, we revert some cash; we generate cash. So these numbers to-date are stable and further release of cash – or further absorption of cash can be conditioned by the level of sales that we will have in the next quarters. So we mentioned that the business is improving on the longer term, some sort of cash can be released, but – that's it.

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Mr. Raffaele Lupotto – Head of Investor Relations

Okay. So I think that this answer draws the call to an end, and thank you very much for attending the meeting. And if you need further info, you can call me later as usual. Thank you very much.