Piaggio Group
Full Year 2015 Financial Results and 2014-2017 plan update

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Hello, good afternoon. Thank you, everybody, for joining us today to analyze the Piaggio Group Financial Results, 2015 Financial Results, and to analyze the Investor Plan 2014-2017 Update. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group Chairman and Chief Executive Officer; and by Mr. Gabriele Galli, Piaggio Group General Manager of Finance.

During today's conference call, as usual, we will use forward-looking statements that are subject to risks that can cause actual results to be materially different. As usual, you can download the presentation, two presentations this time, from our website in the section Investor Relations. And after the presentation, we we will be available to answer your questions.

And now, I am glad to hand over the call to Mr. Gabriele Galli..

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Gabriele Galli - General Finance Manager

Okay. Good afternoon to everybody. So, we will start with slide number three. In terms of market demand, the early stages of European replacement cycle started, but have been offset by some market weaknesses in some emerging areas. The demand for two-wheeler in Europe was positive and accelerated during the year. At the end, the growth was around 5%, with scooter up by 2% and bikes up by 10%.

Asia-Pacific went down. The overall market was weak apart from Vietnam, which was up low single-digit. In India, the three-wheeler went down by 3%, while in the Q4 were up 8%. The four-wheeler went down double-digit. The scooter business is growing again.

If we move to the business highlights, in Western countries, we had steady improvement across the year. Our leadership in the two-wheeler market has been confirmed with 11-percentage-point lead over the second competitor in the scooter market.

Our dealer network stock was further reduced around 6,000 units despite the positive market trend. The volume improved across the year, even after the network stock reduction, mainly driven by Italy, Netherlands, Spain and Germany. In the bikes, the strong momentum in Europe and North America was confirmed with Guzzi having the best volume and revenue since 2007, and Aprilia surging by more than 30%. Our top scooter Beverly and Liberty grew more than 20%, outstripping all the market trend and putting the bases for the new high-wheel, which we launched at the end of 2015, so, the New Liberty, and which we will be launching at the beginning of 2016, so the New Medley.
In terms of price, we've been able to increase during the year, as a total result, the revenues were up mid-single-digit with the improvement in Italy, Germany, UK and Benelux, which were up by two digits.

In Asia-Pacific, the performance was weak in a scenario which was really challenging. There was an increase of competitive intensity in Vietnam and our sales suffered. In Asia Pacific, except Vietnam, the revenues went up, fostered by Vespa. In terms of pricing, we've been able to increase, also excluding the ForEx effect, reflecting our very good brand reputation. As a total result, the revenues were up single digit, down double digit excluding the ForEx, sustained by a very good performance in Taiwan, Thailand and China.

Moving to slide number four. We can look at India, the performance was hit by a weakness of the market and by an unfavorable product mix. Our market share in three-wheel, four-wheel was a little bit down versus previous year. We have been able to gain market share in Cargo segment, but the total demand of Cargo business was down. This increase in market share was unable in any way to counter balance the weakness in the City Pax segment. The export was a little bit down, not because of market share, but because of reduced import demand from all the African countries following the economic problems and the gasoline price reduction. That's why volumes were slightly up versus previous year, and also in Asia, we've been able to increase the price. As a total result, our revenues were up double-digit versus previous year, down mid-single digit excluding the ForEx effect.

In terms of financial highlights, our net sales were up by €82 million plus 6.8%, all of them connected to the increase of ForEx. The EBITDA was up by €2.4 million and the net profit was a little bit lower than prior year, minus €4.2 million.

The gross margin was increasing by around €10 million, even if the ratio on net sales was a little bit lower, reflecting the dilutive ForEx impact. The OpEx were higher versus previous year, especially because of increase of D&A following the increase we had in CapEx in 2011, 2012, and also following the increase of some cash OpEx, boosted from the negative ForEx effect and some increase in marketing and racing activities.
Financial expenses were lower, including the non-recurring negative effect and also on the recurring financial expenses. In total, the financial expense were down by around €6 million. In terms of CapEx, the total amount was €102 million to sustain the deep pipeline of new product launches and the investment in a new painting facility, which will be completed in 2016.

In terms of cash flow, we had a healthy generation in H2, plus €37 million, mainly driven by operating cash flow and containment of inventories. The total debt at the end of 2015 was very much in line with 2014, even after dividend payment.

Moving to slide number five, we can now look at P&L. So, sales from €1.213 billion to €1.295 billion, so with an increase of €82 million, plus 6.8%, gross margin increasing by €9.7 million from €364 million to €374 million, plus 2.7%, with the dilution in net sales by 1.2 percentage point from 30.1% to 28.9% because of the dilutive ForEx effect. The EBITDA was up by €2.4 million from €159 million to €161.8 million, with the dilution on net sales in terms of ratio from 13.1% to 12.5%. The dilution is driven by the dilution in the gross margin we commented before following the ForEx effect. There was a bit increase in depreciation from around €90 million last year to €105 million this year, and this is connected to the pipeline of new product and the increasing of investment in latest three years and four years, so 2011 and 2012. In terms of financial expenses, recurring were down by €3 million from 39.6 to 36.6, and now recurring down by €3.6 million, with a total reduction of €6.6 million, leading to an income before tax of €20.1 million versus €26.5 million last year.

The tax rate was very much aligned to previous year, around 40%. Also, after negative effect of posting or correcting the deferred tax asset from 27.5% this year to what is expect to 2017, which will be 24%, having this single effect and impact of around €5.5 million.

In terms of net income, the total result was €11.9 million versus €16.1 million last year. Moving to the net financial position, the final number was €498 million versus €493 million the previous year.

Moving to slide number six, we can have a look at volume. So total volume were down by 4.9%, with a reduction of 1.6% in Western countries, mostly due to the destock of the dealer network we mentioned before, around 6,000 units in Europe and 1,000 units in U.S.

Asia Pacific was down by 9.9% from 98,000 units to 88,000 units. India two-wheeler had a slight increase of 1,000 units from 27 thousands to 28.3 thousands. Western countries commercial vehicle were up by 27% following the improvement of export to Latin America and Africa. Total number was up by 2,7 thousands units from 10 to 12.8 thousands units, while the commercial vehicle India were down by 8.8% from 202,000 to 184,000.

Moving to slide number seven, we can have a look at the turnover. The turnover was up by 6.8%. As we mentioned before, we had a good improvement of prices. So, for example, Western countries, which were down by 1.6% in terms of volume, were up by 5% in terms of values. Excluding the positive ForEx, would have been 3%, so there is a spread of pricing and mix accounting for around 4.6 percentage point.

Asia Pacific was up by 3.8%, would have been minus 8.3% without ForEx, but also in Asia Pacific, you can see the improvement in average price. India two-wheeler was up by 26%, would have been 10.9% without the ForEx effect. Western country commercial vehicle up by 21.1%, and Indian commercial vehicle up by 7.9%, would have been minus 5.7% excluding ForEx, which is better than the reduction in volume by two percentage points, also showing the improvement of price is mix.

Moving to slide number eight, you can see the split in terms of product. So scooters worldwide were up by 0.1% in terms of turnover. Bikes were up by 26.7% from €120 million to €152 million. E-Bikes, we just started in December, and 2016 will be the first year of full performance. Commercial vehicle were up by 8.8% from €337 million to €367 million, so an increase of €30 million, while spares and accessories were up by 12% from €149 million to €167 million.

Moving to slide number nine, you can see the EBITDA evolution. Last year, it was €159 million, 13% on sales. We had an increase of gross margin coming from sales increase of around €27 million. We had a negative effect that coming from, let's say, ForEx mostly of around €14.9 million. And then we had an increase of cash OpEx of around €10 million due to the ForEx effect and decrease in communication and racing activities.

Moving to slide number 10, you can look the net result evolution. So, last year, €16.1 million, we had a positive change in EBITDA of €2.4 million, an increase of depreciation of €15.4 million, of which around €4 million are due to the ForEx, then we had an improvement that in financial expenses by €3 million in recurring and €3.6 million in non-recurring financial expenses, and the reduction in taxes of €2.2 million, leading to a net result of $11.9 million.

Moving to the next financial position, we started with €492.8 million net debt. We had an operating cash flow positive by around €110 million, €5 million more compared to previous year. Then we had positive working capital, so with generation of €16 million versus an absorption last year of €14.3 million. We are at CapEx of €102 million versus €95 million for the year, and then a change in equity and another of minus €29.1 million, out of which €26 million were the dividend. The overall items led to a net financial position below €500 million at the end of this year, €498 million versus €493 million last year.

Moving to slide number 12, we can have a look at the balance sheet. So, we had a slight increase in accounts receivable, mostly linked to the increase in turnover and ForEx. We had a strong decrease in inventories around €19.6 million, also included the negative ForEx coming from the translation of the inventory we have in India and in U.S. We had reduction of commercial payable from around €5.4 million and a reduction of other assets and liabilities by €9 million from €63.6 million last year to €54.6 million this year, mostly due to the cash of, coming from a recover of VAT in India in December this year. In terms of total working capital, last year, we had a generation, let's say, of cash of around €50 million. This year, I mean, the position is negative by €32 million. So, we had cash flow generation of around €60 million coming from the working capital. Then, the tangible plus the intangible were mostly constant. The slight increase is due to the ForEx effect. The financial investments are almost flat, while the provision were reduced by €7.1 million, everything linked to the PF fund, so without any positive impact on the P&L. The net invested capital was very much in line with 2014, €902 million versus €906 million last year. Total debt, as we mentioned before, €498 million versus €493 million last year; equity, €404 million versus €413 million last year. In terms of ratio, net debt on equity, last year, we were at 1.19; this year, we are at 1.23.

So, we are almost done with the presentation of end of year result. We made an update of the financial numbers for the next years. And Mr. Colaninno wants to say some words regarding our strategy, and then we can comment the numbers

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Roberto Colaninno – Chairman and Chief Executive Officer

Good afternoon to everybody. I want to introduce what is in the strategy that is on the base of our development plan for the next four years. Starting from the market evolution. We believe that the market evolution is following the positive trend in Italy and the Europe, will be stable on Asia, especially talking about India and the Southeast of Asia, and will be stable in United States.

Regarding Italy and Europe, we believe that the scooter market will be growing on the same way that is growing in the first three months of this year. And the market of the bikes go in the same way. In India, we believe that the future performance will be positive. Piaggio India Group is beginning the year is beginning very well, especially on the three-wheeler, and we believe that with the new products and with the market development, we are, in our plan, stimulate the sales and we looking for an increase of value for this market and the market of the two-wheeler, too.

Based on this consideration, we believe that the forecast of our sales for the next four years is in line with our market expectations.

Talking about the organization. We have a focus in the organization. Number one, not increase on the debt. We want to sta, we want to gain in term of liquidity, and we believe that the number that is explained on the plan by the end of the four years is achievable in a easy way. Based on this is then cash flow management system and we don't need any more to increase our investments, especially regarding new products, because as you can see on our balance sheet the depreciation is growing this year in a substantial way and the line of the new products that we will present in the near months for Moto Guzzi and also there's other products that we haven’t already presented cover all the necessity of the market catalog of the products.

The other one, our focus is on productivity, and we have taken action, especially in India and Vietnam, in order to increase productivity of the company either in the term of organization and in the term of – we're very deeply selective the supply chain. On this way, we are base our strategy on the supplier regarding also the trend of the currency that for us is quite important, because we balance the sales in currency with the purchasing in currency. Our suppliers are around the world, is in China, is in India, is in Vietnam, is in Europe, and this is – give us a good possibility to have a good balance on the currency around the world.

Other strategies are based on the restructuring of the network, that is on the way started from Italy and Europe and also in India, and also a big reorganization regarding United State sales organization. This is based on the Motoplex system, where we believe to achieve the better, the best performance on term of distribution and customer relation strategy.

Follow with this, also, we have a plan to have a new strategy for parts and accessories. This is quite, is a quite heavy program, and we wanted to achieve a better number in term of parts for vehicle, especially regarding the market in India where we have over a million of three-wheeler and we expect it to be able to sell more vehicle, more parts than today.

Regarding also, their policy of the total investments we don't see any other investments with new factory. The factory that we have is enough for our organization. We don't see other investments regarding new machinery because we don't have in mind new lines for new products, except what is underway now. And so this gives us the possibility to have a reduction on capital expenditure.

In terms of technology, we are focused to get new products for India that gives a possibility to have a better performance on consumer. Our goal is to achieve with one liter, more than 90 kilometers. We are working very hard on this way, and we believe before the end of the year, to achieve this type of performance On the three-wheeler side, we're working very much in order to replace the engine – the diesel engine with a gas engine and to be in line with requirements of anti-pollution law, the big city in India. In this type of area, we can say that we are very satisfied for the development of this type of new three-wheeler and we expect the presentation during this year, maximum at the beginning of next year.

In term of the general reorganization, we're looking very much at how we can improve productivity to better control of cost and expenses, where we have already achieved good performance during the 2015, last year. And we go on the same strategy in order to achieve margin on sales around 30%, 31% to confirm anyway what is the trend of Piaggio in this type of results.

In term of new structure for sales, we are working very hard in Europe where we have selected a number of dealer, new dealers, and we have selected with a new strategy, dealer in line with the products and in line with the type of products they want to sell, and the type of strategy they want to have with the customer and with the market.

So after saying that, we believe that our philosophy that we want to introduce this year in order to have a better productivity result, a better result, a better connection with the customer through a different organization and a better position on the market, where already, we believe that the number that we have decide to approve on our board is achievable. And we don't see a big risk in term of different reaction from the market. Naturally, all is based on the evolution of the market. I want to stress that the market in our opinion is – has already arrived at the minimum, historical minimum sales. And we expected for this year, improvement in the Italian market and the European market. And in term of India, we – again, we expected to have better results in this year than in the last year, also because we have successfully replaced the Managing Director, the previous one retired and is replaced for the new manager that is already show a better results than in the past. And also, we have working with Chairman to reorganize all the factory around the working shop in India either for the three-wheeler, then four-wheeler, two-wheeler.

In term of working capital and in term of financial cash flow control and management, we believe that due to our level of stock, due to our level of term of payment of supplier, and due to the new investments that we have in mind to do, then results on this area is achievable, and we expected to arrive a lower debt by the end of 2018. I like to give to Gabriele Galli, the details of the number, and anyway, I'm ready here to answer your questions.

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Gabriele Galli - General Finance Manager

Okay. So, we go on. We prepared just four slides of synthesis. The first slide was, so slide number four, is showing which are the main differences between what we were thinking some years ago, so in the – when we made the plan in 2014, sorry slide number three. The plan 2014, 2017 for the year which just ended some months ago, so 2015, and what really happened in 2015.

So, the GDP was lower than what we were thinking some years ago, especially in most of the European countries, Italy, for example; in U.S. and in the Asean 5. Because of this reduction of growth of GDP, also, the market demand was weaker than what we expected, especially in Europe. Europe went up, but the performance of the market was much better in bikes than scooters. And so, the fact that the increase of market in the scooter segment was slower than what we thought, of course, made us in a worse position in terms of the increase in the volumes. On top of that, as we mentioned before, we underwent a program of progressive reduction on stock in the network, and so also, these reduction of stock in 2015 played a role. The market demand in U.S. for scooter went on declining. In Asia-Pacific, overall, the market demand was negative, driven especially by Indonesia, but also in other countries, I mean, there wasn't a good increase or at least an increase that we were thinking about. And the markets for four wheelers plummeted in India. If you look at the market size today, you'll see a volume which is four times lower than four years ago.

On the positive side, in the macroeconomic area, we had the ForEx tailwind, as we said before, since we are very much balanced, but we are a little bit long in dollars. The fact that the dollar went up put us in a better position, because most of the ForEx linked to dollar went up. So, we had a dilutive effect, because of the increase of Chinese renminbi ForEx in the cost of the product side, but as an overall effect, displayed a good role, a positive role in the overall EBITDA. And on top of that, also, we really didn't benefit so much. But in the scooter market, grew faster than what we were thinking.

If we look at the macroeconomic differences, but – at our performance, we believe that we lost a bit of market share in Europe. As we said before, this reduction was driven by the negative mix of bikes growing faster than scooters, while we have a very good percentage in scooters and a much lower percentage in bikes.

And as we said before, this was coupled with network destocking, which is not a negative performance, I consider it a positive performance in terms of cash generation. But looking at the P&L, of course, if you fell 6,000 units less, you have a €50 million lower turnover and probably €5 million lower EBITDA, because it mean that the OpEx are pretty fixed and the margin is 30%.

We had a negative performance in terms of market share in Vietnam. As we said many time, the competition in Vietnam in the top segment became fiercer and fiercer, and so as a total result, we're still having a good position, but compared with what we were thinking, our market share was down

We lost some market share in three-wheeler parts in India also due to a mix effect, because, I mean, the three-wheeler in the urban areas performed much better than the three-wheeler in the rural areas. And the fact that Bajaj is absolute market leader in the cities, while we are absolute market leader in the rural areas played against our market share. And then, we had a weak performance in two-wheeler India where the market was booming, but, I mean, we didn't perform.

On the plus side, we have been able to maintain and keep a very rigorous price policy, able to increase every year, more the inflection. And on top of that, we have been able to reduce, versus what we were thinking in the plan, significantly the OpEx, or the cash OpEx are much, much lower than what was indicated in the old plan. This, as a total, reaction of reduction in sales because of macroeconomic and some internal performance.

As a result, we confirm the strategic guidelines for the new plan 2016 and 2019. We confirm, as we will see some slides later, that the overall financial performance at the end of 2019 would be in line with what we were thinking. But, I mean, the results will arrive with some delay. This is already reflected in any case in the consensus, all the financial analysts have for 2017.

Moving to slide number four; we can see, I mean, our strategic guidelines.

So Europe, we want to exploit the market recovery. The market is, I mean, finally increasing very good. I mean, Italy posted a very good result for February, which is not a very important month. But the market in Italy was plus 23% at the end of February, and those other market in Europe is increasing in Germany, UK, the Netherland, only France is still a little bit behind. And of course, I mean, if this market starts to go up, we can really leverage on the volume increase; on that for the volume increase, and also, we can benefit from our deep pipeline of new product launches namely in Liberty, Medley, V9, so the new Guzzi which we'll be launched next week, and so on and so forth.

We want to keep growing in bikes, focusing on Moto Guzzi and Aprilia premium range. There will be important introduction this year on motor goods in next year of Aprilia. And especially looking at Aprilia, we also want to leverage on our entry in MotoGP, and then we have the new opportunity coming from the E-Bike which I mean, commercialization just started, but which seems to able to have a very good role in the next years.

In America, we want to grow in the bikes. We want to leverage on our dealer network expansion, and we want to leverage on our premium range of Moto Guzzi and Aprilia having the absolute market share premium and the Vespa scooter as well. And in Latin America, we want to pursue opportunities in scooters in the midsize bikes.

Moving to Asia Pacific, we want to go on with expansion of sales in Vietnam, of course, but also in Indonesia, Thailand, Malaysia, Taiwan. We want to introduce some midsize bikes, and we want to increase the penetration in the Chinese market.

Looking at India, we push on export to Africa and Latin America, leveraging on both the Indian and European sales force. We want to consolidate our leadership position in the three-wheeler and penetrate more in the urban area with new of the City Pax. Of course, we will go on pushing and following this.

And moving to the two-wheeler, we will be launching a new complete model in August, and this probably will boost our sales, increasing the capacity utilization of our plan.

Moving to slide number five, you can have a look at the evolution of that throughout the plan. So, we start with around €500 million. We plan to have an operating cash flow of €635 million in the full-year period. We plan to have a slightly flat working capital. Here in the plan, you can see an absorption of €15 million to €20 million. The CapEx is very much aligned to what we did in 2015, so around €100 million, €105 million. And then, dividend and other movement of cash of around €105 million, €120 million, leading to a net financial position of €400 million at the end of the plan, with a ratio of net debt to EBITDA of around 1.6.

In terms of numbers, just synthesis. So we plan to have an increase of turnover in 2019 of around €450 million, €500 million, up to €1.75 billion to €1.85 billion. In our previous plan, we had €1.75 billion of turnover. We want to have an EBITDA in line with what, with our plans in 2017. In 2019, our EBITDA planned is €255 million versus €250 million, which was planned two years ago for 2017. And in terms of net debt, at the end of the period, and as we commented before, we plan to have €400 million.

So, this is basically the key numbers. Now, we are ready for questions regarding both the 2015 and what we planned for the next years.

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Raffaele Lupotto – Head of Investor Relations

Okay. So we're ready for the Q&A session.

QUESTION AND ANSWER SECTION

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Ms. Monica Bosio – Banca IMI

Thank you very much. And good afternoon, everyone. I would have a few questions.

Firstly, the statements on Europe. And obviously, January and February are not significant. I would like to know if you can give us an indication for each market, Italy and the rest, in term of volumes projections. At the end of the day, do you believe that a 13% upside in volumes in Europe for 2016 could be feasible?

And as a second question, you told us that the last year, Piaggio lost a bit of market share. Can you give us a target in terms of market share increase in 2016?

And the last question, and then maybe I'll come back at the queue, could you please tell us how, what would be the expected decrease in export in India because of the difficulties of the countries which export are based? Thank you very much

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Gabriele Galli - General Finance Manager

So, I mean the market at the end February in Europe was up by 23% with – sorry, in Italy, with a strong increase in scooter, plus 15%, and a very strong increase in motorbikes, plus 32%. In Europe, at the end of February, the market was up by 2% in scooters and 8% in motorbikes. So, I mean, we are, I mean, very happy for these numbers, especially looking at Italy, because it's after seven years of very strong decline, registering a double-digit increase is very important for us. And for the end of the year, we plan to have, of course, an increase in total volumes sold in Europe and in U.S., which we put together in two-wheeler Western countries, overall about 5% to 6%.

Then for market share, as we said before, we lost some 0-point something. If we look at the total performance, this was driven mostly because of the switch to motorbikes coming from scooters, and so I think, we are much higher in market share for scooters than in motorbikes. Every time the scooter market increased, but lower, with a lower pace compared to the motorbikes, of course. If you combine the total market share, we have a dilution. For this year, thanks to the introduction of new products. As you know, we launched the New Liberty and then we would be launching the New Medley. The New Medley, especially is a completely new vehicle that is attacking a segment of market, where Piaggio was not present in the past year. So, we have a, we hope to gain a lot of market share in this particular segment and overall.

If we look at bikes, we will be launching next week, the new V9, which will be playing in the big-sized motor bikes together with the V7, and probably will give a boost to sales of Moto Guzzi. And on top of that, as we've said before, looking at overall mobility playground, we have also the new bicycle helping catching customers.

Going to the export. So, 2015 was a year where export from India was not so easy for us, but also for the competition. Looking at all the African countries, such as Nigeria, for example, but also Somalia, there was an issue in earning dollars for importers because, I mean, the decrease of gasoline price, petrol in all of these producer of petrol, of course, caused shortfall in dollars. And so I mean, they had problem in finding dollars and so they had problems finding dollars, and so they have problems in buying, but the basic need is still the same. So as soon as the different companies and the different governments would provide people with dollars, there is no doubt that demand will go up again, because, I mean, these kind of countries are subject to a strong GDP increase and the strong increase in need of mobility.

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Ms. Monica Bosio – Banca IMI

Okay. If I may, just a brief follow-up. Guzzi had a very good performance. If I might, could you please just give us a projection volume for Guzzi, and if you do not know, if you don't think that it would be better to improve the valorization of this brand, which is an iconic brand, maybe you have some plan on this and because as things are, I believe that the value of the brand of Guzzi is a little bit sanctified.

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Gabriele Galli - General Finance Manager

I think Guzzi this year was around 8,000 units. We have a plan to increase total volume by at least 20% next year, thanks again to the introduction of V9, plus there would be another model in July of this year. In terms of – I mean opportunity for the future, looking at Guzzi, as you said, we have, I mean, we are very, very positive, because the brand is very well known, and I mean people is willing to pay overprice for this kind of product.

On the other end, the more the volume would grow, the better will be the capacity utilization on the plant. And so, the better the capacity utilization on the plant, the better the ability to reduce cost of the product, which, coupled with increase in pricing, really can provide us with very good margins. So, the strategy for Guzzi, just to assure you, is very well defined.

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Ms. Monica Bosio – Banca IMI

Okay. Thanks you very much

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Mr. Renato Gargiulo – Intermonte

Yes, good afternoon.

My first question is about the pricing environment for 2016 and more in general on the price mix looking at your annual product launches this year, what could we expect for 2016 compared to last year.

My second question is about marketing and racing expenses. What are your expectation for this year? If we can assume stable expenses or a falling year-on-year.

My last question is about Europe and is concerning your European dealer network. You were talking about further reduction in the dealer network stock, what are your expectation for this year? Do you think now it's at a good level so there is still room to, for further reduction? Thank you.

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Gabriele Galli - General Finance Manager

Okay. In terms of price mix for 2016, I believe that everything would – will go on the same way as in 2015. In particular, there is the introduction throughout the year of new Euro 4 vehicles. So, there will be some increase. Of course, of costs some increase of pricing, for some vehicle, we already introduced Euro 4, it will be mandatory by the end of the year.

In terms of, excluding the Euro 4, I mean we have some positive increase coming from new model. So New Liberty as more feature, ABS, for example, than the old one. So, of course the price point is a bit higher. Medley, which is a new segment, will be priced competitively against Honda, but in any case, is in a higher than average segment. Looking at motor bikes, the V9 will be together with V7, of course the price of V9 will be higher than the V7 because of better characteristics in terms of power, in terms of – I mean features. And so, I presume that the mix will improve in Europe, but also in the other country.

In terms of expenses, marketing and racing, I think they will be pretty similar. So, we already entered MotoGP last year. So this year, we will be competing again in MotoGP and the cost is pretty much aligned. And marketing, we had boost last year, I believe for this year, we will be the same, in line, may be €1 million or €2 million more, but these are – that would make the difference.

In terms of be dealer stock network, as you know, I mean, you have two reason in terms of coverage. So when the market goes down, you have to reduce and maybe you can reduce also when the market stops and start to regain in terms of size. But then, if the market is growing, you can start enlarging the dealer stock again. Because I mean, if you want to maintain a similar coverage, the total number of vehicle is in function of the number of vehicle sold. So I think that we are pretty done with the destocking after the, say, seven years of destocking. And I would plan to stay at this level this year. Of course, there is also a room to increase a little bit. But I prefer to stay constant, because at the end, it's much better not to risk on accounts receivable and not to employ cash in working capital and use it maybe in generation of demand activities.

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Mr. Renato Gargiulo – Intermonte

Okay. If I may just a very quick follow-up. You were talking about some changes in your sales structure. I was wondering just if we can assume some kind of disruption or some non recurring cost, material this year? Thank you.

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Gabriele Galli - General Finance Manager

Not disruption, I think we are doing a good improvement of the dealer network, thanks to the implementation of Motoplex, which is our new image, but this is the biggest and the most important change, I would say**.**

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Mr. Michele Baldelli – Exane BNP Paribas SA (Italy)

Hello to everybody. Thanks for taking my question.

The first one is just the clarification of the targets that you gave. You referred to 5% plus, 6% plus for the volumes of two-wheelers in developed countries, this is the expectation for 2016?

And the second question sort of relates to the cost of goods sold given the steel and plastic trends. What do you expect this year to achieve in terms of savings for the purchase of cheaper components or raw materials? Thanks.

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Gabriele Galli - General Finance Manager

Okay. So in terms of target of sales, yes, I was mentioning Europe plus U.S. So I think that this increase is – of around 5% to 6% is feasible over 2016.

In terms of raw material, yes, of course, I mean, the energy went down and, of course, we signed a contract for energy yesterday and we had an improvement significantly, both on gas and in energy. Petrol is going down. So in terms of plastics or painting, you can make some savings. Of course, I mean, all the other steel rathe, all the other, I mean, material use for vehicle and the feature of the vehicle are going down. What is important to know in any case is that when the steel prices went up, we was able not to increase very much the cost, and today, we can have some savings, but not so, I mean, so strong, in the sense that if you look at the total cost of our product, which is let's say €1,200 per scooter, and if you look at the weight of the scooter, which is 120 kilo, you will immediately realize that, yes, there is a cost of the raw material, but there is also a cost coming from value-added and from other point, which are not directly linked to the raw material. So raw material in our case is subject to a very important transformation, very technological transformation. And so if you had the reduction of €10 per ton in steel, or €100 per ton of steel at the end in the scooter, you had 60 kilo of steel. So this is that the kind of proportion.

For example, if you look at some other industrial goods, for example, white goods, you have a washing machine, probably the weight is around 60 kilos, but the cost of the product is €150. So I mean the ratio of cost coming from raw material in a washing machine is much higher than the cost of raw material in a scooter product. And so when the prices goes up, you increase cost of scooter, but not so much. And when the price goes down, you are able to achieve some saving but not absolutely – I mean, extraordinarily, I think.

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Mr. Michele Baldelli – Exane BNP Paribas SA (Italy)

Okay. And just a final question about the factoring the securitization of balance sheet, what is the level?

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Gabriele Galli - General Finance Manager

Yes. So you're talking about reverse factoring?

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Mr. Michele Baldelli – Exane BNP Paribas SA (Italy)

Yes

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Gabriele Galli - General Finance Manager

Yeah. We're at around €140 million

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Mr. Niccolo' Storer– Mediobanca

Yes. Good afternoon to everybody. I have three questions and two clarifications on previous questions.

First question on Southeast Asia, I was wondering if you could provide us with a comment on how markets are doing in the first month of 2016?

Second question is, if you could give us kind of more in-depth detail on which are the decline by regions, which bring you to the €1.75 billion, €1.85 billion target in 2019?

Third question on CapEx, if I understood well, you said that we should expect some lower investment, while in the bridge – in the cash flow bridge, I see basically that the average is still around €100 million, €105 million per year, so if you can clarify this.

Then on the 5% to 6% growth that you are projecting for Europe, this is a growth for the market or for your volumes?

And very last question, the €60 million, you talked about in terms of factoring, reverse factoring or factoring, because I understood reverse factoring that if I understood well, could you also give us the detail on how much is factoring? Thank you very much.

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Gabriele Galli - General Finance Manager

Okay. So Southeast Asia during this first month, I mean we have just some numbers because the year just started. I think that Indonesia started back to grow. Also Vietnam is performing in a good way in terms of market. What is important is general trend, which is expected to increase over the planned period and is expected to improve in terms of mix, because I mean, the population is increasing the GDP per capita, they're willing to have something different. But, so that piece of the market where we may compete is increasing much faster than the rest of the market. And this was something common in Vietnam, but is enlarged into also other countries. And it seems that also the competition started to introduce new vehicle in the higher price point also in Indonesia, for example.

In terms of growth, I confirm you that a good boost in terms of revenue should arrive from Europe and, I mean, in Western countries in the period. First of all, I mean we have we have a new product, which is bicycle. Second of all, I mean the market we plan at the end of the 2019 will be €1.4 million. I don't know if we are planning right at this time. But we expect that the market demand is increasing back to €1.4 million. Just to remember you, in 2007, we were up €2.4 million. So I think this kind of growth is feasible. And in Europe, we want to gain 0.5% of market share partly related to the New Liberty and Medley, and partly related to the new motor bikes. So we believe that market increase, market share improvement in scooter and motor bike, addition of E-Bike, new Motoplex distribution center, which are proving to have a very good, let's say, unitary P&L. So dealers are making more money. They are selling more spares and accessories. So the new business model tends to work very well, with I will say, limited investment. Not for us, but for the dealer because we don't invest in dealer matter. So some attractive win to win solution for us and for the dealer.

Then we plan to increase in three-wheeler, four-wheeler India linked through exports and linked through market demand, local market demand. Of course, I mean the introduction of the new scooter in India will boost the volume, but as you can expect, the unitary price of scooters in India is limited compared to all the other countries. So the kind of increasing turnover coming from India two-wheeler is very important in percentage, but not so from the demand impacts of EBITDA – sorry revenue growth and the EBITDA growth.

And then in Asia, where we can use the New Liberty and the Medley as well, plus the new small bikes we will be launching during next years. We can increase our revenues in Vietnam, but also in the other, I mean, countries belonging to Asean 5.

Going to CapEx, probably you've mentioned that in terms of industrial CapEx, we are almost done, because we'll be launching some new technologies such as, for example, the painting plant, but in terms of total number of plants, we are done at the current level of sales and at the level of sales expected by 2019. We want to maintain the CapEx constant at around €105 million per year, and this will be mostly devoted to the new products.

In terms of the market and market share, which was your last question, I think we already said when talking about Europe. Yes, we want to increase the market share, but the market share contribution in limited, is 0.5% so, some to some 7,000 units more in market of 1.4 million units.

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Mr. Filippo Prini – Kepler Cheuvreux

Good afternoon. I've got a couple of questions.

The first, within your CapEx plan of €400 million committed in your plan, could you give us an indication of how much is devoted to the capitalization of research and development?

The second on the price mix of commercial vehicle in India. Could you give us an indication for this year and next year given that each year, you have delivered positive results on this side.

And the last one within your 5%, 6% expectation of growth volumes in Europe, could you give us an indication if the market that will be below the average are the same of the past years, referring to France and Germany chiefly? Thank you.

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Raffaele Lupotto – Head of Investor Relations

Sorry. Could you repeat the last question, because we haven't understood very well; the very last question?

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Mr. Filippo Prini – Kepler Cheuvreux

Yes. Basically, you think – your indication of 5%, 6% of growth in volumes in Europe, which is the contribution – which should be the contribution of market like France and the Germany.

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Gabriele Galli - General Finance Manager

Okay. So starting from the first one, you say the – our market – capitalized R&D. So R&D for new products is around €60 million per year. And you can think that capitalized R&D is half of this amount, more or less.

In terms of growth for 2016, we are positive about Italy, we are positive about Germany, we are positive in volume, but the market is poor about Spain. We are positive about UK. France seems like it is flat compared to last year. France probably started to suffer later compared to other countries. And the increase probably is going to take later. So for this year, at least at the moment, we see France flat compared to previous year. The second question, I didn't get it.

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Mr. Filippo Prini – Kepler Cheuvreux

Price mix evolution of commercial vehicle in India.

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Gabriele Galli - General Finance Manager

Okay. Okay. I mean, price mix evolution in India, sorry, in India you have normal three-wheeler, you have four-wheeler; and between three-wheeler, you have the Pax three-wheeler and rural three-wheeler – sorry, the urban three-wheeler and rural three-wheeler. The urban three-wheeler usually use gasoline engine, not diesel, and so the engine is cheaper and the cost of the product is lower, and so the price is lower. So, whenever, I mean, you have a stronger increase in the city compared to the rural, you have some sort of price dilution. Whenever the rural is increasing, you have some price increase in general terms. Then of course, also in India, you are introducing some new feature every year. And year after year, you should be able, by the one hand, to cover an inflation; by the other hand, I mean, to cover the new costs for new feature introduction, while keeping the margin cost under or increasing a little bit. So I will say that everything goes up with inflation and with the new feature introduction. But if there is some switch between rural and urban, you should adjust a little bit the price increase because of this factor.

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Mr. Raffaele Lupotto – Head of Investor Relations

Okay. I think this answer draws the call to an end. So if you need more info, to ask more questions, you can call me as usual later or also during the weekend. Thank you very much for attending the meeting and have a good weekend. Bye.