Piaggio Group
First Half 2015 Financial Results

CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHIEF EXECUTIVE OFFICER

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MANAGEMENT DISCUSSION

Raffaele Lupotto – Head of Investor Relations

Hello. Good afternoon everybody. Thank you all for joining us today to analyze Piaggio First Half 2015 Financial Results. Today's conference call will be held by Mr. Roberto Colaninno, Piaggio Group's Chairman and Chief Executive Officer; and Mr. Gabriele Galli, Piaggio Group General Finance Manager.

During today's conference call we will use the presentation, you can download it from our website under the link Investors. And before going ahead, as usual, I remind you that during today's conference call, we may 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 conference call to Mr. Gabriele Galli.

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Gabriele Galli - General Finance Manager

Good afternoon to everybody. So, let's start from slide 2. Basically, the European market started to show some replacement cycle, the early signs, which were offset by some emergency in other key markets. The Europe two wheels market grew by around 3%. The performance of bike was very good, up by 8.5%, while the scooter market was a little bit down by 0.9%, but with an acceleration compared to Q1.

Asia-Pacific was weak, Indonesia was very critical, minus 40%. Vietnam was up by 4%, resuming a mild growth. The demand for three-wheel vehicle in India worsened throughout the semester and was at the end down by 3% versus previous year. The four-wheeler market went on slumping double-digit; the scooter market showed a very good momentum.

Moving to Piaggio from the market, our western countries had a good performance, also supported by the improving market scenario. We have been confirming our strong competitive positioning, maintaining the leadership in the total two-wheeler market and keeping over 12 point of market share on the closest competitor.

The MP3 performed very well, with volume and revenue up double-digits. The performance in bikes accelerated, also boosted by new launches of Aprilia and Moto Guzzi. The spare parts and accessories market grown double-digit, confirming that they are a key lever for forthcoming profitability.
In terms of overall price, the average went up, showing that we are going on with our focus on high value segment and firm price policy.
As a total result, in Western Countries, the revenues went up single-digit, with some countries performing with a significant growth; UK, German in particular, also performance in Italy was good, Benelux was up double-digit. France was lagging behind, still affected by a negative market, although there were some first signals of improvement.

In Asia-Pacific, the market was very volatile, but we have been coping with volatility focusing on mix. Vietnam volumes were down, but positive mix more than compensated the volume drop. Outside of the Vietnam, all the most countries had a good performance, especially Taiwan, Malaysia, Thailand and China. On top of this performance, of course, the overall sales and profitability are being positively affected by the Forex which, as you know very well, was very favorable compared to last year.

Moving to slide number 4, we can have a look at India. India, the performance was really affected by the negative domestic market trend. In terms of market share, the three, four-wheelers stood above previous year. The resilient performance we had in the cargo and in the export segment where indeed unable to counterbalance the passenger negative trend, which worsened throughout the semester, especially there was a decrease in the market for rural areas while the performance in the cities was not so bad. And as you know, our market share is much more significant in the rural area, and so the depression on this market didn't play in favor of us.
Vespa sales were slightly up and also in India in terms of price, excluding of course Forex, which was very positive, the average price went up. As a result, our revenues were up by 17% versus previous year, almost flat if we exclude the Forex effect.

The key numbers, net sales up by around EUR65 million, meaning 10% plus 2.5% at constant ForEx. EBITDA was slightly up plus EUR1 million and net profit slightly down minus EUR1.7 million. The gross margin followed basically the dynamics of ForEx. There was an increase of around EUR10 million with a lower ratio on net sales. But as you can imagine, the percentage of profitability has been affected by the Forex as well. The ForEx basically left us with a higher absolute profitability, but with a dilution in terms of percentage.
The OpEx were higher compared to last year and especially they have been affected by some ForEx effects in India, Vietnam and US. And on top of that, we started increasing a little bit the commercial expenses, especially in terms of marketing and communication, and in terms of racing. As you know, we've entered the MotoGP, and so, these are the negative contributions in terms of total OpEx.
In terms of financial expenses, we benefitted from the operations we made last year in terms of bond refinancing and revolving credit facility refinancing. And so, we had a decrease of around EUR5 million compared to 2014. Out of this EUR5 million, some were recurring and some one-off saving.
The CapEx increased to around EUR43 million plus 5 million versus previous year.
The net debt was decreasing compared to Q1, but higher compared to last year, and the main items, as we will see, were the slight increase in Working Capital and some higher CapEx and compared to last year, we had the dividend distribution. The debt profile was preserved with an average debt life of around four years, and an ample liquidity backup.

Moving to slide number 5, we can have a look at the P&L. So, as we said before, revenues flat 10%, plus 2.5% of constant ForEx. Gross margin plus 5%, plus 1.5% of constant ForEx. And you can see the dilution, which was around 1.4 percentage point. The, I would say, 100% explanation of that is the ForEx. If you take for example, the P&L of 2014, and you confronting with the ForEx that is of today, you would not see the dilution in terms of percentage of gross margin to sales is around 1.4 percentage point. So, there wasn't any change in pricing policy, any change in cost policy. The only difference is the ForEx, which in total absolute value giving positive contribution. But in terms of ratio to sales, was performing with a dilutive effect. And this dilutive effect basically will affect all the other ratios such as EBITDA ratios, EBIT ratio and Net Income ratio.

Moving down, we can see the EBITDA higher by EUR1 million versus 2015. As we said before, the partial increase of gross margin by EUR10 million was absorbed by EUR9 million higher cash OpEx. That means the second important line of this profit and loss, which is the depreciation, which shows a significant increase compared to previous year.Previous year depreciation was EUR43 million, this year depreciation is EUR52 million, so we have an increase of around EUR9.2 million. Going on in the second semester, the difference should be reduced, because, as you remember, last year the depreciation charge has started to increase from July on. After this 9 million increase of depreciation, the EBIT is at EUR43 million versus 51. So, 8.2 million lower than previous year.

Then we had the significant saving in terms of financial expenses, recurring and not recurring.As you remember, last year we had the buyback of the bond, which affected the P&L by EUR2.9 million at EBT level. So the net income before tax is at EUR24.6 million versus 27.5 last year, than the tax rate is very much aligned to last year at 40%, giving a Net Income of EUR14.8 million versus 16.5 last year. In terms of net financial position, we ended up at EUR535 million versus 492.8 as of 1st of January this year.

Moving to slide number 6, we can have a look at the volumes. Total volumes were down by around 3.2% from 278 to 269. We have basically 4.2% volume in Western Countries. So we had a negative performance in Western Countries, especially in some importers market, such as Austria and Switzerland; while the performance was very good in markets such as UK, going up by 16.7%, Benelux going up by 12% and also positive in Spain, Germany and Italy.

Moving to Asia-Pacific, the total performance in terms of volume was minus 3.8%. Basically we lost around 1.6 k units. With, let's say, bad performance in Vietnam and Indonesia, Vietnam because of increased competitive pressure, Indonesia because of the strong decrease of the market. And we have very good performance in countries such as Thailand, Taiwan and Malaysia, increasing double or triple-digits.

India two-wheeler increased by around 11%. Western Countries commercial vehicles increased by around 52%, also thanks to the commercialization of products manufactured in India, in countries of Latin America and North Africa. And India commercial vehicle was down by around 6 percentage points and this was basically due to the market contractions very severe in the second quarter.

Moving from volumes to revenues, slide number 7. You can appreciate the significant improvement in terms of values compared to volumes. So Western Countries, I said before, was up by 4.2% in terms of volume, in terms of value it's up by around 5.2 percentage point. Out of this 5 percentage point, 2 percentage point is ForEx, namely British pound and the US dollar. We had, let's say, 7.2 percentage point improvement versus volumes, going down by 4.2 is a mix in price.

Asia-Pacific was down in terms of volume by 3.8, in terms of value is up by 19.4, and also excluding the ForEx effect, it would be up by 2.8 percentage point, again proving the discipline in pricing and the focus on the mix.

India two-wheeler was up by 35.9, which would be 14.4 excluding ForEx versus plus 11% in volume.
Commercial Vehicles Western Countries was up by 19.6%. We said before that we started exporting in Latin America and Africa, some vehicle manufactured in India. So, of course, this reduced a little bit the average price, but boost the profitability.
India Commercial Vehicles was up by 15.5%, could be minus 3.1 excluding ForEx versus volume down 6.1 in the same period.
In total, the revenues were up by 10.3% versus 2.5% excluding ForEx. And of course, the main currencies affecting positively the revenues are especially Indian rupees improving the P&L by EUR24 million, the US dollar by EUR14.4 million and then in the Vietnamese dong and British pound.

Moving to slide number 8, we can have a look at the performance by product family. The scooters were up by around 4%, the motor bikes were up by around 24%, benefiting all the new product entry of motor bikes in Aprilia and Moto Guzzi brands. The commercial vehicles were up by around 16.4% while spares and accessories were up by 12.2%.

Moving to slide number 9, we can have a look at the evolution of EBITDA. Last year we had EUR94 million. The increase in sales as the proportion of gross margin gave the benefit on, of around EUR22 million. But then, we had some increase in purchasing cost for some components imported, which we buy in renminbi or in dollar, which gave a negative effect at the level of gross margin of around EUR9 million. The net effect is an improvement of cash gross margin of around EUR12.5 million. Then we had an increase in OpEx by around EUR11.5 million, mainly due to the ForEx effect in countries with P&L named in US dollar linked currencies, and in some increase in communication and relation activities. The total EBITDA was at EUR95 million, 1 million higher compared to last year.

Moving to slide number 10, we can have a look at P&L evolution. So we say last year we were at 16.5, there was an increase of EUR1 million EBITDA. Then an increasing depreciation by around EUR9.2 million. Our of this EUR9.2 million, 2.5 million is explained through the ForEx effect and the remaining 6.7 is new depreciation of investments made in the past years. Then we had a positive contribution of financial expenses 2.4 of recurring, while 2.9 one-off.As you remember, last year we had buyback the bond and then a positive contribution of around EUR1 million in terms of taxes, leaving the total P&L net results at EUR14.8 million.

Moving to slide number 11, we can have a look at the net financial position, we started at EUR492 million, last year we were around 475. We had a contribution very positive in terms of operating cash flow, because last year we generated 57, this year we generated 64. So basically, there is the increase of the position as you saw before, giving you a negative contribution at the net results level, but then looking at the cash flow, of course, we're talking about some non-monetary effects, so they don't have any contribution and this leaves the operating result of 7 million plus versus this year.
Then we have a higher change in working capital, which last year absorbed 11 million, this year around 33. And out of the absorption, we had some higher absorption in terms of VAT, in terms of accounts receivable, we already identified action in order to reduce that before the end of this year, then there was a higher contribution of CapEx absorbed in 43 million versus 38 last year. And then finally, there is a difference in Change In Equity and Others, last year this absorbed at EUR4.5 million, this year around EUR30 million, and the difference is the dividend payments. So at the end, last year net financial position was 472, this year is 535.

Moving to slide number 12, you can have a look at the single items of balance sheet. So as we said before, trade receivable were at 158 versus 126 last year, out of this the ForEx accounts for around EUR7.4 million. The inventories are basically at the same level of last year, despite a negative contribution of ForEx of 9.3, so it means we have been reducing stock in absolute value for the ForEx effect. The commercial variable are up by EUR21 million, out of this 21 around EUR17 million is ForEx effect. And then other assets and liabilities are up by EUR27 million, out of this around 4.3 million is ForEx, and the remaining part in EUR9 million of the third-party assets, and the remaining part is VAT and custom duty, which we are going to recover in the next month.
Tangible fixed and non fixed were up by around 22 million. Out of this, 17 million was exchange rate. And everything led to a CIN up by around EUR61 million financed through net debt, as we commented before, up by around EUR63 million and equity almost at same level of last year. In terms of ratio on net debt-to-equity, last year we were at 1.15, this year we are at 1.31.

So, we are basically done.

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Raffaele Lupotto – Head of Investor Relations

So, we're ready for the Q&A session. And please limit the number of questions to a maximum of three per person,please. Thank you very much. Thank you.

QUESTION AND ANSWER SECTION

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Ms. Monica Bosio – Banca IMI

Thank you very much. Good afternoon. I would have three very quick questions. The first one is maybe the most important. July is usually one of the strongest month of the year for Piaggio, it accounts roughly 12%. I was wondering if you can give us some update on the market volume trend and the performance of the market, the Italian market in July, and if possible, also as for the rest of Europe as the -- in order to check if there is some more significant sign of recovery or replacement cycle in place

And the second question is usually on the consensus on the EBITDA. The consensus is pointing at an EBITDA for the year at around EUR181 million. I was wondering if you feel confident on this level or your see some pressure maybe because of the ForEx effect is for the purchasing of components from India and APAC regions.

And the very last question is regarding the Asia-Pacific market, excluding Vietnam, the volatility really, really high, the markets are down. I was wondering if you can give us some update on the rest of the year. Thank you

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Gabriele Galli - General Finance Manager

Okay. So, starting from the first question. These markets in July in Europe seems to perform, I would say, well. Italy, I mean, if we imagine to trace the line to the end of the month, I'm talking about public data as of yesterday, plus some hypothesis of today, tomorrow, that seems to be high by 20% versus previous year. The bikes should be up by around 30% and the scooters should be up by around 18%, with of course some negative performance of 50cc, so the scooters are down around 10% and the bikes are basically flat. And a good performance on over 50cc. So the scooters are up by 25% and the motorbikes are up by around 30%. In other the European countries, there is basically the trend which we saw in the first six months. So Spain is up, UK is up, Germany more or less up, France is still a little bit down.

Moving to EBITDA consensus; it's not easy to say of course because ForEx may have an impact, market performance has an impact. Today we see something very close to the consensus, the consensus is 180 with somebody saying 170, somebody else say 190. We see something around 175.

Then the third question is about performance in Asia. We can tell you that, I mean, Indonesia market was very tough during the first six months and its trend is basically the same. Vietnamese market was increasing a little bit but with a very fierce competition. And as we said before, we have been able to diversify and improve our presence in other countries; the other countries are Thailand, where we almost doubled the volume. Taiwan, where we have been increasing by around 14%. And Malaysia, which is a very important country in terms of motor bikes. And last year, our presence was limited to some some few hundred units, and this year our performance is around 2,500 units, there was a big increase, we have a good relationship with importers and we are trying to build up second Vietnam as we discussed it during last quarter's call and doing our strategic plan. So I would say that today, apart from what Vietnam and Malaysia, the other important countries that could be Thailand, Taiwan and Malaysia.

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Michele Baldelli – Exane BNP Paribas

Good afternoon to everybody. I have three questions.

On new models, can you elaborate the timing of the new models by geography, please again?

On OpEx, I saw that in Q2 there was a strong increase of the OpEx that without this increase the margin should have been almost stable. And can you elaborate how much is, let's say, some one-off costs and how much is, let's say, step up structural of this OpEx structure, please? Thank you.

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Gabriele Galli - General Finance Manager

Okay. So in terms of OpEx, we had an increase of around EUR5 million, adding up communication and racing activities. And this is due, I mean, after a very strong reduction of OpEx, I mean, as we said before, we are planning for stronger presence in the market and we are charging this very important in order to, I mean, have a good trend in the market in the next year. As you remember, I mean, in last year we had a one-off effect, because we had the evaluation of the land in Spain in National Motor, this accounted for around EUR5 million. So just adding up these two effects, we explain basically the whole difference between last year and this year. On top of that, as we have been commenting, there is also the ForEx effect, which accounts for around EUR5/EUR6 million of OpEx spent in Americas, Vietnam and India. So, it means that we have been able to recover this kind of increase in some other areas, a part of communication and racing.

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Mr. Raffaele Lupotto – Head of Investor Relations

If we have no other questions, we can stop now. So I think that we can complete now the conference call. Thank you very much for taking part in the conference. If you need more info, as usual, you can call me today and tomorrow. Okay, bye.