

# Piaggio Group

## Q1 2022 Financial Results

### CORPORATE PARTICIPANTS

ROBERTO COLANINNO – CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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### MANAGEMENT DISCUSSION

#### **Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Hello. Thank you very much for taking your time to follow this conference call. Today's conference call will be hosted by Roberto Colaninno, Chairman and Chief Executive Officer; Michele Colaninno, Chief of Strategy and Products; Alessandra Simonotto, Chief Financial Officer.

You can access the slides, supporting this call at [piaggiogroup.com](http://piaggiogroup.com) website.

Before starting the presentation, as usual, I need to remind you that during today's conference call, we may use forward-looking statements based on Piaggio's current expectations and projections about future events. By their nature, forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to be materially different. Also, I remind you that the press has been invited to participate in this conference call in a listen-only mode.

Now, I would like to turn the conference over to Roberto Colaninno.

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#### **Roberto Colaninno - Chairman and Chief Executive Officer**

Hello. Good evening to everybody. The Piaggio Group has achieved on the first quarter of the year results positive at a global level. Sales, EBITDA, Net profit have achieved the best results of the whole period. We continue to work and to control through our cost management system. All the problems derived from COVID and from the crisis between Russia and Ukraine that I want to underline that because we don't have any relation, business relation with Ukraine and Russia, we don't have any negative impact on our balance sheet.

All the difficulty that we have naturally during this period are components and material that we have to buy. We try to do our best in the way that we try to bypass all transportation problems and all the recruiting components from the company, the temporary problems for the resource on material.

This is possible because we, as you know, are organized through many countries, through our plants, specifically in India, in Vietnam, in China and in Europe. Plus, we have office in Southeast Asia and India, countries overseas and main other countries where we buy normally our components.

I think that we have done a good job on the first three months of the year because we have achieved our results through our management system. Management system, that means for us to follow all production and to follow all customer sales and all customer care in order to be able to balance the problem that we have in production and the problem that we have to the logistic system to be on time on the delivery products.

To summarize how the quantity of products that we were not able to deliver in the first quarter, put together all things, is less than three thousand pieces, that is postponed in April.

If you look our network and our organization, I can say that we have a very good results on Vietnam, Indonesia, all the other rest of southeast Asia. We have very good results in China, and we got very good results in North America and naturally after that, in Europe. Where we don't have good results is in India, where the problems remain as during the *pandemia*. We expect that these problems related to India could be finished by the end of the year. We are looking the next year, for India specifically, that should be the year when India is able to restart again to satisfy the quantity that arrive from huge market as India is.

Regarding our investments, the investments especially in the new products is going as programmed, it's not changed. All the new products that we present to the markets have had a very good results and very good impact, especially on the Aprilia, Moto Guzzi and naturally Vespa. All these products have a very good results themselves on the first three months.

We believe to continue for rest of the year on the same level. We believe to achieve a good results, especially again from Asia market, where the customers are growing up, to buy Piaggio's products.

We have a very good forecast for India, Thailand and Indonesia and we get a good program of sales even in China. So, if I speak about Asia, for us, is a market that is very important and where we see our sales rising.

Coming to Europe, Europe is a very good market. Really speaking, we don't expect there, that was the reaction of the market was so good and the performance in France, in Germany and in the Spain is on the top, naturally Italy that is our natural market, the sales are very strong. As I said before, strong especially on bikes due also the good results that they get on the racing, the trademark of Aprilia and Guzzi raised at a quantity never done before this period.

Regarding production and regarding material, well as we know, we get the problems of electronics products, some of that is difficult to look in the future how there we'll move.

We are a little bit pessimistic in this way but because we have done a good policy on material, we can get some products based on the material stock that can help us to optimize production.

At the beginning of the year we designed this policy on buying products in order that we get the stock that is divided in three area. One is for the normal production, that is in the middle. Top of that is when the demand is much higher than the previsions and we can use that. And firstly, is a sort of stock emergency, where, when we get some problems that is not be possible to solve shortly, we go and we open this gate of the emergency stock. Well, on the first quarter, we were not onetime obliged to go and take the emergency stock. We work normal and some that is referring where sale is much higher than the budget.

This, for instance, for Tuareg, the sales are very good and much higher than the budget and then we work to satisfy the delivery to our customer.

Financial position is wider because we don't have any critical position on the credit line because people, until today, pay on time, even that not only in Europe but also outside Europe. So, we don't have particular problems on that area. Supplier, we got a good condition terms that give us the possibility to manage our finance on the best way in order to able to reduce debt with banks and to get the money to our investments to minimize the bank solution.

So, we believe that Piaggio is very diversified by products, but on top of this is very diversified by site of production and sales organization is worldwide spread excluding Russian area, is spread especially where the market of two wheelers is quite strong as Asia, Europe and what is very good, we are beginning to be very important player on the market of the bikes. People coming to buy, want to buy Aprilia and want to buy Moto Guzzi more than in the past and we are able to compete with our biggest competitors like Honda, Yamaha, KTM something that has never happened before. We have to work in production to satisfy this demand.

So, also in sales, we have a good position and also sales we have a very diversified product segment: scooters, bikes and the trademark Vespa, Aprilia, Moto Guzzi. The policy we have done on marketing and in advertising and promotion gave us very good results on that.

So, until today we are working very much and very hard, but we don't see even for the second quarter so we see that this first six months should be in line with our expectation.

The second six months, we look that more carefully because we don't know what happens exactly in near future, tomorrow, let's say, but what we can say that because we are out to the hot area in East Europe and other countries near to East Europe, we don't work with that, so we don't have any problems in the other parts of the world.

We don't expect to have problems with the next new products that we will present on the market in the second part of the year. But all this will be done on time and as we have put in our budget at the beginning of the year.

So, we don't see problems for the rest of the year and what we have done from electrical new investments and new technical situation, we have a very good results for the time that we have until now and we have obtain guarantees from our supplier that they are on time to delivery all infrastructure that is necessary to get the electrical products on time with our schedule.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Okay. Thank you. Now Alessandra Simonotto will comment on the slide. Thank you.

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**Alessandra Simonotto – Chief Financial Officer**

Good afternoon, everybody. Let's start from Page 3 that gives you a snapshot of key financial metrics.

As you can see, we delivered a record set of results, despite the unprecedented supply chain challenges affecting our industry, the cost inflationary pressure, and the lingering weakness of the Indian market.

- Net sales grew significantly, 18.5%, reaching the best absolute result since IPO, driven by volume growth coupled with positive pricing.

- Similarly, in term of margins, we posted outstanding results with EBITDA and Net profit both reaching an all-time high.

- Net Debt grew versus December 2021, although being lower than March 2021, driven by the usual seasonal cash absorption affecting every first quarter.

If we move to page 4 you can see that these outstanding results stemmed from the synchronized strong growth of our Brands. Brands that are clearly our key asset. In this context Motorcycles brands stood out again as highlighted on page 5 and 6.

Notably Moto Guzzi set a fresh record high both in volumes and revenues.

Similarly, Aprilia motorcycles reached the best revenues since the IPO, mainly benefitting from the strong success of the new models equipped with the 660cc engine, whilst we kept on Nurturing the Racing DNA, setting up the Aprilia Racing Team which started the MotoGP 2022 on a positive footing.

Clearly, speaking about our Brands, we can't forget Vespa. As you can see on page 7 we started the year with a novelty: the successful unveiling of the Justin Bieber X Vespa.

We can now move to page 8 to look at 2021 key markets' demand.

In a nutshell: Western Countries posted sound demand ending up double-digits vs Q1 2021 despite a tough comparison base and logistic bottlenecks that have hampered supply.

Asean 5 countries posted an uneven trend, namely with China slowing down after years of significant growth, conversely Vietnam and Thailand posted sound demand trend whilst Indonesia ended slightly below prior year.

India kept on posting subdued dynamics, with both Two Wheelers and LCV unable to go back to pre-pandemic levels. Namely LCV ended still 54% below 2019, the lowest level in 14 years

Now let's move to page 9 to have an in-depth analysis of the performance by business

As you can see the strong growth stemmed from the performance of 2-Wheelers which surged by 26% at revenue level. Asia Pac was the brightest spot reaching an all-time high mainly driven by the synchronized growth of all key markets: Indonesia stood out posting revenues two times above prior year.

It is worth also mentioning the outstanding performance of Western Countries that ended significantly higher than last year with all major countries positively contributing, despite the supply chain disruptions dampening the product offering.

Conversely India posted hefty volume decline both in two wheelers and LCV mainly on the back of market demand weakness.

Lastly, Western countries LCV benefitted from the successful launch of the new Porter NP6 which boosted to the positive mix effect and led revenue double digits above prior year

Let's move to page 10 to look at the breakdown of the performance by product.

As mentioned before Motorbikes had been the brightest spot with revenues surging by 55% propelled by the success of the new product launches coupled with positive price effect.

Scooters performed extremely well too, benefitting from the combined strong growth in Apac and Western Countries. In this context I would like to highlight again the outstanding performance of Vespa driven by volume growth coupled with positive price effect.

Let's move now to page 11 to have a look at the EBITDA bridge.

A key message is that EBITDA grew to 60 €m, thus reaching an all-time high with the % margin on sales at 13.6% if we exclude the currency effect. This is an extraordinary result in my opinion if we consider the multitude of negative externalities, we had to face this year.

The key driver of EBITDA uplift has been the strong revenues growth more than offsetting the hefty dilutive effect stemming from inefficiencies of the supply chain and from higher input costs.

Cash Opex had been kept under control, with ratio of Cash Opex on Revenues lower than last year. This testifies our ability to rein in costs without jeopardizing our competitive strengths

Moving to slide 12 we can see the remaining P&L figures

First of all I would like to underscore the strong performance at EBIT level: in fact EBIT grew by 4€m and, more importantly, keeping the same % margin on revenues of last year.

Net Profit grew despite higher Financial Expenses reflecting the negative currency effect that has been just partially offset by the lower tax rate versus prior year (2percentage points).

Let's move to page 13 to have an in-depth analysis of Net Financial position evolution

As we saw before in Q1 we had the usual Net Debt increase driven by the seasonality of our business which mainly affects the dynamic of Working Capital. At this regard I would like to underscore that the rising complexities in supply chain management forced us to prioritize inventories build-up.

Capital Expenditures ended below prior year but are still consistent with the multiyear targets provided in prior conferenced calls. Lastly as you can see Leverage has been further trimmed consistently with our long-term targets.

Thank you.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Thank you, Alessandra. So, now ready to answer the questions you may have. Thank you.

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**QUESTION AND ANSWER SECTION**

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**Monica Bosio – Banca Intesa San Paolo**

Good afternoon, everyone, and thanks for taking my questions. I hope you can hear me well. The first one is on the margin trend going forward. The consensus is currently pointing to 14.5% EBITDA margin and an absolute value in region of €269 million.

I was wondering if you feel confident with this level and if you can quantify the increase in raw mat, in transportation costs and in the energy costs in the first quarter?

The second question is on the block at the Shanghai port. I'm wondering if you're experiencing some disruptions due to the blocks and if yes if these disruptions are related to finished products or components?

And the very last is on the Piaggio One. In 2021 the group sold six thousand Piaggio One, what is your expectation, if you have, for the full year?

Thank you very much.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Monica, Raffaele speaking. So, we are working to keep the EBITDA margin that you were mentioning in line with what you are mentioning so in the range 14-14.5%. This is the range of the consensus.

Maybe I can answer to the last one. When you were referring to the Piaggio One, seven thousand sold since the launch that was the number, we projected in our slide for full year results. In any case the results are quite good.

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**Monica Bosio – Banca Intesa San Paolo**

Ok. Sorry Raffaele. So, if I remember well, at the end of the year, the number was six thousand?

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Yes, since launch. So, we launched the vehicle in October, and we were around six thousand when we presented the presentation of FY 2021 conference call. Up to now, probably are more than seven thousand. So, the trend is positive.

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**Monica Bosio – Banca Intesa San Paolo**

Can you replicate this trend for the next month?

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

The trend will be positive also on the on-going quarters.

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**Roberto Colaninno - Chairman and Chief Executive Officer**

How we manage our logistic problems, especially in Shanghai that is completely locked down.

Well, for instance, this is an example of how we try to find all the time new ways to solve and to keep on the same level the service of supplier for our production plant.

For instance, talking about Shanghai, we find that from Chongqing there is a train connection with Europe. So, we take products from Shanghai on bus, transfer to Chongqing and from Chongqing to Italy,.

This is normally, something that we haven't done before, but we find that the utilization of the different way using by train is much better than to use the normal way of vessel.

Naturally we try to avoid the high flight transportation because it has very high costs, but this depends all the time for the urgency that we get from the customer in order to be able to deliver our products. It's not easy and it's difficult to say that this is part of management system of products and of the logistic. But in an emergency situation like that, I think and I'm sure that the strategic position of Piaggio, that I remember just because I want to refresh for people that don't know this, we have two plants in India quite big, we have one plant in Hanoi, this plant that started as you know seven years ago, today, the dimension of this plant is already three times more than the beginning and working more than one thousand people. We're working to set up a new plant in Indonesia and there the construction is on the underway and we believe to open this plant from October this year. So, after that we can say that this plant, we believe to use this plant also to develop Aprilia and Moto Guzzi products on top of Piaggio, can be very useful to help us to be able to find a solution when we get very serious problems in Italy.

The many cases that we have all day there we can have solution because we have established people for Piaggio, established in Hanoi, in Canton, and near Shanghai too, in Beijing, in Usa. We get all these people working on the same ways and until today we find that is a good exercise to avoid problems coming from the logistic way.

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**Monica Bosio – Banca Intesa San Paolo**

Ok thank you very much. Very clear. Thank you.

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**Anna Frontani**

Hi. Good morning and congratulations on the results.

The first question is actually a confirmation from what you are mentioning on the Indian market? Did I understood correctly that you are seeing volumes down around 50%? Did I get the number right?

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Hi Anna, Raffaele speaking, sorry but we were commenting on the slide. So, those are the numbers.

**Anna Frontani**

I was referring to the industry volumes.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

The industry volumes are also shown in the slide, so the market went down apparently around 4% to 5%, but keep in mind that these are sell-in data so, the market was weak in commercial vehicles and extremely weak in two wheelers, because the market plunged double digit. So, yeah, in Q1 was still negative in terms of market trend. And the most important thing, I added a call out, you see that the light commercial vehicle market was still 50% below 2019 and very negative also in two-wheelers. So there is now month after month an improving trend, mainly in light commercial vehicle, so month after month but, again, the situation is still complicated in terms of macro-dynamics, I would say.

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**Anna Frontani**

That was the number I was after there.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Ok. Sorry.

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**Anna Frontani**

And the second question is related actually to Vespa for Justin Bieber. If you can provide a little bit more details or so which is, what is the main target for this kind of Vespa in terms of the typical customer. And also we charge with main geographical markets for this launch, which are the most important ones. And also if you can provide some hints on the pricing point perhaps? Thank you.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

So, the price target has not been disclosed yet, but it will be ready soon. Clearly, the sales will be global so where we operate. And clearly, we are aiming to target essentially young people.

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**Anna Frontani**

Thank you very much.

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**Francois Robillard – Intermonte**



Hi everyone and thank you for taking my question. First one is on guidance again.

So, you confirm this 14 to 14.5% ebitda margin range. However, given the strength of topline growth we've seen in the first quarter, I wonder if you had any indications regarding topline growth for the year. I guess consensus currently points to plus 11% or about €1.9 billion for topline. Can you comment on that figure? Do you think it is achievable or conservative?

Second question was on cash flow for the first quarter, quite a significant amount of cash burn from working capital cash consumption, especially inventories. Can you give us some more color on what kind of inventory increase you witnessed? Were there mainly finished products piling up, or was it more an unfinished goods work in progress as parts we are missing? That was my second question.

Thank you.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

So, referring to your first question, you know that normally, we don't provide the financial targets this time and during the Q1 conference call. Additionally, the combination of the lingering pandemic effect plus these disruptions, the conflicts between Russia and Ukraine are limiting even more the visibility. So we don't give a specific target in term of sales. What we are working on as we – as I said before, is to keep the margin in the range of 14%, 14.5%. This is exactly in line with consensus figures. Then there was a question...

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**Alessandra Simonotto – Chief Financial Officer**

Well, the cash flow absorption is normal for us in this period of the year because, as you know, the period in which we buy components between the end of October and the end of March to sustain the production of all the our factories in the world. Normally, the curve is different between the last month of the year and the first four – beginning again from March towards. So if you take a look to our figures of the next – of the last 10 years, in any quarter, in any first quarter, we absorb liquidity while we are able to produce a positive cash flow from the second quarter onward. And this is the same happened in the first quarter 2022. The situation is different because – are different the products that we are producing now. We are now producing not only scooters, but we are producing motorbikes. And motorbikes is more expensive than some scooters, and this is why also the inventory is higher than last – or the precedent year.

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**Francois Robillard – Intermonte**

Okay. So you confirm it's not just products waiting at the end of the production line for some missing parts?

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**Alessandra Simonotto – Chief Financial Officer**

No. No. No. It's normal for us and you can take a look to all the other first quarter closure in the previous years, okay?

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**Francois Robillard – Intermonte**

Sure. And just a quick follow-up on cash flow. CapEx was quite low in the first quarter. Can we still expect the range for the year to be around €150 million?

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**Alessandra Simonotto – Chief Financial Officer**

Yes. We confirm the same amount of last year more or less. So we don't expect nothing less than 2021. It's only different stripping during the month.

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**Francois Robillard – Intermonte**

Thank you very much.

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**Gabriele Gambarova – Banca Akros**

Yes. Good afternoon, everybody. Just a couple of questions from my side. The first one is on April, we have the beginning of May, and clearly for seasonal reasons, Q2 is very important. So, any clarification on the trend you saw in the month of April would be very interesting, especially for Europe and possibly India. I feel that the trend for East Asia is more robust. Anyway, any indication on the trend would be very useful. And even the short one on tax rate, 200 basis points below Q1 2021. So I was wondering if – I mean, what we could assume for the rest of the year, for 2022? Thank you.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations 42:20**

So, your first question. We have data concerning the Italian market in terms of sell-out. And as of last Thursday, the market was up 5%. So, this evening will be released the official data on the month. Keep in mind that April 2022 had two less working days compared to 2021 that have a weight on the trend in the region of 10%. But as of last Thursday, the market was positive and this is the only market for which we have reliable data so far. In terms of trend in Asia-Pac, the trend there is positive and we remain upbeat on Asia sales going forward. I repeat, we remain upbeat on Asia sales going forward.

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**Alessandra Simonotto – Chief Financial Officer**

About the tax rate, as you know, we assume in the – during the first closure the same tax rates that we have used for the budget. Our budget for 2022 sees a tax rate of 38%, and this is what you can expect for all the next closure for the first half and so on

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**Gabriele Gambarova – Banca Akros**

Ok thank you very much.

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**Emanuele Gallazzi – Equita SIM**

Yes. Good afternoon, everybody. Thank you for taking my question. I just have one question and it's on Europe, and in particular on dealers' inventories. Can you just give us an update on the current level of stock in Europe?

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Yes. Raffaele speaking, essentially as you know, the key metric you have to consider is the ratio between dealer stock and the market size, the market demand. And I can confirm that the ratio is exactly the same of 2019, so pre-pandemic. So, this is what I can tell you.

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**Emanuele Gallazzi – Equita SIM**

Ok, thank you very much.

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**Niccolò Guido Storer**

Yes. Good afternoon. A quick one also for me. Can you comment on expectations for gross margin evolution going forward, we have seen a big drop in Q1, what should we expect going forward? Thank you.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

No. We prefer to stick on our comment on EBITDA margin, so you can confirm what we said before

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**Niccolò Guido Storer**

Ok. Thank you.

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**Francois Robillard – Intermonte**

Yeah. Thank you very much. Just a follow-up on the question made by Monica earlier. I don't think I got the answer, so if you answered it already, I'm sorry. But just looking at Q1 figures, can you give us some more detail on the impact of raw material price inflation, freight cost inflation impact as well? And as well the mix of motorbikes that I believe have lower gross margin compared to scooters, so if you can just give us a bit more color on how the evolution of the gross margin went in the first quarter. Hello?

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**Alessandra Simonotto – Chief Financial Officer**

For the total effect of raw materials and the logistic transportation, impacts of energy, you can consider a major cost of more or less €10 million.

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**Raffaele Lupotto – Executive Vice President, Head of Investor Relations**

Okay. The last answer draws the call to an end. Thank you very much for attending this meeting. As usual if you need to have further clarification you can call me later. Thank you. Bye.

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