

SOFIX Student Research

This report is published for educational purposes only by students competing in the CFA Institute Global Investment Research Challenge

Italy
Sector: Consumer goods
Industry: Auto
Sub Industry: Moto and LCV
PIAGGIO S.p.a.

Date 24/01/2011

Ticker: Bloomberg PIA IM

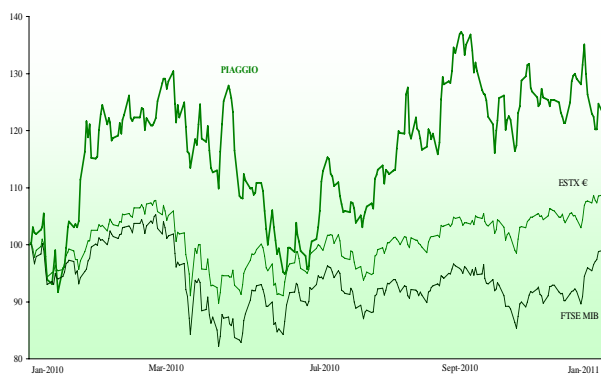
Market Price: € 2.38

Upside 8%

Neutral

Target Price: € 2.57

Asian story will show!



Market data

| | |
|--------------------|----------------|
| Market cap (€mln) | 910.9 |
| Shares outs. (mln) | 371.8 |
| Av. Volume (mln) | 900 |
| Free float | 46% |
| 52-week range | 2.66 / 1.78 |
| Main shareholder | IMMSI (54.42%) |

| Performance Absolute | 3M (%) | 6M (%) | YoY |
|-----------------------|--------|--------|------|
| PIAGGIO | -11.2 | 21 | 21.6 |
| FTSE MIB INDEX | 2.3 | 6.4 | -2 |
| ESTX €Pr | 3.2 | 9.8 | 8.2 |
| DJ AUTO&PART TITANS30 | 13.5 | 35.5 | 37.4 |

| Performance Relative | 3M (%) | 6M (%) | YoY |
|-----------------------|--------|--------|-------|
| FTSE MIB INDEX | -13.5 | 14.6 | 23.7 |
| ESTX €Pr | -14.4 | 11.2 | 13.4 |
| DJ AUTO&PART TITANS30 | -24.7 | -14.5 | -15.8 |

We initiate our coverage of Piaggio with **Neutral** rating and target price of € 2.57.

Piaggio faces uncertainty in the mid term but likely a good long term story. It could surprise from 2013 onwards due to higher penetration of enormous Asian markets (primarily India and Vietnam). However, in the short term we think the stock is fully valued. Our mid term concern is linked to the on-going sovereign crisis in the Eurozone, where Piaggio has the majority of revenues (71% of net sales 2009). Furthermore, we identify some difficulties related to 1) the high growth sustainability of both India and Vietnam's economies, 2) the execution risk in the business plan and 3) the fierce competition in this new market.

We expect Piaggio's net sales CAGR 2010-13 6.4%. It will be mainly driven by growth in Asia. Margins will benefit from increasing contribution of both production in Asia and cost control (as per management guidance). We expect the management to focus on increasing market share in Asian markets as well as enlarging production there to reach the growth rate stated in the recent business plan. Among the major projects to support plans in Asia are 1) the new 2W plant in India producing locally-customized Vespa model starting in 2012 and 2) doubling the capacity at the Vietnamese plant from 100K to 200K units by 2012.

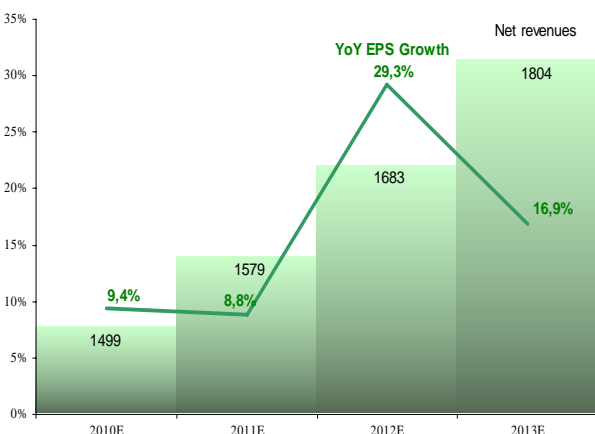
Net income margin will remain stable in the forthcoming years. We expect a slight increase from 3% to 4% in 2012. In addition, we forecast net debt decrease at CAGR 2010-13 4.7% that resembles Piaggio's business plan estimate.

We expect group's EPS CAGR 2010-13 18%. However, we think the earnings are overpaid by the market, which can be seen in the 37% premium to the market's average P/E. Our forecast predicts a 2012 growth rate of 29.3% in response to the new production plans in India and Vietnam, and an EPS €0.22 in 2013.

Piaggio beats the market. We note a good 12-month share price performance versus FTSE MIB (+23.7%) and ESTX €Pr (+13.4%). Moreover, since Piaggio's stock followed a standard post-IPO cycle, the current market price has returned close to the issue level of 2006. We think upside opportunities will come in the long term given the current turbulent macroeconomic environment.

Valuation is derived from both a two-stage DCF and Peer Multiples analysis. It reflects the markets' mid-term downside concern but leaves room for a long term upside supported by Piaggio's huge opportunities in the developing economies. Therefore, long term investors can find in Piaggio a desirable exposure to the growing emerging markets.

Piaggio faces strong execution risks. Piaggio has high dependency on the success of Asian expansion projects. We highlight this risk given the magnitude of both the current macroeconomic situation and the fierce competition in the region.



Key financial data

| | 2010 | 2011 | 2012 | 2013 |
|--------------------|------|------|------|------|
| Revenue (€) | 1501 | 1582 | 1689 | 1804 |
| EBITDA (€) | 197 | 215 | 239 | 258 |
| EBIT (€) | 108 | 114 | 138 | 157 |
| Net Income (€) | 49 | 53 | 69 | 80 |
| EPS (€) | 0.13 | 0.14 | 0.18 | 0.22 |
| DPS (€) | 0.07 | 0.08 | 0.08 | 0.08 |
| FCF ps (€) | 0.12 | 0.13 | 0.18 | 0.21 |
| EV/EBITDA (X) | 6.2 | 5.6 | 5 | 4.7 |
| EV/Sales (X) | | 0.8 | 0.7 | 0.7 |
| P/E (X) | 21 | 16.5 | 12.8 | 10.9 |
| NetDebt/EBITDA (X) | 1.8 | 1.6 | 1.4 | 1.2 |

Important disclosures appear at the back of this report

Business overview – design and brand recognition

Founded in 1884 by Rinaldo Piaggio and managed by Piaggio family until 1999, the company has operated in practically every sector of mobility in its 120 year history, from ship fitting to rail engine and wagon construction, from building aircraft engines and seaplanes to producing civil and military aircraft.

Based in Pontedera (Pisa, Italy) actually Piaggio is the largest European manufacturer of 2W motor vehicles and on the world's leaders in its sector. Company is also a major international player in the light commercial vehicle (LCV) market.

Since 2003 company has been controlled by Immsi S.p.A. (Omniaholding S.p.A.). Piaggio is listed on the Milan Stock Exchange since July 11th 2006. At the moment market price returned to IPO level, which means it passed post-IPO cycle.

Management: Roberto Colaninno – CEO since 2003, Michele Pallottini - CFO, Simone Montanari – Investors Relations. Roberto Colaninno is in business since 1969 (from 1972 CEO of Italian auto components company FIAAM, from 1996 CEO of Olivetti, an industrial holding and telecommunications investment trust, in the same period - president and CEO of Telecom Italia), was in the board of directors of Banca Agricola Mantovana, Mediobanca, Efibanca SpA, Getronics and the National Council of Confindustria. In 2000 rewarded "Cavaliere del Lavoro" (Knight of Work) by Italian President.

Company products range includes scooters, mopeds and motorcycles from 50cc to 1,200cc marketed under the Piaggio, Vespa, Gilera, Aprilia, Moto Guzzi, Derbi and Scarabeo brands. Company also operates in the three- and four-wheels light commercial vehicles (3W, 4W LCV) transport sector with its Ape (3W version of the Vespa), Porter and Quargo ranges of LCV (see Appendix 1 for the product range).

Vespa and Ape were a splendid binomial that characterized the post-war years of Italian and world reconstruction. From an intuition of Enrico Piaggio's, in the spring of 1946 the Vespa was born: in April of 1946, the first 15 Vespas left the Pontedera plant. From the first Vespa with its 98 cc, to the most recent version launched in 1992, Piaggio has produced eighty-nine different models; in all these years, almost 20,000 changes have been made to the original project and more than 1,500 parts have been replaced. With the launch of the Vespa Piaggio created one of the world's best known symbols of Italian style, a product that was and still is successful, with over 16 million units sold to date.

The Piaggio Ape is a 3W version of the Vespa produced in 1948: light, agile and versatile, it has evolved over the decades without losing its unmistakable physiognomy, from the Ape A, created with the Italian post-war reconstruction in full swing, which accompanied the nation through the economic boom to the futuristic 5W Ape Pentarò from the 1960s and the Ape Car, the undisputed queen of the 1970s. These were followed by the Ape TM designed in 1982 by Giorgetto Giugiaro and today's versions, such as the Ape Cross, which is dedicated to young users.

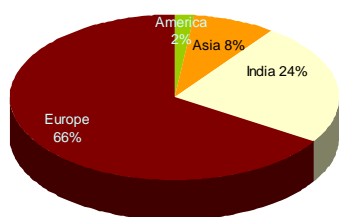
To better cater to global markets, business areas (2W, LCV, Spare Parts and Accessories), are subdivided into geographic areas (Europe, Americas and Asia for the 2W business, Europe and India for LCV).

Company has production operations worldwide with plants in: Pontedera (Pisa), which produces Piaggio, Vespa and Gilera branded 2W vehicles, LCV for the European market and engines for scooters and motorcycles; Scorzè (Venice), which produces Aprilia and Scarabeo branded 2W vehicles; Mandello del Lario (Lecco), which produces Moto Guzzi vehicles and engines; Martorelles (Barcelona, Spain), producing Derbi vehicles; Baramati (in the Indian state of Maharashtra), which produces 3W and 4W LCV for the Indian market; Vinh Phuc (Vietnam), which produces Vespa scooters for the local market and the ASEAN area.

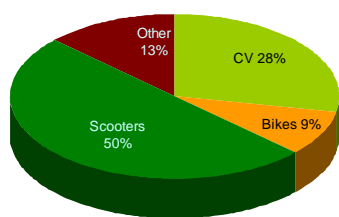
The Piaggio Group is also a 45% stakeholder in a joint-venture operation in China (in Foshan, in the Guangdong province) which, therefore, is not included in the Group's consolidated results.

The company's recent history is linked to light transport. With the launch of the Vespa in 1946, Piaggio created one of the world's best known symbols of Italian style, a product that was and still is successful, with over 16 million units sold to date.

Figure 1 Net sales Segmentation Regional breakdown



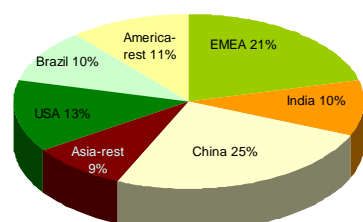
Product breakdown



Source: Piaggio 2010Q3 report.

Industry overview – growth opportunities in developing economies

Figure 2 2W market regional breakdown



Source: DATAMONITOR

Piaggio's business can be divided into two main categories: 2W composed by motorcycles and scooters (85% of 2W sales) and LCV including 3W and 4W cargo and passenger vehicles. 2W category accounts for 59% of Piaggio's net sales while LCV for 28%. Europe represents 86% of 2W net sales from wherein Italy alone has a share of 25%. India accounts for 77% of the LCV net sales (Figure 1).

2W growing globally

Although the global motorcycles market shrank by 9.6% in 2009, the market is forecast to have a value of \$84.9 billion in 2014, an increase of 38.1% since 2009. Asia-Pacific accounts for 45.1% of the global motorcycles market volume, and from 2005 to 2009 it has grown at a CAGR of 6.4% as compared to the 1.5% CAGR in Europe during the same period. The European segment accounted for 20.3% of the market in 2009 while the Americas for 34.6%.

Tough times in European 2W market

European 2W market was severely affected by the crisis, with a de-growth of 12.8% in 2009 to its lower level since 1995. The market value forecast for 2014 is \$15 billion, an increase of 20.3% since 2009. However, this increase is not significant for Piaggio since it is not driven by Italy and its border countries (Figure 2), where Piaggio is not present. The biggest 2W market in Europe is Italy which accounts for 28.1% of the European motorcycles market volume. However Italian market volume is predicted to shrink in the following years decreasing by 14.7% from 2009 to 2014. We conclude that the global motorcycle market is still growing driven by developing economies and the demographics of the large cities. However, this business is well known to be highly pro-cyclical as the general automotives sector but particularly sensible to unemployment since young working people represent a big share of the 2W costumers. In many developed economies, 2Ws are leisure items that are largely dispensable.

We mention that Piaggio is assertive in expanding to Asia and other developing economies where the market growth is predicted to be more significant. A big challenge for Piaggio is to maintain its market share in Europe as well as increasing profitability to maintain earnings, particularly in Italy where the 2W market volume is foreseen to decrease. We submit maintaining margins in Europe is a formidable task for Piaggio. Savings in material costs are unlikely since Piaggio's suppliers of components will be exposed to raw materials price increase that is occurring due to the explosive demand in China and other developing economies. These suppliers are generally large multinationals with a strong presence within the global markets and hence with significant power. The level of specialization of the components also makes switching costs high for Piaggio. Furthermore, European tightening of emission regulation (for example the controversial EURO5 standards to be introduced in 2015) ramps up costs as components re-designs are required (ACEM).

LCV market overview

The Indian light trucks market generated total revenues of \$4.3 billion in 2009, representing a CAGR of 22.5% for the 2005-2009 period. In comparison, the European market generated total revenues of \$31 billion representing a compound annual rate of change of -9.9% for the same period. The performance of the Indian market is forecast to decelerate, with a foreseen CAGR of 13.7% for the five-year period 2009-2014. Meanwhile the European performance is forecast to achieve positive but moderate growth, with a foreseen CAGR of 8.5% for the same five-year period. India is now Piaggio's principal market, comprising 24% of the group's net sales.

The light truck business is pro-cyclical, European light truck market shrank 30.2% in 2009 following the economic recession, while Indian market managed to grow only 6.1% in 2009 a considerable cool-down compared to previous years.

Revision of economic outlooks

Due to recent macroeconomic issues in India and Vietnam (that led for example to the downgrade of Vietnam's ratings in mid-January), arguably caused by an overheating of the economy, we are forced to reconsider the markets growth perspectives previously stated in anticipation to temporary cool-down of the economies.

Figure 3 LCV global segmentation

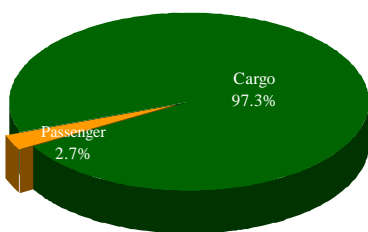
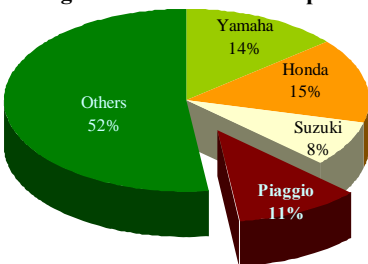


Figure 4 2W market Europe



Competitive positioning – fierce competition

Figure 5 3W market India

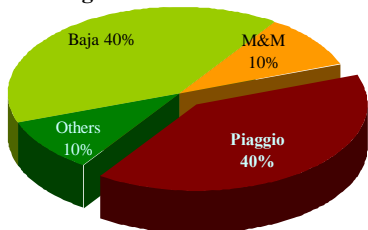
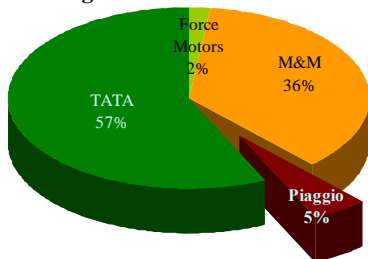


Figure 6 4W market India



Source: DATAMONITOR

Piaggio ranks as one of the world's top four players in its core businesses (Scooters in Europe and LCV in India).

2W market, dynamic pipeline stream will help to maintain market share

Piaggio's main competitors in Europe are Honda, Yamaha and Suzuki, all three well established multinational companies with exceptionally high assets which create fierce rivalry (Figure 4). Most of the players try to diversify their business models through geographical expansion and product range, Piaggio being the least diversified of these four firms (Figure 7 & 8). Although such diversification eases rivalry the recent decline in the European 2W market (-9.9% CAGR in the 2005-2009 period) should boost competition. New entrants to the market are discouraged by this decline, significant entry costs, and the exceptional brand recognition of current main players. There are however some newcomers that entered the European market through the sales of budget vehicles (not particularly the market segment of Piaggio). Looking at a recent market survey we can assess the competitive environment in Europe for 2W market as moderate (Datamonitor). Piaggio has the advantage of having a large portfolio of products compared to its competitors, offering several solutions in the same segment (see Appendix 1), it is also maintaining the stream of innovative products (e.g. P3 hybrid scooter) as well as classic designs (Vespa PX) in the upcoming pipeline. These considerations lead us to believe in Piaggio's target to sustain his market share in Europe through brand recognition and customer loyalty.

India, adaptation to local needs will allow penetration

In India Piaggio plans to enter the 2W market in 2012, taking advantage of its expansion, through local manufacturing, R&D facilities and an already established network of more than 150 dealers. The Indian 2W market is forecasted to increase 27.7% from 2009 to 2014 (CAGR of 5.5%) reaching a market value of \$8.4 billion. Vespa brand has historical presence in India due to its distribution in the country during the 1950s-60s and 1980s-90s through different joint ventures with local players. Vespa scooters will be positioned in the premium segment of the scooter market based on design and brand recognition allowing Piaggio to achieve relatively good margins of 29%. Piaggio does not expect aggressive rivalry coming from the strong local and

multinational competitors for a marginal fraction of the market (the company expects to achieve a 3% of market share). Our view is that Piaggio can be successful in entering the 2W market in India.

Free trade agreement will allow expansion into Vietnam's neighbor countries

In the ASEAN region Piaggio plans to increase its market share in Vietnam (from 1% to 3% in 2013) and enter neighbor countries such as Indonesia, Taiwan and Malaysia. The company plans to achieve this by doubling the production of its Vietnamese manufacturing plant (which is now half employed) to 200 000 vehicles by 2012 and exporting from there to the neighbor countries taking into advantage the ASEAN free trade agreement that limits import duty to 5%. We mention that Piaggio has been recently facing unfair competition in Vietnam where local producers have been copying Vespa designs and selling budget versions of them. The company is now defending these copyrights violations at court.

LCV market share supported by product range expansion

Piaggio shares the Indian 3W market leadership with the local firm Bajaj Auto, each with a share of 40%. Piaggio's share has been consistently increasing in the previous years, showing a solid development of dealer networks (at the moment 300 independent entrepreneurs) and successful marketing policy.

The country development is coupled with a substitution of 3W vehicles for 4W, due to safety, capability and social status. Piaggio currently has a small share of Indian 4W market, with only 5% as compared to local producer Tata's 57% (Figure 5 & 6). The market is expected to grow rapidly driven by strong demand on urban mobility vehicles. Penetration strategy is now to enlarge the product range in India and continue with the customization of products to the local need thanks to the local R&D capabilities. In 2010 Piaggio launched one new 4W model in the cargo segment and is preparing to launch one passenger-oriented 4W model in 2011 as well as another 4W cargo truck in 2012 (Appendix 1). Tata and Mahindra & Mahindra (M&M) have also recently introduced new models in these segments.

Figure 7 2W sales % total 2009

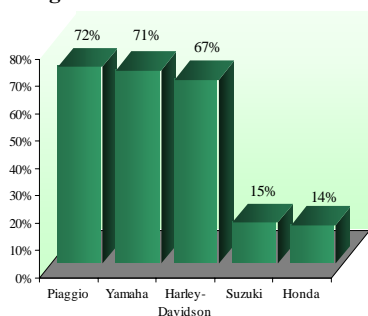
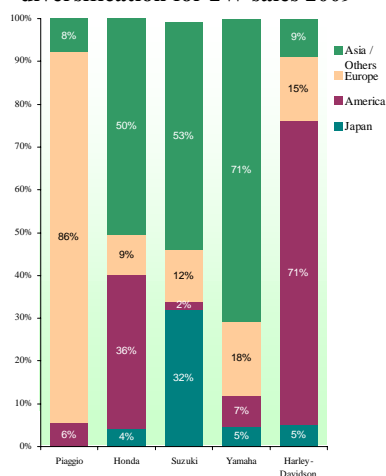


Figure 8 Peers geographical diversification for 2W sales 2009

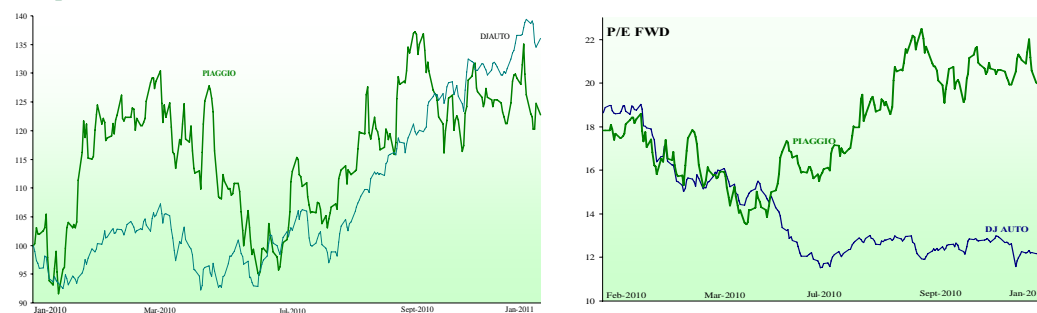


Source: Companies financial statements

Table 1 SWOT Analysis

| Strengths | Weaknesses |
|--|--|
| Leader in 2W European market and LCV in India | Difficulty to maintain margins in the European market |
| Strong position position in European 2W market and Indian LCV market | Limited diversification compared to competitors. |
| Vespa brand historical recognition | |
| Opportunities | Threats |
| Expansion into developing economies | Execution risks (particularly in India). |
| | Sharp competition in western Europe due to market decline. |

Stock performance



We can infer from the graphs above that Piaggio's P/E multiply is inline with the sector's multiply before July 2010 when it disconnects arguably due to the sector good performance in earnings. At the same time stock price performance for Piaggio was volatile due to changing expectations on its growth prospects in new markets. We expect the multiplies to line up again when the results for the company's recent investments starts to show off.

Financial analysis – business plan targets revised

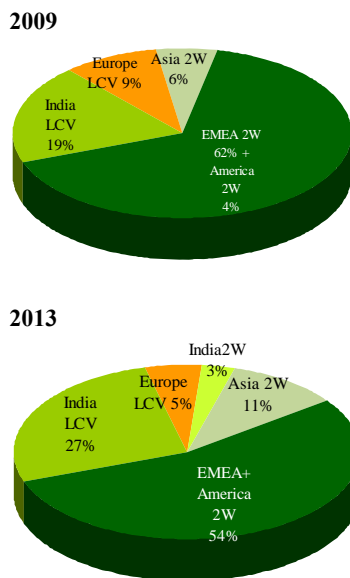
We forecast the company's financial highlights up to 2013 (please, refer to Appendix 2). Our analysis is based on the management guidelines and historical financial statements. We recognize the management has a good track record to meet or exceed expectations, but this time it is facing challenging business plan, so we are being slightly below their assumptions.

Our assumptions

- **Net sales CAGR 10-13 6.4%** sets our 2013E net sales estimate at 5% lower than Piaggio's recent business plan forecast (Table 2 – SOFIX estimates versus Piaggio estimates; Figure 9).

Essentially, we confirm Piaggio's net sales target in India (2W and LCV businesses on aggregate: SOFIX €534mln vs. Piaggio €537mln). Namely, we expect Piaggio to sustain 41% market share in India 3W segment, to be aggressive in the India 4W segment and to reach 6% and 9% respective market

Figure 9 Net Sales breakdown by businesses



Source: Piaggio financial statements, business plan, SOFIX estimates

share in passenger and cargo segments in 2013, meanwhile the same year Piaggio will get a 3% marginal market share in India 2W business.

However, first off, we cut down EMEA+America 2W business plan estimate by 8.7% given 1) the ongoing sovereign crisis in the European zone and especially the significant weight of 'troubled' European countries (Italy, Spain, the UK, Greece) within the total European market (43% of this market) and 2) the high correlation of 2W market with economic activity and consumer spending. Secondly, we take 2013 Asia 2W net sales estimate to be 2.1% over Piaggio's business plan forecast. That is equivalent to CAGR 2009-13 at 23% slightly larger than Piaggio's forecast at 22.3%, and a 4% market share in ASEAN 2W. Mainly due to the Vietnam's credit rating downgrade three times in 2010, the high inflation figures (at an average IMF 11-15 8%), and the growing price of raw materials, we do not expect the growth of Vietnam to be spectacular since, according to Moody's, the country needs to eliminate its balance-of-payments deficit and stabilize its foreign reserves at an adequate level before an upgrade of the nation's credit rating outlook.

Thus, we expect that the value from emerging markets activities will become insufficient to offset for the stagnation in the developed markets in 2013. Therefore, we cut down Piaggio's 2013 net sales business plan forecast by 5% (SOFIX €1804mln leading to EBITDA margin 14.3% vs. Piaggio €1894mln leading to EBITDA margin 15.1%);

Table 2 – SOFIX estimates versus Piaggio estimates (mln €)

| | SOFIX 2013E | Piaggio 2013E | % diff. |
|-----------------|----------------|------------------|---------|
| Net sales | 1804 | 1894 | -5.0% |
| India LCV | 480 | 486 | -1.3% |
| Europe LCV | 98 | 104 | -6.1% |
| India 2W | 54 | 51 | 5.6% |
| Asia 2W | 192 | 188 | 2.1% |
| EMEA+America 2W | 980 | 1065 | -8.7% |
| EBITDA | 258 | 286 | -10% |
| EBITDA margin | 14.3% | 15.1% | |

Source: Piaggio financial statements, business plan, SOFIX estimates

- **Tax rate:** We provide some calculations and assumptions for this figures, starting from the consensus analysis and the company business plan. In short, we assume 2010-2013 is 37%. In details, 2010 tax rate is taken from the market consensus one on Bloomberg. Next, 2011-2013 tax rates are all estimated at 37% (Appendix 2);

Table 3 Summary of Income statement Forecasts for 2010E-2013E

| | 2010E | 2011E | 2012E | 2013E | CAGR |
|---------------|-------|-------|-------|-------|-------|
| Net revenue | 1499 | 1579 | 1683 | 1804 | 6.4% |
| YoY growth | 1% | 5.4% | 6.6% | 7.2% | |
| EBITDA | 197 | 215 | 239 | 258 | 9.3% |
| EBITDA margin | 13.2% | 13.6% | 14.2% | 14.3% | |
| EBIT | 108 | 114 | 138 | 157 | 13.3% |
| EBIT margin | 7.2% | 7% | 8% | 8.7% | |
| EPS | 0.131 | 0.14 | 0.18 | 0.22 | 18% |
| YoY growth | 9.4% | 8.8% | 29.3% | 16.9% | |

Source: Piaggio financial statements, Business plan, SOFIX estimates

Marketing strategy reflected in sales

Our estimate of sales CAGR 2010-13 is 6.4% (Figure 9). For breakdown by businesses, see Income statement in Appendix 2. 6.4% CAGR is not aggressive target reachable with respect to the positive prospects on the Asian market (2009: India 2W – 9mln vehicles, Piaggio share – 0%, Asia 2W – 10mln vehicles market, Piaggio share – 1%, we expect Piaggio to gain up to 3% of market share in these regions till 2013).

In Table 4 below we summarize impact of growth in sales volumes and pricing strategies on businesses CAGR. From which we see that company plans:

- Volume decrease in Europe LCV, EMEA 2W (due to expected stagnation of European economy);
- Volume increase in Asian 2W and Indian LCV & 2W markets (by this company plans to increase market share in these businesses);
- Price increase in Indian LCV (currently low priced vehicles in comparison with the same vehicles in Europe: average LCV unit price in Europe €8,667 vs. in India €1,500, and average price of LCV for Indian competitors is 4,000 €);
- Price decrease in Europe LCV (by this company plans to sustain market share);
- Price decrease in Asia 2W (by this company plans to penetrate the market);
- Price/mix decrease in Asia 2W due to introduction of Liberty scooter models with retail price lower than that of Vespa scooters;

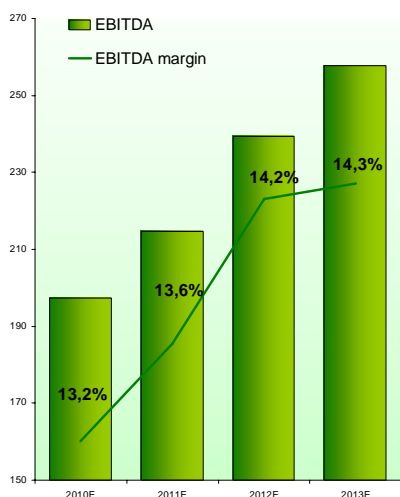
- Price/mix increase in India LCV due to increasing weight in sales of 4W vehicles (0.5t cargo 4W – Sept 2010, 1.5t cargo 4W – 2012, passenger 6-8seats 4W - 2011);

Table 4 Net Sales (mln €) CAGR 10-13 Analysis

| Sector | Quantity effect - | | Price effect - | | Total effect - Sales CAGR |
|------------------|-------------------|--------------------|----------------|--|------------------------------|
| | Volumes CAGR | Average price CAGR | Price/mix | | |
| India LCV* | 8.1% | 5.8% | 0.5% | | 14.3% |
| Europe LCV* | -4.6% | -41% | 0% | | -8.7% |
| India 2W | n/a | n/a | n/a | | n/a |
| Asia 2W* | 30.2% | -6.9% | -2.1% | | 21.2% |
| EMEA+America 2W* | -0.2% | 1.4% | 0% | | 1.1% |

Source: Piaggio financial statements, business plan
*excluding spare parts

Figure 10 Evolution of EBITDA



Source: SOFIX estimates

Profitability

Net Profit is planned to increase by 51% from 2010 to 2013, and reach €80mln. We estimate EPS CAGR 2010-13 of 18%, the result is mainly driven by growth in sales and improving of EBITDA margin. EBITDA CAGR 2010-13 of 9.3% to €258mln (Figure 10). EBITDA Margin improvement will come from increased contribution from the more profitable Asian markets (better margins in India and Vietnam) and actions to improve efficiency in Europe (further cost cutting measures).

Focus on lowering net debt, increasing FCF yield

We forecast Net Debt decreasing by €47mln to reach €299mln by the end of 2013, Net Debt on EBITDA ratio of 1.2x (in business plan company targets 1.1x). FCF Yield is quite good today but it will better starting from 2012 after the investment period. Then, Piaggio's operating leverage will show benefits, and FCF yield will reach the challenging value of 8.7% in 2013. In addition, the group's development plans do not require other debt issues or new equity offer. So, no other financial initiatives (i.e. restructuring of present debt) are considered in the business plan and we stick to that.

Table 5 Free cash flow and Debt summary for 2010-13

| | 2010E | 2011E | 2012E | 2013E |
|-------------------|-------|-------|-------|-------|
| FCF | 46 | 50 | 66 | 77 |
| FCF / EBITDA | 0.23 | 0.23 | 0.27 | 0.30 |
| FCF Yield | 5.2% | 5.7% | 7.4% | 8.7% |
| Net debt | -350 | -349 | -332 | -303 |
| Net debt / EBITDA | 1.8x | 1.6x | 1.4x | 1.2x |

Source: Piaggio financial statements, business plan, SOFIX estimates

Valuation

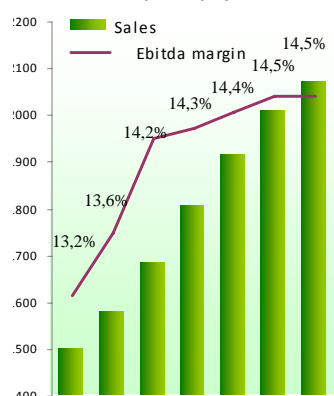
– slow recovery in Europe

Our evaluation is based on the average between two techniques - Discounted Cash Flow (DCF) and Peer Multiples analysis:

DCF model

Our DCF analysis evaluates Piaggio at €2.22.

Figure 11 Net sales/ EBITDA margin 2011-2016



Source: SOFIX estimates

We model our DCF basically in 2 stages: for the first stage (ranging 2010-2013) we start to model our assumption from the business plan; then we consider a second leg, covering 2014/2016, in which we think the company starts to capitalize its investments and initiative with a decent level of growth and profitability. The main assumptions are presented below:

- Net sales:** For the first stage we have a CAGR 2010-2013 6.4%. For the second stage, we model a CAGR 2014-16 4.0%, which is an average of our last explicit sales growth estimate (2013) and the latest available 2013 market growth Datamonitor estimate (Figure 11);
- EBITDA margin:** For the first stage we have an average 13.8% and in 2014-16 we forecast an average 14.4% which is slightly larger compared to the former one, achieved thanks to new Asia development. (Figure 11);
- Net income:** For the first stage we have a CAGR 2010-2013 18%. For the second stage, we model a CAGR 2014-16 8.0%, which is consistent with the EBITDA growth rates for the same period;
- Terminal growth rate** is 1.4% (Table 6). We consider the IMF economic outlook on the Euro zone, India, Vietnam, ASEAN-5 (Vietnam, Malaysia, Thailand, Philippines, Indonesia) in terms of nominal GDP growth rate versus the inflation rate. Also, we take into account both the most recent Datamonitor industry reports (motorcycles and light trucks) on a region-by-region basis and the demographic decline in the European young population below 40 years old, which is the main buyer of 2-wheel vehicles in Europe;

- **Debt on equity** target in 2011-16 is on average 35.7%. For 2011 we consider debt on equity 38% being the market consensus on Bloomberg whereas for the following years we gradually decrease it to reach 34% in 2016 continuing the deleveraging started in the business plan;
- **Tax rates** in 2014-16 are all set at 40% mainly due to India's growth potential: we expect in 2014 India to contribute 30% of net sales at a group level (vs. 25% of net sales 2010E), thus Piaggio will pay more taxes in India where the tax rate is 52% (statutory tax rate of 37% plus a 15% tax rate on intercompany dividend to repatriate profits). Currently, the market consensus tax rate on Bloomberg is 37% , so we expect the total tax rate of the Piaggio to increase to 40% in the long-term;
- **WACC 2011-16** is dynamic in order to capture some long-term mean-reversal behavior in economics and in its constituents (Table 7). We model each part in a straightforward way following the theory. We assume as risk free rate the 10-year Italian government bond yield; for the equity risk premium we forecast a decline from the high level marked today to a long term average; the debt premium is based on the spread between Piaggio's current bond yield and a euro government bond, assuming a slight decline due to deleveraging effect, and the current beta is the market consensus on Bloomberg and we assume moving to 1.

Table 6 Terminal growth rate

| | |
|------------------------|-------------|
| EMEA+America 2W | 1.0% |
| Europe LCV | 1.0% |
| India LCV | 2.0% |
| India 2W | 2.0% |
| Asia 2W | 2.0% |
| Total net sales | 1.4% |

Source: SOFIX estimate

Table 7 WACC 2011-16 summary

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Risk free rate | 4.50% | 4.50% | 4.75% | 5.00% | 5.00% | 5.00% |
| Beta Asset | 0.70 | 0.71 | 0.73 | 0.74 | 0.76 | 0.77 |
| Debt Premium | 3.5% | 3.0% | 3.0% | 3.0% | 3.0% | 2.5% |
| Market risk premium | 8.0% | 7.0% | 6.0% | 6.0% | 6.0% | 5.0% |
| WACC | 9.7% | 9.5% | 8.9% | 8.9% | 8.9% | 8.3% |

Source: SOFIX estimates, Bloomberg

- **Terminal WACC** is 7.6%. It is based on a risk free rate of 5%, market risk premium of 4%, debt premium of 2.5%, tax rate of 40% and an asset beta of 0.9;

Please refer to Appendix 3 for DCF tables

Sensitivity analysis on the separate WACCs is applied in order to track down the changes in the DCF share price due to the present business cycle (Table 8). The WACCs in the table are chosen in such a way that the proportion between them is kept constant in each row:

Table 8 Sensitivity analysis (€)

| Average WACC 2011-16 | Terminal WACC | Terminal growth | | | | | | |
|----------------------|---------------|-----------------|------|------|-------------|------|------|----------------|
| | | 0.5% | 0.8% | 1.1% | 1.4% | 1.7% | 2.0% | 2.3% |
| 9.59% | 8.07% | 1.70 | 1.79 | 1.88 | 1.97 | 2.08 | 2.2 | 2.3 |
| 9.41% | 7.91% | 1.77 | 1.85 | 1.95 | 2.05 | 2.17 | 2.29 | 2.43 |
| 9.22% | 7.76% | 1.74 | 1.86 | 1.98 | 2.11 | 2.26 | 2.42 | 2.59 |
| 9.04% | 7.60% | 1.90 | 2.00 | 2.11 | 2.22 | 2.35 | 2.49 | 2.65 |
| 8.85% | 7.44% | 1.91 | 2.04 | 2.17 | 2.32 | 2.49 | 2.67 | 2.88 |
| 8.66% | 7.29% | 2.05 | 2.16 | 2.28 | 2.41 | 2.56 | 2.72 | 2.90 |
| 8.48% | 7.13% | 2.13 | 2.25 | 2.37 | 2.51 | 2.67 | 2.84 | 3.03 |
| | | | | | | | | Bullish |

Source: SOFIX estimates

We have two cases:

- **Bear case** assumes a downside TP at €1.70 when:
 - ASEAN presence remains only in Vietnam;
 - Economic downturn in Europe continues in the long-term and a CAGR 2014-16 2.0%;
 - Both Vietnam's balance-of-payments deficit and foreign reserves deteriorate;
 - Less than expected 2013 market share in India 4W;
 - EBITDA margins revolve around 14%;
 - Piaggio does not exploit opportunities in Africa and South America;
- **Bull case** assumes an upside TP at €3.03 when:
 - Economic recovery in Europe in the mid-term and a CAGR 2014-16 6.0%;
 - 8% share in ASEAN scooter market in 2016;
 - Stronger 2012-2013 growths both in India 2W and India LCV markets;
 - Stabilization of Vietnam's deficit and foreign reserves;
 - EBITDA margins revolve around 14.5%;
 - Penetration in Africa and South America;

Considering the stock currently is trading at €2.38 and by looking at our sensitivity analysis table we argue that, on average, our Bear case deserves a potential downside around €-0.68↓ and our Bull case €+0.65↑. However, if we count the values larger than €2.38 in the table, they make up only around 36% of all values.

Therefore, Piaggio seems to be skewed to the negative side. That enforces our view to be cautious about potential mid-term appreciation for the stock price.

Current price relative estimates lie close to our targets

We perform a check-up of our DCF result (Table 9) in order to confirm our figures given Piaggio's current market multiples. According to the test, our target figures do resemble the market expectations. This establishes the consistency and reliability of our intrinsic value estimates:

Table 9 DCF check-up

| | 2011 | | 2013 | |
|-----------|---------|--------|---------|--------|
| | Current | Target | Current | Target |
| P/E | 16.5 | 16.3 | 10.9 | 10.2 |
| EV/Sales | 0.80 | 0.75 | 0.70 | 0.65 |
| EV/EBITDA | 5.60 | 5.48 | 4.70 | 4.57 |

Source: Bloomberg, SOFIX estimates

Bulk of the stock value in the long-term

Furthermore, we highlight that 75% of Piaggio EV comes from the terminal value (Table 10). That reflects the high-growth opportunities in Asia, Africa and Brazil for Piaggio. Since the bulk of the value will come in the long-term there is a higher probability of valuation risk, therefore, we emphasize on that and confirm our neutral position on the stock price in the mid-term.

Table 10 DCF summary

| | | |
|---------------------------|-------------|-------------|
| Cumulated DFCF ps 2016 | 0.78 | 25% |
| Discounted Terminal Value | 2.39 | 75% |
| Enterprise value | 3.17 | 100% |

Source: SOFIX estimates

Multiples valuation

Our Peer Multiples analysis evaluates Piaggio at €2.9. We have chosen the major Piaggio's competitors in each market. We split them into two groups: "Motorbikes" and "Automotives", as to better align Piaggio's businesses with each group (Table 11). Since Piaggio will derive on 2010E-2013E average 68% of net sales from the motorbikes business, we weight the two business groups in the calculation of the total discount respectively to Piaggio's ratio:

Table 11 Peer Multiples

| | P/E | | | EV/Sales | | | EV/EBITDA | | |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E |
| Motorbikes | | | | | | | | | |
| Hero Honda | 12.6 | 11.3 | 9.9 | 1.6 | 1.4 | 1.2 | 9.7 | 8.9 | 7.8 |
| Honda Motor | 6.1 | 9.4 | 8 | 1 | 0.9 | 0.8 | 8.7 | 7.5 | 7.1 |
| Yamaha Motor | 12.9 | 10.9 | 9.4 | 0.5 | 0.4 | 0.4 | 6.3 | 5.6 | 4.7 |
| Harley-Davidson | 16.3 | 13 | 11.6 | 3 | 2.8 | 2.6 | 11 | 9.1 | 8.3 |
| Industry average | 12.0 | 11.2 | 9.7 | 1.5 | 1.4 | 1.3 | 8.9 | 7.8 | 7.0 |
| Automotives | | | | | | | | | |
| Bajaj Auto | 12.7 | 11.7 | 10.9 | 2 | 1.7 | 1.5 | 9.6 | 9.1 | 8.9 |
| M&M | 12.9 | 9.9 | 7.6 | 1.3 | 1.3 | 1.1 | 8.1 | 8.9 | 7.1 |
| TATA Motors | 8.2 | 7.2 | 6.3 | 0.7 | 0.7 | 0.6 | 5.4 | 5 | 4.6 |
| Industry average | 11.3 | 9.6 | 8.3 | 1.3 | 1.2 | 1.1 | 7.7 | 7.7 | 6.9 |
| Total average | 11.7 | 10.5 | 9.1 | 1.4 | 1.3 | 1.2 | 8.4 | 7.7 | 6.9 |
| Piaggio | 16.5 | 12.8 | 10.9 | 0.8 | 0.7 | 0.7 | 5.6 | 5 | 4.7 |
| Total Discount | 37.1% | 24.0% | 16.5% | 44.6% | 46.7% | 40.2% | 33.3% | 35.3% | 32.1% |

Source: Bloomberg

High earnings expectations

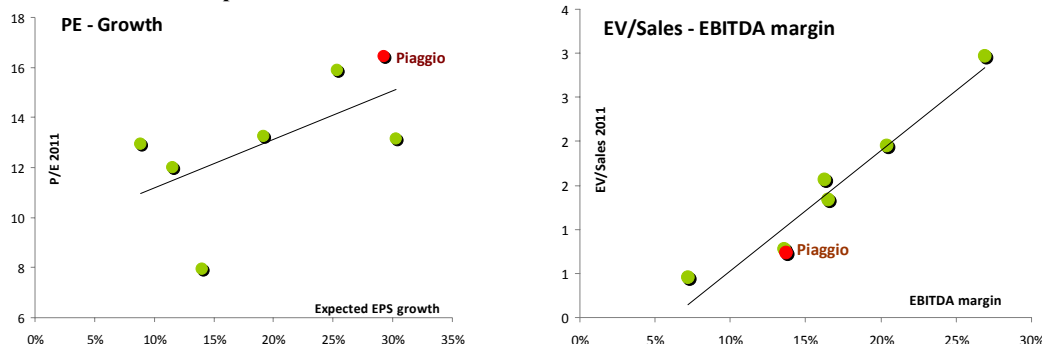
On P/E basis the stock is expensive compared to competitors. On the contrary, according to both EV/EBITDA and EV/Sales multiples the current stock price is cheap. That means 1) earnings are overpaid and revenues are underestimated, 2) the market expects a huge future EPS stream so that the P/E multiples will be lower near to total competitors' average in 2013. This is in accordance with Piaggio's business plan wherein in 2012 the new factories in India and Vietnam will start operating, 3) the stock price is to be more efficient due to restructuring plans and company's debt will decrease being repaid with the earnings stream in

2012-13, so the EV increases and EV/EBITDA Piaggio multiples go closer to the market's average ones and 4) the multiples flag us both the risk to Piaggio's future revenues and the level of debt.

Still room to improve margins

Furthermore, we consider that absolute comparison between multiples is delicate due to the significant differences across companies in terms of product range and geographical operation. For that reason we explain part of the 2011E variation of the P/E and the EV/Sales multiples among competitors by means of the expected growth on EPS and EBITDA margin respectively (Chart 1):

Chart 1 Relative comparison



Source: Bloomberg

We see that expected growth on EPS for Piaggio is well above competitors' average, and that investors have priced this growth slightly above its peers. On the other hand EV/Sales multiples is much more in line with competitors when explained by EBITDA margin. We observe that there is still room for increase in the company's margins as compared to the industry's margins, so given the low margin Piaggio has opportunities to improve efficiency and to compete in terms of prices. Our future expectation is that Piaggio will improve margins and reverse to the competitors' average multiples.

Multiples price

The final share price from this model is an average between the prices derived from multiples analysis on P/E and EV/EBITDA for 2011E, 2012E and 2013E (Table 12). We consider three years analysis in order to capture the current situation and the opportunities embedded in the business plan;

Table 12 Multiples price derivation (€)

| | P/E | EV/EBITDA | | 2011E | 2012E | 2013E |
|-------|-----|-------------|--------|-------|-------|-------|
| 2011E | 1.7 | 3.9 | EPS | 0.14 | 0.18 | 0.22 |
| 2012E | 1.9 | 4.1 | EBITDA | 215 | 239 | 258 |
| 2013E | 2.0 | 4.8 | Shares | 372 | 372 | 372 |
| | | 2.92 | | | | |

Source: SOFIX estimates, Bloomberg

Target price

€ 2.57 is our target price (Table 13).

NEUTRAL is our rating. Our view is of a downside risk in the mid-term and an up-side risk in the long-term.

+8.1% to the actual price €2.38.

Table 13 Target price (€)

| | Price | Weight |
|-------------------------|-------------|--------|
| DCF | 2.22 | 0.5 |
| Multiples | 2.92 | 0.5 |
| Our target price | 2.57 | |

Source: SOFIX estimates

Risk analysis

– mid term uncertainty

The primary factors that can affect our target price are:

Macroeconomic recovery

The target price is mainly driven by our long-term assumption on motorcycle's market growth. The 2W market is highly correlated with economic activity and consumer spending. Furthermore, our terminal growths may be conservative because we can have the following surprise:

- **EMEA+America 2W and Europe LCV** terminal growths of 1% do not assume the reversal of the business cycle in Europe and the USA. Also, if Piaggio succeeds in consolidation in Europe and America in order to 1) maintain net sales and market share and 2) increase profitability, then the business plan target on EMEA+America 2W EBITDA margin 15% is credible;

- **India 2W and LCV, Asia 2W** terminal growths of 2% correspond to the average difference between the nominal GDP growth rate of the respective country and the inflation rate as found in IMF between 2006 and 2015. However, this figure may be low discounting the turbulent current macroeconomic conditions;

We apply a sensitivity analysis to determine the effects of terminal growth rates on the share price. For simplification, we assume that EMEA+America 2W; Europe LCV (denoted in the table as “Developed markets”) will each have the same growth figure. Respectively, India LCV; India 2W; Asia 2W (denoted “Emerging markets”) will also have the same growth figure each:

| Developed markets | Emerging markets | | | | |
|-------------------|------------------|------|------|------|------|
| | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% |
| 0.4% | 2.44 | 2.47 | 2.50 | 2.54 | 2.58 |
| 0.7% | 2.47 | 2.50 | 2.54 | 2.58 | 2.62 |
| 1.0% | 2.50 | 2.53 | 2.57 | 2.62 | 2.66 |
| 1.3% | 2.53 | 2.57 | 2.61 | 2.66 | 2.70 |
| 1.6% | 2.56 | 2.61 | 2.65 | 2.70 | 2.75 |

Source: SOFIX estimates

We see in the sensitivity analysis on the terminal growth rates (Table 14) that our TP demonstrates a much slower rate of change for a relatively higher percentage of terminal growth rate change. Thus, all in all, the risk associated with our terminal growths is not substantial.

Execution risk

Piaggio is restructuring operations in Europe, going for new product launches in India and penetrating new countries in Asia and analyzing the business plan we note that involve a lots of moving parts. In order to isolate the effect of the final outcome of each strategic plan, we break our target price into sum of total parts (Table 15). On aggregate, Piaggio derives a substantial part of its market value from Asia (50%). In this way based on our assumptions we demonstrate that the real driver of Piaggio’s shares is the exposure to high

Table 15 – SOTP (€)

| | Price | % Total |
|-----------------|-------------|-------------|
| EMEA+America 2W | 1.28 | 50% |
| Europe LCV | | |
| India LCV | 0.70 | 27% |
| India 2W | 0.04 | 1% |
| Asia 2W | 0.55 | 22% |
| SOTP: | 2.57 | 100% |

Source: SOFIX estimates

growth emerging markets where there are threats like:

- **Market share** of Piaggio primarily in India and Vietnam could be eroded by aggressive competition such as increase in promotions, high marketing expenditure and low discounts by current competitors;
- **New entrants** from low cost countries could gain considerable market share fast;
- **Unfair competition** and infringement of Piaggio’s copyrighted products;

Please refer to Appendix 4 for SOTP DCF tables and assumptions

Currency risk

Piaggio has a high currency exposure to the Indian Rupee (40% of 2009 group EBITDA) and the Vietnamese Dong. Given the high inflation figures both in India and Vietnam (about 8%) Piaggio requires hedging. Currently, according to Piaggio’s 2009 annual report the group hedges 66% of the currency risk.

Other headings

– opportunities beyond 2013

Exploiting new regional markets

Apart from the specific goals indicated in the business plan we know the company is considering the re-entry into Brazilian 2W market. We believe that there are many good opportunities for the next phase of expansion for example the LCV market in Africa. In Brazil brand awareness is already high due to the historical presence of the Vespa brand, which in the 1980s reached a 12% market share. The Brazilian 2w market is a 1.6mln units market in which Honda is the market leader with a 77% share followed by Yamaha with a 12% share.

Exploiting new products

The global 2W market in 2009 registered approximately 41mln units consisting of around 19mln motorcycles, 6mln scooters (Piaggio is represented on this markets) and 16mln low-priced vehicles such as CUB/Mopeds, sold mostly in developing Asian countries (e.g. in Vietnam more than 80% of the market are CUB/Mopeds). In the medium term, we suppose that Piaggio may exploit its presence in Asian countries to develop this product category.

In-house production of engines: we think the new Indian engine plant, already up and running (now producing 125cc engines for the European 2W and in the test phase for 1000–1200cc diesel engines) could provide Piaggio with further opportunities. In-house engine manufacturing in India lowers costs and incorporates the share of profit of the external supplier.

Appendix 1 Piaggio Brands & pipeline

Table 16 2W Brands

| | Gamma Scooters | Gamma Motorcycles |
|---|---|--|
| Gilera | Runner, Nexus, Fuoco, GP800 | SMT 50, RCR 50 |
|  | | |
| Moto Guzzi | | Gamma custom: Nevada 750, Bellagio 940, California 1100. Gamma naked: V7 750 (Classic, Cafè, Racer), Brevia 1200, della Sport 1200 4v, Griso 1200 8v) Gamma Touring & enduro: Norge 1200, Norge 1200 GT8v, Stelvio 1200 and Stelvio 1200 NTX. |
|  | | |
| Aprilia | SR, Sport city, Atlantic | RSV4R, RSV4 Factory, Tuono 1000, Shiver , Motard, SXV, RXV, MXV, Mana 850 |
|  | | |
| Derby | | GPR 50-125, SENDA 50-125, TERRA 125, CROSSCITY 125, MULHACEN 125 |
|  | | |
| Scarabeo | Small Body: Scarabeo 50 "Street", Scarabeo 50 4T 4V, Scarabeo 100. Medium Body: Scarabeo 125 i.e. and 200 i.e. Big Body: Scarabeo 300S and 500. | |
|  | | |
| Vespa | Small Body: Vespa LX, Vespa S, Vespa LXV. Big Body : Vespa GTS Super, Vespa GTS, Vespa GTV | |
|  | | |
| Piaggio | Light scooter : Zip, Fly, Typhoon, NRG. "Hight Wheel" scooter Liberty, Carnaby, Beverly. "Gran Turismo" scooter: X7, XEvo 3W scooter: MP3, MP3 LT, MP3 Hybrid. | |
|  | | |

Table 17 Commercial Vehicles Brands















| | 3W | 4W |
|---|---------------------------|--|
| Piaggio CV | | Quargo : Deck, Van , Tipper Bed. Porter : Deck, Tipper Bed, Panel/Window Van, Chassis. Porter Maxi : Maxxi Deck, Maxxi Tipper Bed, Maxxi Chassis |
|  | | |
| Ape | 50,TM, Classic, Calessino | |
|  | | |

Table 18 Piaggio main product models

| Models | Date of launch | | Description |
|---------|----------------|---|--|
| Vespa | 1946 |  | This product is not only a commercial phenomenon, it is a style of life. Vespa is the symbol of the “Made in Italy” scooters and represent the love for the life and the freedom. The scooters of this range are characterized by peculiar technical characteristics, as it strikes in steel and the suspension anterior mono arm, that makes them only inside the actual competitive panorama. This, united to a design from the elegant and refined forms, ago of Wasp an exclusive scooter that allows to distinguish with elegance and taste |
| Liberty | 1997 |  | Is designed for guarantee the maximum facility of use. It has back carrier and offers great ability of transport of objects thanks to the practice flat platform. The saddle is reduced and lengthened to guarantee great comfort to the passenger that can count on ergonomic platforms. |
| Quargo | 2004 |  | <p>Quargo is consider a champion of space optimization.</p> <p>Quargo Deck: 735Kg. At just 765 mm above ground, the large load bed is easily accessible, thanks to its height from the ground of just 765 mm. The two sideboards and tailboard fold down completely to make loading and unloading even bulky loads extremely easy.</p> <p>Quargo Tipper Bed: 660 kg. High performance and versatile solution combining the impressive payload capacity of the platform with the practicality of a high-angle tipper system. All the sides of the platform drop completely for easy access to the load bed.</p> |
| Porter | 1992 |  | <p>Porter Tipper Bed: 815 kg. Useful for construction business working in historic city centres for its small design and special eco-solution because it uses electric power.</p> <p>Porter Panel/Window Van: 750 kg. With its capacity of over 700 Kg, and 4 seats, this vehicle represent a solution for short range combined transport needs. Also this model uses electric power.</p> |
| Ape | 1948 |  | Ape 50 : 205 kg. Used mostly for home delivery and goods transport in rural and urban areas. |

Below you have the most important new models that Piaggio is going to launch.
Piaggio also is going to launch new versions of already present products like Liberty and Beverly and Xevo.

Table 19 Piaggio's new products

| Models | Date of launch | Description | |
|-------------------------|----------------|--|---|
| Moto Guzzi (Motorcycle) | 2011 | Stelvio 1200 NTX  | <p>More aggressive and dynamics line, more sporting. The new sketch is not only an aesthetical updating, but it has also allowed functional improvements as the increase of the ability of the reservoir of the fuel, what time of 32 liters is, almost doubled in comparison to the preceding model. The motor has been seen again in the electronics.</p> |
| Aprilia (Motorcycle) | 2011 | RSV4 Factory APRC  | <p>Exclusive control of adjustable traction and able to auto calibrate by itself in base to the different type of tires, control of the up-surge, enslavement to the departure, electronic change.</p> |
| Vespa (Scooter) | 2010 | Vespa GTS Super Sport  | <p>Vespa GTV "Via Montenapoleone" </p> <p>They are equipped by the new propeller 300cc, 4 times, 4 injection valves electronics, that guarantees performances to the top thanks to the dowries of power and couple of this modern propeller, and with consumptions and issues broadly under the limits of the standard Euro3s.</p> <p>Thanks to the constant enrichment of a range that today It offers rolled by 50 to 300cc, Vespa it strengthens year after year its position of authentic world bestseller in the sector of the two wheels.</p> |
| Piaggio (Scooters) | 2011 | XEvo  | <p>MP2 50-125 </p> <p>XEvo : Elegant lines, it proposes a comfortable and ergonomic session that together with the aerodynamic protection do a comforting mix.</p> <p>MP2 50-125:Variation to two wheels of the known MP3. Principal characteristic of the Piaggio MP2 till be the wheels from the diameter of 15 thumbs that set the new scooter as alternative among the Wasp GTS and the Beverly.</p> |
| Piaggio CV | 2010 | Porter Maxxi  | <p>To exceptional course, dimensions compact and extraordinary manageability, is added today great comfort and aesthetical agreeability that make its employment "intra-city" even more pleasant.</p> |

Appendix 2

Table 20 Tax rate estimation (mln €)

| | 2011E | 2012E | 2013E |
|-------------------------------------|------------|------------|------------|
| India LCV | | | |
| EBIT - Financial expenses | 25 | 32 | 38 |
| % Total | 30% | 30% | 28% |
| Tax rate | 52% | 52% | 52% |
| India 2W | | | |
| EBIT - Financial expenses | 0 | 3 | 5 |
| % Total | 0% | 3% | 3% |
| Tax rate | 52% | 52% | 52% |
| Asia 2W | | | |
| EBIT - Financial expenses | 15 | 19 | 27 |
| % Total | 19% | 18% | 20% |
| Tax rate | 25% | 25% | 25% |
| EMEA+America 2W + Europe LCV | | | |
| EBIT - Financial expenses | 41 | 52 | 66 |
| % Total | 51% | 49% | 49% |
| Tax rate | 31.4% | 31.4% | 31.4% |
| Weighted tax rate | 37% | 37% | 37% |

Table 21 Income statement (mln €)

| | 2009 | 2010E | 2011E | 2012E | 2013E |
|-----------------------------|---------------|--------------|--------------|--------------|--------------|
| Net revenue | 1486,9 | 1499 | 1579 | 1683 | 1804 |
| Growth rate | | 0,8% | 5,4% | 6,6% | 7,2% |
| India LCV | 287 | 379 | 410 | 447 | 480 |
| Gross margin rate | 28,8% | 28,8% | 28,8% | 28,8% | 28,8% |
| Gross profit | 83 | 104 | 118 | 129 | 138 |
| Europe LCV | 135 | 102 | 101 | 100 | 98 |
| Gross margin rate | 26,5% | 26,5% | 26,3% | 26,3% | 26,2% |
| Gross profit | 36 | 25 | 27 | 26 | 26 |
| India 2w | | | | 40 | 54 |
| Gross margin rate | | | | 28,8% | 28,9% |
| Gross profit | | | | 11,6 | 15,6 |
| Asia 2w | 84 | 144 | 177 | 185 | 192 |
| Gross margin rate | 32,5% | 32,5% | 32,5% | 32,6% | 32,7% |
| Gross profit | 27 | 65 | 57 | 60 | 63 |
| EMEA+America 2w | 981 | 873 | 891 | 910 | 980 |
| Gross margin rate | 32,8% | 32,8% | 32,6% | 32,6% | 32,5% |
| Gross profit | 322 | 278 | 290 | 297 | 319 |
| Gross margin rate | 31,4% | 31,5% | 31,2% | 31,1% | 31,1% |
| Gross profit | 467 | 472 | 492 | 524 | 561 |
| Cash operating expenses | -266 | -274 | -278 | -284 | -303 |
| Depreciation & Amortisation | -96,4 | -90 | -101 | -101 | -101 |
| Operational expenses | -363 | -364 | -379 | -385 | -404 |
| EBITDA | 201 | 197 | 215 | 239 | 258 |
| EBITDA margin | 13,5% | 13,2% | 13,6% | 14,2% | 14,3% |
| EBIT | 105 | 108 | 114 | 138 | 157 |
| EBIT margin | 7,0% | 7,2% | 7,2% | 8,2% | 8,7% |
| Financial expenses | -30 | -30 | -29 | -29 | -29 |
| Tax | -27 | -29 | -31 | -40 | -47 |
| Tax rate | -36% | -37% | -37% | -37% | -37% |
| Minorities | 1,5 | 1,5 | 1,5 | 1,5 | 1,5 |
| Net income | 46 | 49 | 53 | 69 | 80 |
| EPS | 0,13 | 0,13 | 0,14 | 0,18 | 0,22 |

Source: Piaggio financial statements, business plan, SOFIX estimates

Table 22 Cash flow statement (mln €)

| | 2009 | 2010E | 2011E | 2012E | 2013E |
|--|-------------|-------------|-------------|-------------|-------------|
| Opening net debt | -360 | -352 | -350 | -349 | -332 |
| EBIT | 105 | 108 | 114 | 138 | 157 |
| Depreciation & Amortisation | 96 | 90 | 101 | 101 | 101 |
| Tax paid | -27 | -29 | -31 | -40 | -47 |
| Change in working capital | -21 | -20 | -20 | -20 | -20 |
| Other changes | -4 | | | | |
| Cash flow from operating activities | 150 | 149 | 163 | 179 | 191 |
| Capital expenditures | -89 | -92 | -104 | -104 | -104 |
| Cash flow after investment activities | 60 | 57 | 59 | 75 | 87 |
| Financial expenses | -30 | -30 | -29 | -29 | -29 |
| Dividends | -22 | -25 | -29 | -29 | -29 |
| Cash flow after financial activities | 8 | 2 | 1 | 17 | 29 |
| Net debt | -352 | -350 | -349 | -332 | -303 |
| FCF - free cash flow | 54 | 46 | 50 | 66 | 77 |

Source: Piaggio financial statements, business plan, SOFIX estimates

Appendix 3 DCF analysis

Table 23 DCF

| | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E |
|---------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 1499 | 1579 | 1683 | 1804 | 1913 | 2008 | 2069 |
| <i>Growth</i> | 0.8% | 5.4% | 6.6% | 7.2% | 6.0% | 5.0% | 3.0% |
| EBITDA | 197 | 215 | 239 | 258 | 275 | 289 | 300 |
| <i>Growth</i> | -1.8% | 8.7% | 11.5% | 7.7% | 6.8% | 5.0% | 3.0% |
| EBITDA margin % | 13.2 | 13.6 | 14.2 | 14.3 | 14.4 | 14.4 | 14.5 |
| EBIT | 108 | 110 | 135 | 158 | 175 | 189 | 200 |
| <i>Growth</i> | 3.0% | 2.0% | 22.4% | 17.2% | 11.2% | 7.9% | 4.6% |
| EBIT margin % | 7.2 | 7.0 | 8.0 | 8.7 | 9.2 | 9.4 | 9.7 |
| Net Income | 49 | 51 | 66 | 81 | 88 | 96 | 103 |
| <i>Growth</i> | 2.6% | 4.0% | 30.6% | 22.0% | 8.6% | 7.8% | 5.4% |
| EPS | 0.13 | 0.14 | 0.18 | 0.22 | 0.24 | 0.26 | 0.28 |
| Net Income | 49 | 51 | 66 | 81 | 88 | 96 | 103 |
| + D & A | 90 | 101 | 101 | 101 | 100 | 100 | 100 |
| OCF | 139 | 152 | 167 | 182 | 188 | 196 | 203 |
| - CAPEX | 92 | 104 | 104 | 104 | 100 | 100 | 100 |
| Change in NWC | 20 | 20 | 20 | 20 | 18 | 15 | 12 |
| OFCF | 27 | 28 | 43 | 58 | 70 | 81 | 91 |
| OFCF ps | 0.07 | 0.07 | 0.12 | 0.16 | 0.19 | 0.22 | 0.24 |
| Discounted OFCF ps | 0.07 | 0.07 | 0.10 | 0.12 | 0.13 | 0.14 | 0.15 |
| Cumulated DOFCF ps | 0.07 | 0.14 | 0.24 | 0.36 | 0.49 | 0.63 | 0.78 |
| % TP | | 6.3% | 10.7% | 16.1% | 22.1% | 28.5% | 35.1% |

Table 24 WACC assumptions summary

| | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | Terminal |
|----------------|-------------|-------------|-------------|-------------|-------------|--------------------|-------------|
| Debt/ Equity | 38.0% | 37.0% | 36.0% | 35.0% | 34.0% | 34.0% | 34% |
| Cost of Equity | 11.5% | 11.2% | 10.3% | 10.3% | 10.4% | 9.4% | 8.8% |
| Cost of Debt | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% | 7.50% |
| Tax rate | 37.0% | 37.0% | 37.0% | 40.0% | 40.0% | 40.0% | 40% |
| WACC | 9.7% | 9.5% | 8.9% | 8.9% | 8.9% | 8.3% | 7.6% |
| | | | | | | OFCF growth | 1.4% |

Source: SOFIX estimates

Table 25 DCF result

| DCF Result | | |
|-------------------------------|-------------|-------------|
| Cumulated DFCF ps 2016 | 0.78 | 25% |
| + Discounted Terminal Value | 2.39 | 75% |
| = Cumulated DOFCF (EV) | 3.17 | 100% |
| - Net Financial Position ps | 0.94 | |
| - Minorities ps | 0.01 | |
| Equity value ps | 2.22 | |

Appendix 4 DCF SOTP details

| DCF- India 2W | | | | | |
|------------------------------|-------|-------|-------|-------|-------|
| | 2010E | 2011E | 2012E | 2013E | 2014E |
| Net Revenue | | | 40 | 54 | 56 |
| EBIT Operating income | | | 4 | 6 | 6 |
| EBIT margin | | | 37% | 38% | 38% |
| Financial expenses | | | 1 | 1 | 1 |
| Income tax | | | 2 | 3 | 3 |
| Income tax rate | | | 52% | 52% | 52% |
| NOPLAT | | | 3 | 3 | 4 |
| Gross cash flow | | | 3 | 4 | 4 |
| - CAPEX | | | 2 | 2 | 2 |
| Change in NWC | | | 1 | 1 | 1 |
| OFCF | | | 0.1 | 1 | 1 |
| Discount factor (%) | | | 126.3 | 142.0 | 159.6 |
| Discounted OFCF | | | 0.1 | 1 | 1 |

| DCF - Asia 2W | | | | | |
|------------------------------|-------|-------|-------|-------|-------|
| | 2010E | 2011E | 2012E | 2013E | 2014E |
| Net Revenue | 144 | 177 | 186 | 192 | 200 |
| EBIT Operating income | 34 | 21 | 24 | 25 | 26 |
| EBIT margin | 52% | 37% | 40% | 40% | 40% |
| Financial expenses | 10 | 5 | 5 | 5 | 5 |
| Income tax | 6 | 4 | 5 | 5 | 5 |
| Income tax rate | 25% | 25% | 25% | 25% | 25% |
| NOPLAT | 28 | 17 | 19 | 20 | 21 |
| Gross cash flow | 32 | 22 | 24 | 25 | 26 |
| - CAPEX | 0 | 0 | 5 | 5 | 5 |
| Change in NWC | 3 | 4 | 4 | 4 | 3 |
| OFCF | 28 | 18 | 15 | 16 | 17 |
| Discount factor (%) | 1 | 112.4 | 126.3 | 142.0 | 159.6 |
| Discounted OFCF | 28 | 16 | 12 | 11 | 11 |

| DCF - EMEA+America | | | | | |
|------------------------------|-------|-------|-------|-------|-------|
| | 2010E | 2011E | 2012E | 2013E | 2014E |
| Net Revenue | 975 | 992 | 1010 | 1078 | 1100 |
| EBIT Operating income | 50 | 59 | 69 | 78 | 81 |
| EBIT margin | 5% | 6% | 7% | 7% | 7% |
| Financial expenses | 14 | 15 | 15 | 15 | 15 |
| Income tax | 11 | 14 | 17 | 20 | 21 |
| Income tax rate | 31.4% | 31.4% | 31.4% | 31.4% | 31.4% |
| NOPLAT | 39 | 45 | 52 | 58 | 60 |
| Gross cash flow | 113 | 129 | 135 | 142 | 143 |
| CAPEX | 75 | 84 | 90 | 90 | 87 |
| Change in NWC | 12 | 12 | 12 | 12 | 11 |
| OFCF | 27 | 33 | 33 | 40 | 45 |
| Discount factor (%) | 1 | 108.8 | 118.4 | 128.8 | 140.1 |
| Discounted OFCF | 27 | 30 | 28 | 31 | 32 |

| DCF - India LCV | | | | | |
|------------------------------|-------|-------|-------|-------|-------|
| | 2010E | 2011E | 2012E | 2013E | 2014E |
| Net Revenue | 379 | 410 | 447 | 480 | 499 |
| EBIT Operating income | 24 | 34 | 41 | 45 | 47 |
| EBIT margin | 23% | 29% | 32% | 33% | 33% |
| Financial expenses | 7 | 9 | 9 | 9 | 8 |
| Income tax | 9 | 13 | 17 | 19 | 20 |
| Income tax rate | 52% | 52% | 52% | 52% | 52% |
| NOPLAT | 15 | 21 | 24 | 26 | 27 |
| Gross cash flow | 26 | 33 | 36 | 38 | 39 |
| -CAPEX | 17 | 20 | 6 | 6 | -6 |
| Change in NWC | 3 | 3 | 3 | 3 | 3 |
| OFCF | 5 | 10 | 27 | 29 | 30 |
| Discount factor (%) | 1 | 112.4 | 126.3 | 142.0 | 159.6 |
| Discounted OFCF | 5 | 9 | 21 | 20 | 19 |

| WACC | | |
|---------------|-------|---------------------------------------|
| EU + Americas | 8.80% | Average of our WACC 2011-16 estimates |

| | | |
|-----------|--------|---------------------------|
| India LCV | 12.40% | Average of Peers in India |
| India 2w | 12.40% | |
| Asia | 12.40% | |

Source: SOFIX estimates

| | Discounted OFCF | Discounted Terminal value | EV |
|--------------|-----------------|---------------------------|------|
| EMEA+America | 115 | 518 | 1164 |
| India LCV | 56 | 253 | |
| India 2w | 1 | 11 | |
| Asia 2w | 68 | 144 | |

| | |
|---------------------|-------------|
| Net debt | 350 |
| Provisions | 2 |
| Number of shares | 372 |
| Target Price | 2.19 |

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