Brunello Cucinelli, S.p.A.

"First Half 2014 Results Conference Call"

August 27, 2014

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OPERATOR: Good afternoon, ladies and gentlemen, Chorus Call operator speaking. Welcome to the release of the First Half 2014 Results of the Brunello Cucinelli Group. Following the initial presentation, there will be room for question and answers from the financial community. Speakers will be Mr. Brunello Cucinelli, President and CEO, Moreno Ciarapica, CFO and Pietro Arnoboldi, Investor Relations Manager.

And now, I'd like to give the floor to the President and CEO of the Group, Mr. Brunello Cucinelli. The floor is yours.

BRUNELLO CUCINELLI: Good evening, ladies and gentlemen. It is with great pleasure that I'd like to welcome you; I was just saying to Moreno and my staff that it's always a pleasure for me to hold these conference calls. And I'd like to start by thanking you as investors, shareholders, analysts, partners and also as advisors because you know, following nearly three years after the IPO, I can really tell you that you have given us special advice. So I'd like to thank you all for all that you've done for us, for the judgments that you've passed on our enterprise, and I'd like to thank you because you believe in us, you trust us and hopefully, we would like to really to make up the commitments that we…the engagement with you investors and analysts. And thank you also…thank you very much for supporting and respecting also our basic principles.

So as usual, I'd like to do as follows because I think it is a fascinating way to proceed. So first of all, I'd give you the first highlights of the Company. I'd like to talk about 2014, then Moreno Ciarapica, our CFO will give you some specific figures, and I'd like to resume the floor again to speak about 2015 and then any questions you might need an answer for.

So I'd like to start from the data, of the financial results, so €175.8 million this first half in net revenues, with 11.6% growth, then we have €30.6

million EBITDA with plus 12.9%, net income €15.6 million with an increase by 17.8%. And then international market has grown by 15% and currently, that was nearly 8% of our net revenues. And then, we have a nice conclusion to these figures because we are Italian, I am really fond of our splendid Italy. We have plus 0.2% Italy. In this semester, Italy weighs 20.6%, but then when I'll give you the 2014 figures, generally speaking for the whole year, there will be a slight decrease there, then the retail growth by 22.9%, wholesale growth by 6.0% and franchisee plus 6.3%.

What about the different geographical distribution, 18.2% for North America, so America and Canada, Europe 9.5% plus, then the rest of the world plus 10.3%, China plus 43.5%, but please always imagine that our business in China is worth 5% to 6%. So this 43% must be really taken with a pinch of salt, and then Italy, plus 0.2%.

Then as of today, our like-for-like performance is 5.6% and we believe that this is a very positive kind of figure as you know, in all our plans, our like-for-like ranges between 5% and 7% in our annual planning. And then, during the season, maybe due to weather conditions somewhere in the world, it can really swing. So we are pretty pleased with this result.

I'd like to now dwell on Russia for a second. Well, the first thing is that yesterday, I spoke to our partners who have been there for eighteen years, very special people. And you know, that we have franchise stores there in Russia, and at the moment, we have no intention whatsoever to convert them…these stores into retail. And they are very pleased because they are doing much better than all the previous years, that may be the road a bit less travelled, but I would also like to add that for this kind of segment, very high luxury consumers, we did not have that much change in the world. And another important point here is that I believe that any company in any sector when making plans, since…if you export to 70 countries in the world, we are at 61 countries at the moment, you always know that in advance that in a country something…a country might perform better or worse according to external conditions, but generally speaking we are very satisfied.

And now, a couple of minutes I'd like to devote about these three years I'm talking about because now at the end of the day, it's…August is drawing to a close, now we already have the orders placed wholesale for October/November. So for us, this is the end of the 2012/2014 project that is when we went public in 2012. And I'd like to tell you to take stock of the situation. So 50% of our revenues stem from the multibrand and 50% from the monobrand channel. We have 650 multibrand accounts in the world, the most important department stores worldwide. And we consider them as to be the so-called guardians of our brand, the custodians of the brand. And when we will be talking about products in the second half, I'd like to go back to this. Then we have about 100 monobrand stores and they are broken down 70% DOS stores, and 30% franchise stores. And we opt for the franchise formula in those developing countries, like the countries I was mentioning before, Russia, Romania for example and so on and so forth.

At the end of the year…so I'd like to tell you how our revenues will be broken down. We will be exporting to 61 countries, to be precise. Then we will have 34% of our revenues from the US, 33% in Europe, 18.7% Italy, 5%, 6% China and then 8…10% more or less, sorry, rest of the world. When I say rest of the world, I also mean Japan; it's also factored in, in the rest of the world. And Japan has started to become quite a relevant market that is close to 5% of our revenues. And then we just…precisely this year, now we have enjoyed quite a good relationship with the multinational for many years and they are our partner and we have a 25…the speaker corrects himself…no, 25 in total. So we have a 75% stake and he told you 25% stake. So in Japan, we have 3 monobrand stores and 13 department stores. So for us, this is a quite relevant, a significant market. And as of September, this will become…this will be converted back into being a retail direct market. Inventories at the end of the year will be about 32%, 33% because the…of the conversion of these stores in Japan. And also as a result of quite a strong approach to men's suits because when you create basically the basis in your store for the grey suits or the navy suits, this is what you should bear in mind.

And now, we are just dwelling on the product for a second. I seriously think that everything ages pretty easily. We were saying yesterday, well, we had our friend Marzotto and he was wearing a blazer that was long, 76 centimeters, this is a technical detail, but nowadays, it's 73.5, that's the right measure. And he was saying, I'd like to really shorten these blazers although he was wearing a very nice pink striped suit. So basically, now there is no basic in our collection, nothing becomes basic, which means that inventories in apparel companies, inventories are very, very important because banks do inventories, then your turnover in your store is very contemporary, it's very fresh because you know, a season later, it can be completely different. And this has an impact in economic terms too.

Over these last three years, we invested €110 million in the three year period for an important project that we had. At the end of this year, we will have invested €39 million, €40 million because in June, July, we thought that since things were going pretty well, we have decided to anticipate by a year the investments in the IT platform, the full fledged IT platform. And I'd like to dwell on this in the second half of the call because we really believe in this project.

At the end of this year, we will have about 10%, 11% amortization, but an important thing here, the showrooms we have in the world nowadays are very fresh, they are very contemporary. And we think they are very fresh and contemporary, also the stores are, of course, are fresh and contemporary. But of course, we do not have a history…a 15 year old long history in stores as we have in showrooms.

And as of today, we have…because we want to maintain our relation with our Russian partner, we don't have any direct stores there. So 2014…because you see for us 2014 is already drawing to a close for us. But we want to consider it the basic year for the real saturation of the Company. We are now in the new headquarters, we have more or less 1,200 employees, the average age is 36.3/36.4, and management age is between 40/40.5. But I'd like to repeat a very special thing that Andrea Guerra said to me ones. He said, I am pretty worried because it's been six months now and we are aging, and we are talking about a very, very young Company.

So the idea of having a very young and contemporary enterprise, I really believe in this concept. And then, we were very pleased to have a sort of generational pact agreed in our Company and you already are familiar with this. And I'd like to report once again about the idea of setting up a trust that it will give continuity to the Company, hopefully for the next 50-100 years. So it will provide continuity to the business and also to the private foundation. This is the objective of the trust. And I now have peace of mind about this. And I also like the idea, that my daughters already now, they know for certain that this will be their business. So this is the idea as of 2014. So we are particularly pleased.

And I'd now like to give the floor to Moreno Ciarapica, who will provide you with a few more colors. And then, I'd like to go back to 2015 and

2016 with you. And then if you have any questions, I am available. And thank you very much for your attention.

MORENO CIARAPICA: Good evening, ladies and gentlemen, and thank you Brunello. As far as revenues are concerned, with the confirmation of the preliminary data, I already commented the release of last 17th of July, and taken up again by Brunello a short while ago. I think I don't have any other comments to add. But I'd like to highlight the effects on…of the conversion to the direct network of the Japanese business. As of September the 1st that is in four days time, the three wholesale monobrand boutiques, two in Turkey and one in Kobe will be converted to the direct management and operation.

This operation happens at the same time as a conversion from the multibrand wholesale management to the retail channel of the 13 dedicated selling spaces where our brand is present in Japan that is within the most prestigious luxury department stores, like for example Isetan, Takashimaya, Daimaru and Mitsukoshi. Well, these spaces will be operated as follows; the department stores will receive the so-called [indiscernible] which is a percentage and other operating costs which will impact both total sellouts revenues that we will be accounting for, and also the margins, these margins will be higher than the multibrand channel. But of course, it will not reach the same level as the DOS levels.

As far as the conversions are concerned, I'd like to remind you of the mismatch between the values reported in the current season and the ones in the previous season. It is for this reason that at the end of the third quarter 2014 the part of revenues relating to the Fall/Winter collection, that last year we had accounted for as selling in Japan, the wholesale channel will be missing. Whereas these Winter sales following the conversion will be then recovered in the following quarters as revenues in the same store, that is to say in the retail channel.

Let's now move onto the income statement. And I'd like to analyze the most important items there, and in particular, the developments leading to the EBITDA margins, the first half EBITDA margin to 17.3%, vis-à-vis the 17.1% of the previous year. On the one hand, we have the first margin increase by plus 180 basis points, thanks to the channel mix development with a higher weight of retail revenues on sales, 35.5% against 32.2% of last year.

At the same time, the weight of operating costs that are indicated in the SG&A category, increases by 160 basis points, driven by cost increases such as rents and personnel, both ensuing from the development of the business and also the growth in the retail monobrand channel.

In particular, as far as the personnel costs are concerned, this growth is impacted both from development of the retail business and also by following the employment of 70 tailors that were hired by d'Avenza previously**,** and the knowhow and not the brand was acquired by us in order to strengthen our proposal on men's suit and then because of this EBITDA margins increased by 20 basis points.

And among the other items in the income statement, I'd like to highlight, higher depreciation and amortization from €5.3 million to €6.3 million, having to do with the investments for new openings and for existing shops. And then the financial expenses that are slightly higher than last year from 0.63% last year to 0.73% this year which is in line with the NFP performance. And then finally, a 32.1% tax rate that is lower than last year, also due to temporary factors, and it is in line with our expectations for the end of the year.

In the Slides 12, 13, 14, you can find more details about this. And I'd like now to dwell on the Slide #13, for further comments on the operating costs, SG&A. The increase as anticipated has amounted to 160 basis points. The development related costs…business development costs as we said before personnel and rents increases by 240 basis points. And this increase was reduced by the management of other operating costs minus 80 basis points. Although, there were higher A&P costs that moved from €8 million to €9 million, but the weight on revenues stayed the same unchanged at 5.1%.

Moving now onto the balance sheet and this is Slide #15…this slide 15 shows the change in net working capital, whose weight on rolling revenues increased by 120 basis points from 29.6% to 30.8% because of the physiological increase of inventories we were hinting at before.

In 2013, and as you can see in Slide 16, there is still the ongoing significant relevant investment plan with €22.4 million invested from January the 1st, 2014, following the €66 million invested in the two year period 2012-2013, therefore driving the net financial position at the end of the first half to minus €46.1 million. As far as the CAPEX of the first semester 2014 are concerned, we have the first investments…the initial investments as Brunello was saying, devoted to the three year project 2014-2016, to consolidate and further develop the IT platform.

And according to our estimate, over the three years this investment should amount to €12 million, €14 million as a whole. This project includes manifold initiative. And there is the adoption of a new ERP for the administrative and financial management, the evolution of the surveillance system for our production activities. The integration of retail systems to manage our DOS stores, a new CRM system and everything…all this can be potentially expanded to include wholesale monobrand stores network. As far as the digital front is concerned, Brunello will provide you with even more colors than this in line with our identity, status and positioning, we will be striving to maintain our very clear and exclusive communication approach on all media where we are present by offering an integrated experience between physical and online distribution and wherever possible, personalizing, customizing the digital experience of our clients.

And then one last comment on net financial position on Slide 17, you see the developments of this item, the three-year development too showing the seasonality of our financial cycle. Well, there is an increase by €18 million around…vis-à-vis the net financial position at 30 June 2014, so against €28 million as of the 31 of March, 2014, in line with the increase between the 31 of March 2013 and 30 of June 2013. So this is the end for me.

Thank you very much for your attention. I give the floor back to Brunello.

BRUNELLO CUCINELLI: So thank you, again. Just 30 seconds to say that we really consider this year already drawing to a close. So we'd like to tell you very serenely that we envisage bringing home some great results, special results I would call them. But we also think that we will be taking home a great result in terms of image, something that we are really, really pleased with is the fact that far as the men's collections are concerned, New York Times wrote something very interesting about this the other day. We are seen as a beacon enterprise for this non-fashion business. And you know, this non-fashion business is around 85%.

So having invested in men's suits, it is more useful looking men's suits, investing in this means that we were able to really complete the idea of the brand. And we think this plays a very important role. Another important thing, the winter merchandise that we have in the stores at the moment is being appreciated very much, I would say, very, very, very much even. And you see this does make the difference as always as usual. And why am I saying this? Because if you present a collection, Spring/Summer 2015 men's and, you know, we already have the orders placed, and if you achieve such great results, you know that we achieved great results especially from the image point of view. So if this happens, what does it mean, it means that January, February, March, April, June, we will be exhibiting merchandise in our stores that has been appreciated by our multibrand accounts and you know how we appreciate the value of the multibrands because the multibrands, they have viewed maybe 200 collections. So whatever they say their feedback is very, very relevant. If the multi-brand staff tells you that the collection is so and so, they are really very honest and open about it. So for this year to come, we think that 2014 is already closed. We consider it particularly splendid. We consider it as a sort of foundation for our future development.

We are here in the new factory. You see it seems that everything is working in a special way, the mood is particularly good. And we were able to really fine tune the speed of our deliveries too. So I don't want to exaggerate, but we are very, very happy with the results.

So I'd now like to dwell on 2015, because as of today, we already have collected the total orders for men's and we are nearly 50% of orders collected for women's, which will be finished between 15th and 20th of September. So we already have a pretty clear idea. And I think that as far as the men's and women's collections are concerned, maybe they were the best in our history. Of course, this should be said, I understood with a pinch of salt because you tend to say that the best collection is always the one that you are showcasing at the very precise moment. But, you know, I am being very honest here.

But I'm very, very happy because you see we have just over 100 people working in the style team, and 14 of them myself included, are in the first level, so which means that we can manufacture 50, 55 new prototypes each, every single day. So we can definitely fine tune and change the whole collection in a very speedy way. So we can say that if we think of this result of men's and women's collection summer, well, we already can say that our stores will be showcasing very special clothes. So we already envisage for 2015 a pretty interesting result.

Another important thing is the products. I'll never tire of repeating this. What really make the difference is the product and the visual merchandizing. As our very distinguished American clients say, for visual merchandizing we were able to provide a very special service. Because you see for women, visual merchandizing is important. But for menswear, visual merchandizing is fundamental, a basic navy blazer unless it is exhibited and showcased in a special manner, it is pretty trivial. So in terms of products, I like this idea of having really renovated men's suits because I think that for men…I think that a very interesting time await us for the non-fashion men's business because a 45, 50 year old male who maybe owns 15 suits, if one day they wear suits that makes them look younger and fresher, well, you can be sure that they will stop wearing the other 15 suits. Especially the President of Neiman Marcus, he came to Milan to see us and he was wearing a D'Avenza made suit, you know, very chic, very close to the body. And he said to me, you see my wife said to me that I have to really throw away to the bin the 20 suits that I have in the wardrobe, because I look too old in them. So this is a great piece of news not just for us, but also for Italy because we are masters of this kind of craftsmanship, the value of the craftsmanship and the value of products.

I'd like to say something in favor of Italy. As you know, the luxury meets that will be held in Milan next November and where very special people usually take part in this meeting, you know what the title is this year "going back to manufacturing in Italy." This is the title of the conference. So this is what I've always maintained. We have great creative abilities mixed combined with the real ability to manufacture. And this really makes the difference. We have very young fashion designers that are really capable. So the "made in" label has a very strong value.

So the reality, the visual merchandizing, apparel, well, what I can say, I can repeat this. We manufacture clothing, but I think that over the next few years, we will be very special for apparels because in the luxury segment of apparel, the luxury ready-to-wear has been missing. The typical Italian ready-to-wear of the 90s and this is missing in the market. There is a lot of demand for this. And for us, this basically means that an even more special time is about to open. So what should these products be like? They should be beautiful, sophisticated, very well made, delivered in time, showcased in a perfect way. You see this morning, we were here with 40 people men's for men's in our DOS and we were taking a look at what they were wearing. And you could really see the difference because when you were wear a suit or a blazer, closer to the body, it makes a difference. The length of the blazer really makes the difference.

And I'm pretty pleased with the team that we have, this men's stuff because if I was to step back, it's the team, the style team would be 40 years old, 43 years old is the men's…the women's wear style team. So we are very, very young. And so, as far as quality is concerned we are going through a very special phase. That's why, I am saying, that we think that we have laid very, very strong foundation. When the American Department stores decide to place your store among the best worldwide luxury stores, it means that your brand is having a good momentum. And this really gives us strength that we are very, very serene.

And now, I'd like to maybe dwell on investments in 2015. In 2015, we think that we will be investing around €30 million.

And next year since our Company and factories are well set, the showrooms are all clear and finished; so all the investments will be in the commercial side and €4 million-€5 million for this IT platform, and what about this then? See, we have hired a guy last year, who we name the CEO of internet just to convey to you how important this sector…this industry…the IT sector is for us. So I think we must be very quick, very fast, very contemporary. But at the same time, we have to remain really humanist and artisans when we communicate. So the web is this, you see, we enjoy a great relation with YOOX, the average ticket is €1,050 online like Marchetti says, it's pretty good results for an online business.

So what I'd like is for us to be very well organized. But at the same time we should not miss out on that humanity craftsmanship and discretion that we have, because I think that the underlying problem here is the fact that we should not be too over distributed and to focused on the commercial side.

You see, as I said, we have just closed the sales for men's and women's collection. And now coming back from the trade fairs, we noticed a very strong demand for special products, high craftsmanship products, high manual work product are not very distributed they are of course, expensive products.

And on the other hand, there is a demand for industrial products, very widely distributed at a completely different price, and this gap has shown very strongly over the last year. And at the same time, in the closing segment, this is very, very strongly perceived, so we want to invest €30 million and then we would like to open around seven, eight, nine stores this year because last year. We…I mean in this year we opened five DOS, another important thing.

As far as, the next stores are concerned they are all secured. So this is a completed project. They are located in very, very prestigious locations. But this year we have also enlarged 3 or 4 stores, for example the London store with 250 extra meters…square meters, this has been an important year, as far as this is concerned. So what we want to do? We want to open these new stores, we want to grow, we want to pay lots of attention to visual, quality, but plainly speaking attention to pace especially because this is very, very important.

So I told you about the DOS. So where do we want to open these 7 to 9 stores; Singapore, Vancouver, Ginza, Frankfurt, Tokyo, so pretty important locations. Then we are now working on the 2015, 2016, 2017 plan, of course, we can give you a few more colors on 2015. But we are already working in 2017, because in January/February next year, we will already be working on 2018.

As far as the real estate assets that we have, at the moment they should cater for all our needs until 2017. But then if we really target and achieve the growth that we are targeting at the end of 2015, you know 2016, we will have to start envisaging an expansion…a further expansion of the factory in 2018-2019. And because you know, in Italy there is a lot of red tape. So there were long…there was long time in between when you plan and when you actually implement your plans. So we are happy, we are serene, we like the taste. As far as the investments are concerned they are all under control.

I like the idea of this Made in Italy; this is strong Made in Italy or this idea of making very special products here in Italy. But maybe with you, I'd like to share with you a couple of ideas. First of all, the first concept is, the great value that in my view is…the great value that is attached to the territory. And by that, I mean a place for politics, arts, industry, an area, community, but the products that is manufactured and identified with a specific area and territory. We have invested a lot in this, and I believe in this very much.

And Solomeo, our headquarter has become really an important a proof of evidence to this, so the place has a very, very important value, and we also mentioned this when you came to visit. I think another important interesting thing to mention about our country. I think that our country Italy is now going back to being special. Why is it special? Because we are good at manufacturing and we are creative at the same time. So the combination of the two is definitely explosive.

And now, I'd like to share with you the following. I have the impression, and I mentioned this to a few journalists too. I also have the impression that especially young 35-40 year old are now going back to having a different relationship with things, with objects. So they are now going back to using things like Epicure used to say, they used to say that men have two needs, the needs of the sole of [indiscernible] and then the needs of the body to satisfy all the needs of the body Epicure is used to say. But man cannot go beyond this because if he goes beyond this it becomes consumption, and I don't like this word consumption.

Well, I think that we should go back…we are now going back to just using things as they are, and paying attention where they come from, who made them, are they special, are they true, are they useful because if something is true well made you can be sure that it is useful too. So we would like to work on this very strong topic. So we do not want to change anything, we want to keep working hard on this, respecting our workers, enjoying a great relationship with you investors, you analysts. And hopefully, we can manage to be contemporary all the time, because this is the biggest issue.

Always imagining, envisaging to be guardians of our community also the territory because you see that this huge distinction in products wise between a special product and a plain product. I really want to highlight this gap between the two because it is something that is very strongly perceived. We have chosen to manufacture in Italy. Therefore, and it infuse, that the product costs related to the product are pretty high, but with this also comes exclusivity. But you see in our showrooms, you should always perceive and breathe this mood of Italian…of an Italian Company that proposes a specific kind of taste because you see in fashion, the fascination of Italy and France and America too is very special. But whatever comes from France and Italy fashion wise it’s always special. So please make this distinction, be aware of it.

So thank you very much and let’s open the floor for questions.