

Brunello Cucinelli Group

"First Quarter 2018 Results Call"

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MODERATORS: BRUNELLO CUCINELLI, PRESIDENT, CHIEF EXECUTIVE OFFICER
MORENO CIARAPICA, CHIEF FINANCIAL OFFICER
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OPERATOR: Good evening, Chorus Call operator speaking. Welcome to the presentation of the First Q2018 Results of Brunello Cucinelli Group. I would like to remind you that all participants are in listen-only mode. Following the initial presentation, there will be an opportunity for Q&A by the financial markets.

Speakers will be Mr. Brunello Cucinelli, President and CEO of the company, Moreno Ciarapica, CFO and Pietro Arnobaldi, Head of Investor Relations. In order to receive help from an operator during the conference call, please press "*" followed by "0." Now I would like to give the floor to Brunello Cucinelli. The floor is yours.

BRUNELLO CUCINELLI: Good evening and welcome. Before we start this call, which somehow is light and very intense at the same time, I'd like to...we would like to really thank you for the esteem and high regard you always hold us in. Thank you very much. So we would like to schedule it as follows. I'd like to dwell on the main highlights. Then the CFO, Moreno Ciarapica will drill down a bit more, give you some more color, and then I'll resume the floor and give you quite a good visibility on 2018.

Then just an overview on the 2019 and 2020 and then we will be talking about market, product and also about the very important and fascinating world of the web. We have the whole staff here. We have Luca and Ricardo, the two young Co-CEOs, we have Dario the young Junior CFO, and then Francesco who is the CEO of the internet. Although I, jokingly, I always say that I'm the super CEO of the internet because I have to say this internet with each passing day it becomes increasingly fascinating.

So seriously speaking, before we start, we would like to convey to you our positive feelings. In particular my positive feelings vis-à-vis the construction of the new Italian Government which is about to happen in

the next couple of days, because we are a serious nation, that is really honestly on the way up. We are true...a true manufacturing nation. So I think that Italy, well I have to say you should really quite happily invest in our country, because you will not be disappointed. And I think this is quite a good claim for our Italy. But I'm really, really pleased because of the fact that we do not have a government in place, well it's not a good thing. Well it's true that I'll be turning sixty five soon and this will be the sixty-fifth government of our Italy. But you see having a government is always best. So I'll now read out the figures €648.3 million net revenues plus 9 plus current exchange rate of 125.2 constant exchange rates vis-à-vis €136 million last year 2017.

Then there is an increase of sales in all international markets amounting to 10.2. Both in the domestic market growing by 4.4%. Then revenues increasing in all geographies Italy plus 4.4%, Rest of Europe 14.9% plus, North America plus 2.2% but it is a high single-digit increase at constant exchange rate, Greater China 31.2%, rest of the world 5.3%.

As usual we keep repeating the same thing. We grow pretty staggeringly in China but the baseline is very low, so that's why we...that such a growth. Then there is growth in all distribution channels, Retail 9.8%, Mono brand, Wholesale 12.9% and very important Multi-brand Wholesale 7.9%. So this is how I describe the quarter. We are very, very satisfied with our business in the first months of the year. And considering the current sell out rates of the 2018 Spring/Summer Collection, the excellent sales campaign of the 2018 Fall/Winter Collection and the high quality of sales we can confirm our expectations for double-digit growth in both revenues and profit next year.

A most heartfelt thank you to all our employees who with their work help us fulfill our longed for desire to work and live in the utmost respect for

human privacy. Privacy protects our intimacy, we need a fair amount of privacy in order to strike a balance between public and private life and to promote our wellbeing.

I decided to hint at human privacy, and I'd like to dwell a bit more on this later on, because this call will not be too long. So I'd now like to give the floor to Moreno, the CEO who will give you some further detail and then I'll resume the floor.

MORENO CIARAPICA: Thank you Brunello, and good evening ladies and gentlemen. I would now like to drill down on the development related to the application of the new IFRS 15 accounting principles. The principle has been applied by the Brunello Cucinelli Group since January the 1st 2018 the date on which it entered into force using the full prospective application method.

Slide #3 basically shows the reclassification of results of the first quarter last year and then they are compared to the results of the first quarter 2018. In detail, the application of IFRS 15 has entailed a new accounting standard for some types of contracts, namely those in our case concerning the sales in multi-brand locations operated under the concession formula. In the department stores six Shop-in-Shops in Canada and 15 in Japan. Pursuant to this principle in the geographies the Group sells its products to department stores that from the accounting point of view act as agent charging the Group for the service provided i.e. the rent of spaces.

Up until 31st December 2017, the revenues from the sales generated by these contracts were accounted for on the balance sheet net of the cost. The application of IFRS 15 has brought about a different accounting as revenues from sales, our reported growth and subsequently the services rendered by the department stores are shown separately among the

operating costs. Following the reclassification, the revenues of the first quarter 2018 moved from 134.1 to 156.0 million.

Let's now move on to Slide #8 and analyze the impact of the application of this principle on the full year, and on the revenues of 2017. Thus I'd like to remind you amounted to €503.6 million. So this value will now go up to €511.7 million with an increase of €8.1 million. The cost of rent accounted for in the SG&A will increase with the very same values thus leaving unchanged the absolute value EBITDA amounted to €87.5 million.

The percentage margins EBITDA of 2017 slightly changes but at the same absolute value EBITDA compared with the revenues base that is higher following the accounting change. For the same reason the expected percentage margins EBITDA 2018 changed subsequently slightly, but not the absolute value ones. To conclude, the application of the accounting principle does not impact growth rates expected for 2018 as we have normalized and adjusted the 2017 value as a reference base, and it does not impact the absolute value of EBITDA and estimated profit.

As far as the currency developments are concerned, I would like to highlight the negative effect of exchange rates of €2.1 million in the first quarter 2018 reporting a growth at current exchange of 9.1% and 12.2% at constant exchange rates, changes FOREX developments may basically impact the performance in the US and the rest of the world both growing high single-digit at constant exchange rate.

I'd like to remind you once again, our currency hedging activity enabling us to maintain in 2018 healthy levels of income and profit all even when FOREX is volatile. Currency hedging policy has always had as its purpose that of neutralizing FOREX fluctuation on the absolute value of

EBITDA. For this reason, when price lists of collections are defined, estimated revenues are hedged net of cost in foreign currency. So there is a share of revenues which is more or less the same as the estimated cost in foreign currency that is not hedged for and it is subject to a FOREX fluctuation. The FOREX impact is mainly linked to this part of the revenues, this choice is in line with the objective to maintain the absolute value of EBITDA unchanged because the impact of FOREX on the un-hedged revenue share is offset by the same impact of currencies on costs.

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

BRUNELLO CUCINELLI: So first of all, I'd like to give you a pretty good visibility on 2018 since four months have already elapsed and the results were pretty good. The product displayed in stores is very tasteful, is very young and we think it is very, very important. The Fall/Winter orders performed very well and I'd like to say that the performance of deliveries production of the winter collection is perfectly in line with the plan. You know, deliveries are always very, very important in our industry. So what we are particularly pleased with is the fact that for Fall/Winter in our stores we will be exhibiting and displaying items and garments that received a positive feedback from multi-brands and press alike.

Now, I would like to give a brief overview of the large important topics of the March conference call. So, we envisaged a double-digit revenue growth this year and considering the excellent quality of sales EBITDA should be slightly more than proportional. Then a net financial position close to zero and this is also very important. And another important thing that Moreno mentioned is the fact that we set and fix exchange rates because we want to have an industrial profit. This is the case when we started 40 years ago in Germany with a very strong Deutsche Mark every

six months we could have had important more appealing profits but we wanted to set the exchange rate in order to only have industrial profit. So considering this sound...solidity of this industry, our dividend will go up from 35% to 40% of profit next year. As far as 2019, 2020 is concerned, plans, investments, expectations, I would like to confirm everything that we said in the March conference call. To that we just like to add the following, we envisage that the dividend for the next two years '19 and '20 should be...should stabilize around 45% and in the second year around 50% and that 50% might...could represent a fair balance vis-à-vis the equity of the company and the cash of the company.

So, I'd now like to really highlight the topics that we discussed in March. So the value of a young useful contemporary product, the fact that we have fresh goods in the boutiques every three months through capsule collections, it is very important, it's very important to have young people in our team both for the product and managers, you know, managers are around 40 in our company, products 36, 37 for men and 39 for women and also sales people sales assistants in stores are important especially for menswear there must be young, chic, and they must have this Italian heritage and style of dressing well.

Visual merchandising and we always mention, it must always be very appealing and enticing and especially for menswear because for women's wear it's easy. One year you wear short skirts or pencil skirts, long skirts and everything changes, whereas for menswear, tiny details make the difference. You see I have the impression that menswear needs innovation and by innovation we mean just tiny slight changes that make your looks contemporary but these changes basically entail changing and combining colors properly, choosing the proper lengths of the blazer between 73, 75 just tiny details it's a couple of centimeters but they do make the

difference. Honestly speaking we think that for our Company the future for our menswear is bright.

Another important thing is exclusivity, we keep hammering on this because and then I would like to tell you what happened about a month ago in China, actually I wanted to tell you now, there were about 100 young people 36, 37 on average and if you...and you know, if you had seen their faces you would have thought they were European although they were Chinese. What we were impressed the most by I was talking to Luca and Riccardo is that the store director said in China these well off gentlemen and ladies they are looking...they look out for special goods.

So what does it mean, special guise items? It means that you would merely feel the desire to have everything tailor-made for you. Another important topic is the safeguard of our brand. We have always tried to look after it in the physical world but we have to do it on the web too. And as far as the online world is concerned the physical management of the boutique is going very well, of the online boutique is going very well we like to take a craftsmen like care, a reason we are very happy with the choice that we made back then.

As far as openings are concerned, we confirm three to five new stores a year on average in this case this year we have already had Dubai mall and Las Vegas yesterday. We will have an important extension in Monte Carlo with an exceptional fantastic buy with a bargain, no it's not true, Monte Carlo is really very expensive and then in August we will be opening in Beijing in the China Wall the famous mall. So these are our openings for the year.

Now, I'd like to speak to spend five minutes and talk about this important, important topic that we call human privacy. We discussed this when we

met in Person2, this idea that we have always striven for, we have always tried to behave in a special way with our customers in a very graceful way trying to respect people, trying as much as possible not to be intrusive and not to hassle them especially with the people we only meet, bump into once in a while. Honestly speaking I think that it is just right to enjoy human privacy. Real privacy protects our intimacy. We need a fair amount of privacy that will create some source of balance between public and private life because they are both necessary. I think that true luxury nowadays will be to lead a life that is unbeknownst to our smart phone that is our travel mate.

So just an example, last week a very important client of ours placed a goods order \$93,000, sends the money and then the day after they said, you know, I'm sorry, we have some family issues, I have to leave. And the answer was hopefully the creation might rescue you, might help you. So this should be the way with once we approach these people, because if you hassle me, I'm convinced that I will stop buying your brand.

I have to say...as I said, I'm 65, and 40 years ago, it all started. As you know, how it all started? I started reading some words by Theodore Levitt and some of you might know that he was a great marketing man and in this book, Marketing Imagination, he said that customers are Gods. Now, of course, there was a difference between talking and doing, but we keep thinking that customers should be our Gods.

So, I wanted to tell you that we have always supported the very same thing, if you hassle me, if you intrude upon my privacy, I will stop coming and shopping at your brand. We see, we are all very busy, we carry this disease inside our soul, with this underground, background noise, IT noise, and we keep looking for serenity, peace, and silence. So this is the great topic in this year, at least for our Company.

A few days ago, Marc Benioff, our esteemed CEO of Salesforce came looking for us and with this company, we enjoy a great relationship both from the business point of view and the human point of view. And he wanted to invite me for the second year in a row to that fascinating meeting they organized in San Francisco this year. It will be held in September, Dream Force.

And last year, as you know, we spoke on the stage of the [indiscernible] of a great topic "Technology and Humanism" how to mix and match them. And it was fascinating venue. And this year, we want to keep talking about these very hot topics of human privacy. And in the November conference call, I hope I have a chance to tell you about this appointment, although it takes a long, long time to go there, it takes a day and a half to go there, and it will happen immediately after the Milan Fashion Show, but it is a great opportunity for reflections for pondering on things.

So I wanted to really devote, spend some time of our conference call on this, because you should know that are really, really focusing on this special relationship with our customers and our potential customers.

So at the end of the day as usual, the analyst, journalist, investors, I would like to thank you all immensely. But we would like to also convey our positive feeling towards the coming roles, both in terms of our Company and our hope is that this Company can survive for a few centuries.