

# **Brunello Cucinelli Group**

**“Nine Months 2016 Results Call”**

**Thursday, November 10, 2016, 18:00 CET**

OPERATOR: Good evening, Chorus Call operator speaking. Welcome to the Presentation of 9M 2016 Results for the Brunello Cucinelli Group. After the presentation, there will be the opportunity to ask questions by the financial market.

Now, I'd like to give the floor to Mr. Brunello Cucinelli. The floor is yours.

BRUNELLO CUCINELLI: Good evening ladies and gentlemen. First of all, thank you from the bottom of my heart for everything. Before starting, I would like to express a sort of thanks to all those who have shown their affection towards us and towards our people, who were hit by the huge human disaster which is the earthquake, but that's the way it is.

There is a great statement by Aristotle, who stated that the earth moves, it's not still...does not stand still, he says even disasters, even catastrophes have a soul. So we were very lucky because in our area there were no human victims, whereas this is what happened unfortunately in more South. So a really heartfelt thank you and also a heartfelt thank you from my monks and I just spoke to them ten minutes ago.

So thank you for your trust, thank you for everything. I would like to thank analysts, investors, journalists, and everybody that support us. So as it is my habit, first of all, I'd like to give you an overview on results, and then later on I would like to talk about the most important topics of the Company. And as usual, here around the table I have...that is myself and my young Co-CEO Luca and Riccardo, and the CFO Moreno with his Co-CFO and then Pietro.

So my plan for this evening is the following. So I'll tell you, I'll disclose the results, then I'd like to give you some visibility, of course, on 2016, as we are reaching the end of the year, then a pretty good visibility on 2017, and following that, we would like to give you some colors on 2018 and 2019. I'd like to...we'd like to mention the very important digital project and then hold a discussion on the markets and the products.

The figures are the following. So net results for...net revenues for €348.4 million, plus 9.7% at current exchange rate, then a very important increase in sales, both on international markets plus 10.3%, and also on the Italian market 7.3% plus. And as to the Italian markets, you all know that we are particularly pleased with this result, because if the product is appreciated in Italy, it might mean that the collection is contemporary.

Then we enjoyed a revenues growth in all international markets, North America plus 7.2%, Europe plus 7.1%, Greater China plus 18.4%, you should always be aware that this is not a large business that we have there, and then Rest of the World 29.1%. So revenues on the increase in all distribution channels, monobrand plus 15.1%, wholesale monobrand plus 4.2% and wholesale multibrand plus 5.9%.

So this is the way...this is the way I'd like to describe the overview I would like to give you about the first nine months of the year. We are very pleased with the results enjoyed in the first nine months of the year. And since we have already reached November, we can say that we expect yet another particularly positive year, both in terms of revenues and profit.

We are also very satisfied with the Spring/Summer 2017 sales campaign. The unanimous excellent feedback received from both the buyers and the press specializing in product style, craftsmanship and quality. Together with the more than positive sell out rate on this winter season, prompt us

to envisage a very positive 2017 with a healthy growth in terms of revenues and profitability.

Balance and soundness must keep representing the future developments of our company with extreme focus, both on product quality as always the result of a balance between style and contemporary features, and on a very careful choice of distribution channels aiming for a fair balance between selected multibrand stores and monobrand stores located in prime and prestigious places. All this enables us to work in a very serene manner and in harmony with the creation. And thank you for all that.

Now, as we were saying before, since we have already reached November the 10<sup>th</sup>, and we are drawing close to the end of the year, we can say the winter sales have performed extremely well, women's wear very well and also menswear. And then we'll go back to this, because I think the menswear market is pretty fascinating at this moment in time. Like-for-like around 4%, I would say an excellent result because of the vision we have for the long run. The image that the brand enjoys is particularly high and we'll go back to this later on when talking about the product.

In our opinion, as far as very high end tourists are concerned, well I don't know what you think, but everywhere we see the beautiful restaurants are always full, hotels you need to book six months in advance if you want to go skiing a week in February, so we already have to start booking now for February.

Bear this in mind, and all this translates into the fact that there is a great allure, a great mood for beautiful things. So what do we expect for 2016 full year? We expect growing revenues, by around 10%, and also considering the quality of sales that is very high, we envisage EBITDA in a more than proportional growth. For the full year, we envisage net debt

around €56 million, €58 million, as we had forecast, and net equity around 50% of revenues of sales. As to CAPEX between €33 million, €34 million, that basically represents the conclusion, the end of the major project that we mentioned to you before, a full year project between 13 and 16 where we invested €160 million of approximately altogether more or less 10% of sales. So to conclude on 2016, we consider it a very, very positive year.

Now, I would like to give you some good visibility on 2017, because we have already gathered the orders for menswear and women's wear 2017 and it was a very good result. So for this season, it is true, it's November the 10<sup>th</sup>, so there are still 10, 15 days left, but collections are going very, very well. So at the end of the day, we can envisage for 2017 and mind you, you see the in a jokingly...in joking way, see the winter collection we are working on now, seems to be pretty appealing. So we envisage 2017 with a good growth and an EBITDA that is slightly more than proportional.

So the coming year, we think it will be yet another positive one, because somehow we are still enjoying a great allure around the brands, and from very different points of view not just a product point of view. And since we have more time today, and since the CFO will not be reading out the detailed figures to you, we'd like to provide you some vision also for 2018 and 2019.

With decrease in visibility, obviously, but we keep envisaging a healthy growth with the EBITDA that I mentioned before also for 2018 and 2019. In this three year period '17, '18, '19 CAPEX will amount to more or less €80 million which is €1.5 billion in...with €1.5 billion approximate revenues; we can say that we invest around 5% of our revenues. But I have always thought, nevertheless this Company should always invest 4%

to 5% of its sales in order to maintain its contemporary character. And this is what we are striving for.

So we went public in 2012, we made large investments in '13, '14, '15 and now in '17, '18, '19 we will be investing in an ordinary manner, and we are moving therefore towards a three year period that we would like to define the cash generation three year period.

I have many friends among you who are very fond of cash. And...but I jokingly say, it is very important to have cash, but it is yet more important that your product is contemporary otherwise cash is not enough.

So as far as growth is concerned, we also envisage increasing dividend because you know that so far we have been distributing 27% of profit. So if we envisage three year of investments around 5%, we could raise this dividend up to 30% to 35% and may be 40% at the end of the three year period. This is the underlying project that we have. And then towards the end of 2019, our net debt should amount to minus €25 million-€30 million which basically means around 4%-5% of sales.

But now, I would like to go back to something else for two seconds. 50% of our sales is in the monobrand channel. As you know, we usually open between three and five stores a year may be only three if we have...if we manage to get the large locations, and then 50% of our revenues is made up of multibrand. As you know, we are very fond of multibrand, and it is a great time for them because we are working with prestigious multibrands in the new world, and we are talking especially about China, you should consider that next year we will start having a first beautiful hard-shop a very high quality multibrand store...Chinese multibrand store.

And today we have more or less...there are more or less 15 beautiful great multibrands' in China. So I have no doubt, whatsoever, that in a few years time this culture of a beautiful multibrand will develop as it happened in the Former Soviet Union. Now, I can say that in the Former Soviet Union there are 130 very high quality multibrands.

And now, I'd like to say something important about the department stores. Of course, I am...by that I mean absolute luxury department stores. For example, Neiman Marcus the US one, then SAKS, Bergdorf Goodman, Holt Renfrew from Canada, Harrods, they all know, in London.

For us things are going really, really well in the department stores, but I have always claimed that department stores need special support. And what do I mean by that, they need special support for the visual merchandizing, they need to educate their sales associates to the taste of their vendors, because there is a great difference between a department store and a beautiful boutique. For example 1,000 square meters, where usually owners know everybody they are good with the visual merchandizing, they are good as mixing up and coming designers with the more well established one. And the end result is a beautiful store. But I keep saying this; you should remember that in this case Neiman Marcus or SAKS they have been there for decades, they really want to protect their own brand too. So it's not just Cucinelli or some other vendors that they want to protect. They also want to protect their own brands that's the brand they can really work on.

And then there is another important remark to make, last year I spoke to manager of Harrods, and she told me that there is a traffic of about 4, 4.5 million visitors a year walking into Harrods, which means that at least 300,000 [people have passed by your corner store, that's why it's important, the corner store is very well looked after. And it also depends

on where the kind of location that you are allotted on the floor of the multibrand.

And I would like to talk about this great internet project that we have very special fascinating to me. We have a great team with a young 40 year old Francesco Bottigliero that is considered our CEO of the Internet. And I was saying to him however the other day, you are the CEO of the Internet, but I will be the Super CEO of the internet, I myself, because there is something very special going on in the world now a days.

So what have we done? So we are about to kick-off, we have two sites...websites. The first institutional one and the second one is the one where we will start the e-commerce business starting from January. As you know, we enjoyed great relationship with Net-A-Porter and MR PORTER, and I keep repeating that they are top of the world really the best multibrand boutiques worldwide.

And that's what we have done with the e-commerce, and what about the plans for the future? Well, first of all, at the end of 2014 when announced the three year plan, we said that we want to be humanist artisans of the web. So we want to treat the web in a very artisanal manner. So with the institutional website, we want to use it to communicate with you to tell you...talk to you about our heritage, to show you on the webpage whatever you would see if you came to visit the village. So whatever happens in the brick-and-mortar in the physical world, we would like to transfer to you through the website page. We want you to breathe the spirit of the place.

And you know, it is very important to communicate in a very special manner because the internet is really a breakthrough for mankind. As to the e-commerce, as you know, we have in-sourced it back after five, six



years of partnership with YOOX we decided to re-in-source it because we want to really exaggerate the craftsmanship, the packaging, maybe handwritten notes. A special thank you note written by me, when you receive your parcel. We want you to show you the suit as it has been sown. We want to show you your lifestyle. And especially for menswear, we want to give you a piece of advice on how to match that special blazer with the special pair of trousers. Everything must be performed in a very artisanal way. And then another important remark that we all hold very dear is the frequency with which we receive emails.

Well, I have to say that in our Company, we have definitely slowed down and cut down on the number of emails. We try to avoid group mailings and many emails now do not happen anymore because we decide to make a phone call. If I choose to call you instead of writing to you, I can hear your voice, and maybe I'm able to solve the issue and settle the issue immediately over the phone. And we try to convey this kind of idea also to our retail people, because if I send out too many emails to my customers than they become hassled. I want to call you just the right number of times. I want to send you the right number of handwritten letters, because the impression is that if you hassle your consumers they stop shopping, and this is something that is really always under discussion, but this is what we mean by trying to be artisans as much as possible. I don't want to be snob, but I myself only shop if I experience something special, if I can buy exclusive products as if these products were tailored made for me nearly.

And now a couple of words on the products, as, you know, we have a very careful view of the product. I have always thought that, especially for clothing, the product is really key. So first of all, your product must be contemporary, so we are positioned in the high-end luxury, and we are seen as purely clothing company, only 15% is accounted for by

accessories, and my impression is that our consumers demands, quality products, recognizable products, quality, expensive products because we know that we are expensive, but exclusive at the same time. And why is that? Because everybody now before making their purchase they gather information on how every item is manufactured, where it's manufactured, whether mankind was harmed by the manufacturing process, so the product is key for us.

Therefore, in DOS, the monobrand stores, we would like consumers to breathe beauty, to breathe serenity. We don't want to push our customers visual merchandizing must be great. Sales associates must be loving people, pleasant people and especially, they can give a piece of advice to men. You need to give advice to men...male customers, because maybe you can tell them to buy a pair of new trousers that can be matched to a blazer of two or three years ago. What I think is that men try to get attached to clothes...to things, so I myself try not to go throw things away. That's why I'm saying that we are enjoying great success because that this idea of mixing and matching things.

And the topic of prices; as you know, all over the world, we have always tried to apply the same prices. So we so far have never had any complaints about differences gap in price between American prices or Chinese or Japanese prices. But I also think and we discuss this topic on a daily basis. I think that we should never produce items at a very low price. Otherwise, the result will be a dilution of the brands. You see, seven-eight years ago, I bought myself a car for €220,000, a Bentley, still very beautiful. I keep looking at it and say "who was able to design such a beautiful car," but if Bentley worked to design a €30,000 worth Bentley, I would not be happy with that. And this is also true for the marvelous brand that is Ferrari.

I think that if you want to always be positioned in absolute luxury, you always have to abide by the same rules exclusivity, quality beauty. What I believe is that your brand must be striven for as if your each single item was made especially for that specific consumer.

So now, I would really like to thank you all. We are now reaching the end of the year. Next week, I will be going to London. At the end of the month, to New York, so I hope that I will meet many of you there. But you should always know that in the company now we are working with serenity and also in harmony with the creation. So thank you very much.

And now, we open the floor for discussion. Whatever you might need, we are here for you. Thank you.