

Brunello Cucinelli SpA

"Full Year 2018 Results Conference Call"

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MODERATORS: BRUNELLO CUCINELLI, CHIEF EXECUTIVE OFFICER
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OPERATOR: Good evening. Chorus Call operator speaking. Welcome to the Presentation of Full Year 2018 of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. Following the initial presentation, there will be the opportunity to ask questions by the financial community.

The speakers will be Brunello Cucinelli, President and CEO, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations. In order to receive help from an operator during the conference call, press "*" followed by "0."

Now, I'd like to give the floor to Brunello Cucinelli. Please.

BRUNELLO CUCINELLI: Thank you very much. Here we are, and welcome ladies and gentlemen. As usual, all my esteemed investors, analysts and journalists well for us this is a very important call. Do you know why? Well, first of all because it celebrates 40 years of our business, the 7 years since the listing on the stock exchange which took place in 2012 April, and I have to say that at least for me it was really a memorable day, but for everybody for that matter. I still hold in my memory that beautiful picture with the 3 generations and the caption was, today we are listing human dignity and we are still very touched moved by that caption.

So it is a very important moment to take stock of what we have being doing together for us, for mankind and in order to imagine and plan and design the next 10 years, 10 years of life, 10 years of work, without ever losing sight of something that I am really fond off, that is the eternal vision of creation. You should also bear in mind that I'm 65 years of age, so it is an important age.

So what about our call? I will be telling you the results of our 40th financial statements, but then our CFO Moreno Ciarapica will drill down to details, and I will take the floor again to give you good visibility on 2019 and the plans we have for the next 10 years. So the rough project. Luca Lisandroni, unfortunately is absent, all the rest we are here. He is in China because we had an event in Beijing.

So net revenues €553 million, plus 8.1% at current exchange rates plus 10.7% at constant exchange rates vis-à-vis 511.7 last year. EBITDA €95.1 million plus 8.8% net profit adjusted, €46 million plus 9.4%. There was a significant increase in the sales in international markets 8.8 and also in the Italian market, we reported growth by 4.2% and we are always happy with that because we are Italian.

Then how did you Europe perform? Plus 8.5%, North America plus 3.9%, actually it was all eaten away by the exchange rate so 7%, Greater China 28.6%, once again it is not a really sizable amount for us, and then rest of the world 10.6%. So we delivered growth in all distribution channels, retail 6.3%, wholesale monobrand 19.4% and Wholesale multibrand 9.1% sales plus.

CAPEX €45 million a further rise vis-à-vis the 35.7 of the past year because we want to try and maintain the very high image, we still have the physical and on line world, net €14.5 million the net financial position slightly improved than 2017. Thanks to the cash generation and the positive management of net working capital. The Board will propose to the shareholders meeting on...convened for the 29th of April, the distribution of a dividend equal of €0.30 per share amounted to a payout ratio of 40.2%. So this is my definition of the past year.

2018 has been a year that we have defined as splendid in terms of both economic performance and image. It's been the year when we have opened the doors of Solomeo, that we call the "Hamlet of the Spirit" to over 500 journalists from all over the world who came to visit us to seize the opportunity to exchange ideas and share values. It was a very high...it was really a highlight for our company.

As for 2019, considering the excellent performance of sales in the first month of the year, the extraordinary results of our order collection that is basically finished for Fall/Winter. So therefore, we feel confident in envisaging good growth of around 8% of revenues, as well as, a healthy profit growth, whereby we keep pursuing our important investments. This year 2019 will also mark the first year of a new decade 2019-2028 in which we expect to double our sales and we will try and keep working with passion and dedication in harmony with creation, always believing in our beautiful Italy and in the topnotch quality and creativity of the manufacturing heritage that is coveted and sought after by the whole world. This is just a small support targeted at our splendid Italy.

Now, Moreno will go into detail, and then I'll take the floor again. Thank you for now.

MORENO CIARAPICA: Thank you Brunello, and good evening ladies and gentlemen. After publishing the revenues preliminary results on January the 7th that were then confirmed the final results. I would start analyzing the income statement starting from Slide #10 of our presentation, and comparing full year 2018 results with restated figures of 2017, because we apply the new IFRS 15 accounting principle which came into force as of January the 1st 2018. Revenues as Brunello already mentioned reached €553 million rising by 8.1% at current exchange rates and by 10.7% at constant exchange rates, with a negative currency impacting 2.5 points.

I'd like to focus on our very careful hedging of the FOREX risk. It's target is to neutralize the effect of currency fluctuation on the absolute value of EBITDA. Considering the level of current exchange rates and of the existing hedging, we can envisage a slightly positive FOREX impact. EBITDA €95.1 million with a healthy improvement of margins by 20 basis points from 17.0% to 17.2%. This has to do with the business development and a channel balance in 2018 that was basically the same as last year. This is also to do with a very healthy management of operating costs. Depreciation amortization increased their weight and moved up from 4.4% to 4.7% against the important investments we performed over the last few years. Net financial charges decreased to €4.2 million from €5.3 million of last year.

We would like to remind you that financial charges are linked to the net...average net financial position and impacted significantly by the accounting for FOREX engine, which are temporary by nature as they depend on the FOREX at the end of the period. As you can see on the box...bottom right of Slide 10, the adjusted net income excluding the tax benefit arising from the so-called patent box, so the net income amounted to €46 million plus 9.4% vis-à-vis €42.1 million at 31st December, 2017 with a tax rate of 29.5% vis-à-vis 29.2% of the previous year.

In our view, we have always believed that a tax rate of around 30% excluding any extraordinary tax benefits, like Patent Box. For example, well the 30% can represent a fair level of taxation in the medium term, considering that our company nearly exclusively taxed in Italy. The net income at as of 31st December, 2018 amounted to €51 million including tax for €5 million of tax benefits for Patent Box in 2018 vis-à-vis €52.5 million last year 2017.

2017, accounted for the sum of the tax benefits of the first three years 2015, 2016 and 2017, amounting to €10.4 million in total. I'd like to remind you that in 2019 will be the last year where we will be enjoying the tax benefits for the Patent Box and we think that 2019 will be in line with 2018.

Let's now move to Slide 11 and 12 and drill-down on the performance of First Margin operating costs and EBITDA. The incidence of the First Margin moved from 55.8% [ph] to 65.9% with an absolute value increase of €27.1 million. Thanks to the positive impact of performance like-for-like 3.5% as of 31st December 2018 and thanks to the sellout rates because whereby the channel mix in 2018 was basically the same as last year.

Then increasing operating costs amounted to 7.8% or €19.5 million, and it has to do both with the development of new initiatives and also investments in communication supporting brand exclusivity in the physical, such as, in the very important digital one channel.

Personnel costs rose from €89.1 million, with an incidence of 17.3% to €98.3 million incidence 17.7%. This increase arises from the need to staff the DOS stores, 2 boutique openings and 4 conversion in 2018. It is also to do with some extension of existing shops, new spaces directly managed in concession within department...luxury department stores and it has to do with the strengthening of central facilities in particular in strongly expanding markets, as well as, to some in-sourcing processes sales, research and development.

Investments in communication rose by €3.6 million up from €28.7 million with an incidence of 5.6% to €32.3 million incidence 5.8%, thus supporting the allure of the brand and the development of new initiatives.

As far as the purchases of raw materials, personnel costs and cost of services are concerned, we have invested massively in relevant research and development projects to expand our proposal to the market, both in terms of product mix and services provided and also in terms of presence on international markets and also the digital world and the made-to-measure suit proposal.

We are furthermore widening our ready-to-wear offering, by including the kids-line with dedicated collections that will start in the second half of 2019 thus completing the internal staff supporting the project, and in 2018 already there was research and development that was carried out. Rents amounted to €71.1 million vis-à-vis €67.2 million of last year. This increase had to do with the further development of the retail network.

Let's now move on to net working capital, Slide 13, and including other credits and debts. The net working capital amounted to €129.5 million vis-à-vis €127 million last year increased by €2.5 million with an incidence on sales decreasing from 24% to 23.4%. We are now as to the trade working capital; we can say that the increase amounted to 10.6% or €14 million for a total of €146 million with an incidence on net revenues that went up from €25.9 million to €26.5 million.

The incidence on the inventories decreased from 29.8% to 29.3% with an increase of €9.1 million, mainly linked to the selected opening of direct stores, conversions, extensions and new spaces within luxury department stores that are directly managed. So as well as to the business growth in all channels, including the digital segment that impacted production levels.

The increase in trade receivables went from €45.2 million to €61.4 million with relevant incidence moving from 8.1% to 11.1%, it has to do with the relative incidence of wholesale multibrand sales from 40.6% to 41% so

rise here. And wholesale monobrand sales from 4.9 to 5.5. An important development of retail sales in luxury mode in...corresponding payment terms and then desire starting from 2018 to grant the same payment terms we use in well established market to be already important in historical multibrand clients in the former Soviet Union area, vis-à-vis, the previous inclusions...conditions which implied an advance when the order was defined.

Trade payables increased from €65.3 million to €76.6 million a natural growth that has to do with the development of the business whereby the payment terms stay the same. New initiatives were developed and important investments were performed in communication excessively and they accelerate in the last part of the year. Other credits and debt negative for €17.2 million vis-à-vis €5.6 million in 2017, due to the fair value of the derivatives to hedge for the FOREX risk.

Let's now move on to Slide #14 and let's talk about investments €45 million in 2018 in further rise vis-à-vis €35.7 million in 2017 within the multiyear plan to maintain the brand and the company and as contemporary as possible over the long term.

Commercial CAPEX €30.7 million mainly for extension and opening of shops among which we would like to point out the new boutique, Monte Carlo boutique they opened in July together with the expansion and revamping of showrooms and larger selling surfaces in department stores.

Investments in production logistics and IT/digital amount to €14.3 million and they support both the digital development and the IT infrastructure for €9.2 million and the consistent renewal of production and logistics for €5.1 million.

On 5 June, 2018, we acquired the minority stake in the Russian subsidiary for an amount of €6.5 million. And this way the parent company now fully owns the subsidiary. The effects of this transaction are not accounted in investments, but among equity reserves in application of the IFRS accounting principles. But as a consequence they impact the net financial position.

You can see in Slide 15, net financial position €14.5 million, slightly decreasing vis-à-vis the €15.7 million as of December 31st, 2017. Considering the important investments ongoing investments and the payment of €18.5 million in dividends for the distribution 2017, the favorable debt performance is supported by cash generation and positive management of NWC.

The healthy financial situation and the NFB guide our long-term planning with the possibility to keep investing in an important way to develop our company, with investments between 7% and 8% of revenues. And we are envisaging a further increase of the payout ratio which following the increase in 2018 i.e. 40.2% vis-à-vis 35.9% in 2017. We would intend to raise it to 45% in 2019 and 50% in 2020, a healthy level for the medium term.

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

BRUNELLO CUCINELLI: My friends, here we are again. So 2018, so we called it a splendid year. And we have the impression that somehow company is really going through a very gracious momentum of image worldwide. And we're very happy with that.

I would like to give you to take stock of the company, since its listing in 2012. So first, why did we go public? Well, back then we had €217

million revenues, €45 million debt, and a net equity of 50% of revenues more or less. I tell you the truth, we did not go public because we had too much debt. So you might want, why we did go public? Well, we decided to list our company because we want to be more international to open up to the world. And truth be told, we wanted to most...more easily attract managers because, you know, we live in a small hamlet, but actually it is no longer a problem to leave far away from the city because of the Internet.

We went public because we wanted to engage in an ongoing discussion with you analysts and investors. Because if we are willing and able to listen, although if we are successful we tend not to. Well, that's what usually happens, you feel unique, you feel it genius that you stopped listening. I always remind my staff of the piece of advice of Plutarch in the art of listening, when Plutarch said 50% of our issues could be sold and settled just by listening.

We went public because we wanted to have a sound company financially. And we listed a company or because well, I had and still have 2 daughters and this is something important to manager. I've always thought that you do never inherit a business, while you do inherit is the ownership of the business.

And then last but not least, I have always claimed and argued that a listed company can live forever. Last evening, I was having dinner with very top quality entrepreneurs from non-listed company, from Modena, and we were discussing precisely this. I think that a listed company can survive a few centuries.

So we went public in 2012 and we were the only company to go public that year in Milan, 7 years down the road, we say this from the bottom of

our hearts, we are very, very happy with the choice we made. So we have a very positive feedback as far as the stock exchange is concerned, and whoever asks for a piece of advice, we always say do it. You should do it, but you should give the market healthy expectations, if you want your business to survive forever, because that was our objective obviously.

So in the last seven years, we had pleasant results, so we doubled our sales nearly €550 million with an average growth rate of 11%. Something, I'd like to point out is, in over the 7 years, the FOREX differential was 0.2%, so it was really negligible. We have achieved a good balance between a fair profit and...but what is this fair profit you might wonder?

Well, I think that many of you are familiar with my idea, but you see for new generations, this is an important topic to find the balance between profit and giving back. And whenever we meet, I keep saying, would you purchase something from a company that makes preposterous profit, I don't think so. And very young people have done wonders on the world stage.

So that said, we think that this will be one of the key topics for the coming future, net equity on sales just over 50%. And for you, I'd like to say to investors that the price of the share was €7.75 in 2012 then €30 at the end of 2018, and we hope that you are satisfied, when we are particularly satisfied.

Another topic here, that I really like the idea of succession. When I was about 45, I thought long and hard about this. I've always lived following on the teachings of Marcus Aurelius, the Emperor, who said you should live as if it was the last day of your life, you should plan as if you were there to leave forever. So as when I turned 60, I established a British style irreversible trust, and whereby I said that the corporate governance is still

in my family...in my hands until I'm alive, but when I die, and hopefully it won't happen very soon or we have the eternal almighty ruler that he does pull the ropes.

Anyway, on the day of my death, my two daughters who own 50% each, they will be helped and supported by 3 wise men, they have already being identified, they all work in the company, 48 years of age, and they will be the guardians, which means that the company has no chance of getting stuck. And this has always been my fear my dread, that the company might get stuck. So when I established this deed with my wife, it was a very good time, good moment because it was as if I had identified the future guardians of company.

So what about today? Who are we? Just a few figures the 1,800 employees, 66% women and 34% men average age 38 years, important thing there is no wages, distinction or gap between men and women employees. We have one single headquarters in Solomeo, one single brand the Brunello Cucinelli brand, and Made in Italy only, 60%-62% manufactured in Umbria and then we have Tuscany market and Veneto for footwear especially. 85% ready-to-wear and 15% accessories because we are ready-to-wear, that's our DNA, 65% women's wear and 35% menswear in terms of revenues but for items it's 60%-40%, because the price for women's wear is slightly higher. Then we have 100 DOS and 30 franchisee. And we are positioned at the top of the true luxury pyramid.

So we believe in craftsmanship, quality and exclusivity in distribution. But what, I'd like to say is that I have always claimed that the product is what really matters, the core of the company and then sustainability. That is also an important topic. We spoke about it with you very often; we call it human sustainability, which means living and working in harmony with the creation which is basically what we did in the countryside. We were

basically cleaning all the woods and looking after the wildlife. We have always thought that the purpose of our business was to...all of our ideals was to live and work respecting the human being.

You see, all that we say is not certified by third parties nowadays, but from the very first year, from year 1 our balance sheet has a very important report which we call a strategic philosophical report in which we always try to highlight the important concepts we believe in. We think that that is the most important document. This is all that we have been doing over the past 40 years.

And now my friends, what about the next 10 years; I am 65, all my managers are 44. So in the coming 10 years, we'd like to double our sales growing by 8%. On average, we would like to target healthy profits and upholding all the values that we believe in. We would like to payout...to have a payout ratio of 50%. This is the idea which we think is fair because the other half can be used to capitalize and strengthen the business. We want to keep investing in a robust manner, the way I like to call it, in order to support the contemporary feature of the brand, because our brand needs to be young, youthful, fascinating, charming. And the brand must convey the vision that we have the responsibility that we all carry within ourselves.

Another important topic, the future governance, in this case, we have Brunello as the CEO and then we have the 2 young co-CEOs. As I'm 65, I'm flanked by these 2 young gentlemen Riccardo Stefanelli, 38 years of age. He has been with us for 13 years. He was very young and he represents the family branch because he is the husband of my eldest daughter Camilla, who is 36, and he deals with the product in full-time. She lives and works in Solomeo.

Then we have Luca Lisandrone, 41-year-old from Luxottica, a company I hold very high. So and outside so to speak to the family, he's been too with us for 3 years. So someone from the family, someone from outside the family Riccardo and Luca. As you know, this has always been my great job in my life; I do not hold any interest in any companies. I've always tried to feel accountable for everything that comes out of this company.

As of today, all managers are 44 years of age, but if I was to step back then the average would drop to 43. So we are fit, I would say. What about the future development in about a year or so? What would happen to these 2 co-CEOs?

So I will be an Executive Chairman and Creative Director. Well, especially in the past 10 years, I drew inspiration from the great Lagerfeld Mr. Lagerfeld, who left, passed away a few weeks ago. When in the last part of his life, he basically devoted himself to committed to this important task, a senior guardian of the brand, that's precisely what I would like to do because that's my passion. I was born with products and the two young CEOs Riccardo and Luca.

Well, Luca is based in Milan. He will be working mainly from Milan because there is nothing to do about Milan really is the center that propels Italy abroad. We live in a small hamlet. Riccardo is based here in Solomeo and he mainly deals with the product, the factory, and the finance.

So I really like to highlight the fact that it's been now a year that these 2 gentlemen are working acting as CEOs. It is somehow, some sort of general trial, when we...when public we started a year in advance, we

started managing the company as a listed one, although we were not listed yet.

So to conclude, I would like to say 2 important things. I believe, in the great value of the family in the company, our family is in this company it is very strongly rooted in the area and we work for the company. We are listed company, yes, but I would like to show you this attachment, strong attachment of my family to the company itself.

And now to conclude, I would like to mention something that I said, during the listing day in Milan in April 2012. And I would like to...it to be a wish for the next...for the coming years. Listen to these words, I was moved and touched, but I said to all investors if you are looking for a company whereby you want to...profits to be made to the detriments of the mankind do not join us. If you are looking...if you are searching seeking a company with staggering growth without respecting craftsmanship quality and exclusivity of the product, look elsewhere this is the not the right company for you. You should not join. Whereas, if you are looking for a company that is pursuing healthy profit maybe ordinary profit and definitely not an exaggerated profit, well, then you might try and join us.

With this kind of wish, I would like to leave you. We thank you once again with gratitude, and hopefully we will be able to implement all our plans for the next decade. Thank you immensely, here we are.