

# **Brunello Cucinelli Group**

**“First Half 2017 Results Presentation Conference Call”**

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BRUNELLO CUCINELLI: Good evening, ladies and gentlemen, and very warm thanks from myself as usual. And I would like to also thank you on behalf of all the people working in our Company, and thank you investors, analysts and the press for the esteem that you have been displaying to us for a long time. I hope you are all well rested both in your body and soul because at the end of the day, I think that we all need to rest in order to feel better.

As you know, I am always very, very happy to release these calls because it is a way to communicate, to speak to you to, to convey to you our vision of the world and the business. Of course, in this call we will just communicate economic data. So I would like to devote maybe a few more minutes in order to talk about products, visual merchandising and also the fact that we need very special sales people in our stores.

And I'd also like to dwell on the Web. But as it is a habit, I would like to give you the general highlights, then the CFO, Moreno Ciarapica will drill down a bit more, then I will get the floor again in order to provide you with visibility on 2017, great visibility on the Summer 2018 Collections because [indiscernible] we are closing. Then I'd like to talk about products, markets and then tackle the great topic of online.

So as for the results, net revenues €243.3 million, plus 10.7%, at current exchange rates vis-à-vis 30<sup>th</sup> of June 2016. EBITDA €41.6 million, plus 13.1%, net profit €19.9 million, plus 10.6%.

It is very important to report increases on international markets 11.7% plus and also the Italian market plus 6%, and we are always as usual very, very pleased with our splendid Italy.

North America plus 9.3%, Europe plus 9.9%, Greater China plus 34.6%, we keep repeating that this is just a small market in absolute terms and

Rest of the World 11.4%. Then increase in revenues in all distribution channels, Retail plus 21.7%, Wholesale monobrand adjusted plus 2.6%, Wholesale multibrand plus 6.7%.

Net financial position €59.54 million against €79.7 million last year, CAPEX investment plan €22.2 million including the large multi-year investment plan to support the prestige exclusivity of the brand both in the physical channel and in the online virtual channel always keeping our eye on achieving sustainable growth. So this is my comment on the first year results.

We are very pleased with the performance of our business the first half of the year. Both revenues and profit shows strong growth. Sales of the Winter Collections are going very well...very, very well. All this considered, we expect 2017 to display double-digit growth in both revenues and profits.

I am about to read a very important piece now. All the in-take for Summer 2018, which is now about to end, is truly positive. The feedback on our collections is particularly positive as well as the allure surrounding our brands it seems to us.

As a result of a careful analysis of the above mentioned elements, we can express a very positive view on 2018 and keep envisaging more double-digit growth for the near future. We have recently celebrated our fifth anniversary since our listing on the Italian Stock Exchange.

Going public has been an important choice and we are immensely glad with it, I have to say because we have confirmed all that we had planned back then with our core workers, you analysts and investors in terms of constant double-digit gracious growth, the growth that we call gracious.

I'd now like to give the floor to the CFO, Moreno who will provide you with more details.

MORENO CIARAPICA: Good evening, ladies and gentlemen and thank you, Brunello. I'd like to immediately start commenting the financial economic data starting from Slide 11 of our presentation, where we compare results of the first half 2017 with the adjacent figure of the first half of last year.

I'd like to point out that adjusted results of the first half 2016 factor in the exclusion of non-recurring personnel costs amounting to €1.5 million and also the stabilization of the theoretical tax effect of such non-recurring costs. The comparison with the reported income statement is shown on Slide 19, where you will find some more details.

Now back on to Slide 11, the comparison between the first half 2017 and the first half 2016 adjusted shows the following, an increase of revenues by 10.7% at current exchange rates and 9.7% at constant exchange rates with a subsequent impact of foreign currency of about €2 million.

The increase of the First Margin by 40 basis points from 64.5% to 64.9%, an increased impact of SG&A on sales from 47.8% to 47.9% i.e. plus 10 basis points, the increase by 30 basis points of the EBITDA margins which moved from 16.7% up to 17.0%.

It is important to point out that the hedging operations on revenues net of cost in foreign currencies are made in order to neutralize the impact of exchange rate fluctuations on the absolute value of the Group EBITDA also considering that the very same costs incurred abroad are subject to the same FOREX performance. As to our expectation for the full year, as far

as the absolute value of EBITDA is concerned, do not change following FOREX fluctuations.

In the second half of the year, as the FOREX developments confirm the current exchange rates, the impact of FOREX on revenues could be potentially negative. However, it will not at all impact on the esteemed...estimated absolute value EBITDA.

As to depreciation, it increased by €1 million from €9.6 million to €10.6 million with unchanged impact at 4.3%. We expect a slight increase of this impact towards the end of the year because of higher depreciation amortization being accounted for in the second half.

As to the net financial expense it moved up for €1.8 million to €3.0 million, the increase given the reduction of the average net financial position and the subsequent drop in financial expense has to do with FOREX fluctuation.

This increase is mainly linked to the accounting of exchange rates hedging and in particular to the accounting of unrealized foreign exchange losses relating to the inter-company financing in foreign exchange which are temporary by nature as they depend on the exchange rate at the end of the period concerned. Tax rate amounted to 29.1% compared to the 29.8% adjusted last year. And then net income €19.9 million with an increase of plus 10.6%.

Now moving on to Slide 12, we provide some detail on the First Margin change operating costs and EBITDA always still comparing it with the adjusted figures of last year. The increase of the First Margin is driven by the business performance by the excellent sales results and like-for-like

results and also by the channel mix with the impact of retail revenues amounting to 49.8% against 45.3% last year.

The increase of operating costs...the details of which are reported on Slide 13 is in line with the business performance, in particular the increase of rents has to do with the retail network evolution, the number of direct boutique went from 86 as of 30<sup>th</sup> of June, 2016 to 91 as of 30<sup>th</sup> June, 2017, considering also the four conversions in Russia from the monobrand wholesale channel to the retail channel. And then there were some relocations and footprint increase.

Personnel costs increased by 10.6%, this was mainly to do with the developments of the retail direct network and also the direct management of five shop-in-shops at the Canadian luxury departmental store Holt Renfrew, which before were managed and handled with the wholesale formula.

As to the other operating costs, €44.9 million impact 18.4% against €39.6 million impact 18.0% included the structural costs relating to the network development and the direct management of our presence in the digital world. Within these costs, investments in communication devoted to supporting and protecting the image of the brand, increased by €1.3 million from €11.2 million to €12.5 million and impact still stable flat at 5.1%.

Let's now move on to net working capital Slide 14, showing a reduction of the strictly commercial net working capital whose incidence on the rolling revenues moved from 35.8% last year down to 31.5%.

Inventory increased slightly in absolute values with a reduction of the impact on sales 33.1% as of 30<sup>th</sup> of June, 2017 thanks to the very positive

sell-out figures and with a value that is in line with the impact as of 31<sup>st</sup> December, 2016 because it amounted to 33.9%.

Trade receivables decreased, thanks to a positive management of inflows and also the conversion from third-party management to direct management also thanks to online boutique, the four stores in Moscow and the five Canadian shop-in-shops; trade payables stable and flat.

Slide 15, shows the performance of CAPEX amounted to €22.2 million which is part of the new investment plan of the three-year period 2017-2019, whose aim is to safeguard exclusivity, prestige and protection of the brand, both in the brick-and-mortar channel and in the online one.

Considering the positive cash generation, favored by the performance of the net working capital and following the investments for €22.2 million, the net financial position that you can find in Slide 16 is dropping significantly amounted to €59.4 million.

We would like to point out that our net financial position Slide 17, reaches its usual peak between June and September due to seasonality and then it moves down in the last half of the year. The reduction trend in the first half will also continue in the second half of the year with an expected full year net financial position that it will be lower than the 31<sup>st</sup> of December, 2016 figure.

This is the end of my presentation; I give the floor back to Brunello.

BRUNELLO CUCINELLI: Yes, thank you, Moreno. So what about the current year? Well, we can say that actually things are going very, very well. We are very pleased with the mood surrounding the brand itself. So we have enjoyed a great Spring/Summer season, the collections they were now displayed in

the stores seemed to be particularly appealing. So we have somehow...well besides beautiful collections also the visual merchandizing is...we are particularly pleased with. So we can say that this is a good start of the winter.

Another important here is the culture that we have tried to circulate and spread with our workforce, because I think this is high time for the sales assistants to show the kindness, the professionalism, the politeness, but I would like to go back to this because, I deem it is a very important topic.

So as to visibility on 2017, of course, only four months to the end of the year, we can confirm that we expect a strong double-digit growth in terms of both revenues and EBITDA and profit, so EBITDA more than proportional. So we can say that we envisage 2017 as a beautiful year, so to speak.

So as we have just completed the men's sales campaign and we have reached 60% of the women's sales campaign for the Spring/Summer 2018 collection. We can say that the feedback on our collection has been particularly positive and it may be...and this is what our customers say these are the two best collections that we designed, but you see, we keep repeating this, but this is actually the way things are. So these collections are particularly pleasing and seriously speaking you know, how important it is that you receive a good feedback from the multibrand stores.

So the order intake has been particularly good, and therefore we forecast that 2018 will also display double-digit growth in terms of both profit and profit of end revenues.

As for the 2018-2020 Business Plan, well, I wouldn't dwell on this because you are familiar with it. I would only like to stress that the next



three years should maybe be the three years when cash will be consolidated and we feel pretty comfortable now, because that is so low that this is definitely not an issue. The real issue is to keep innovating product wise.

And I'd now like to devote three, four minutes...spend three, four minutes on this important topic, product, visual merchandizing and also the fact that you need to have very special sales people in the shops and communication is important. I know that I might sometimes run the risk of repeating myself. But I have always been hammering that product is always key in any company you need a well made product displaying great identity. In this case, for us, it must really be the true expression of the Italian culture...Italian heritage, modern and contemporary.

And it is also important that this product is ageless and very easy to wear because this is also another issue for many multibrands worldwide, who keep complaining that maybe some products are not very easy to wear. So visual merchandizing, as you all know is essential, it's key for us, it is fundamental for woman, but it is definitely essential, and dispensable for men, because especially for menswear, how can we possibly attract a male customer unless your shop window is very special. You see just tiny details make the difference how you combine things...the slightly wider trousers. For example, maybe matched to a more...to another contemporary piece.

So I really believe that in order to have a contemporary menswear, well it is more difficult for men's than for women's. Well, the women's style team always tells me that it's easier to design menswear. But in my opinion it is more difficult to be strongly innovative in menswear also maintaining the taste of the brand.

And then the sales assistant, this is a very important topic in my view, because when you actually step into a store in a shop, you don't want your store assistant to hassle you, to push you...you don't want to receive 20-30 emails per day showing and displaying outfits because at the end of the day the impression I have, is that we are all fed-up with it, and this is true for many different industries.

So with all our sales assistant, we are focusing on making them very elegant and younger you know, young is important for fashion. I'm 64 years of age, and I can't possibly inspired by a sales assistants, who is my very same age. I would like to be approached by maybe a 35 year old sales assistant dressed in a special manner who appeals to me and because my aim is that of being looking maybe five years younger.

So all these sales assistant must be very strict, elegant and polite somehow they need to epitomize to represent kind advisors, because when you come across them, they come to you, they approach you and help you find you the suitable outfit for you. And they need to establish a friendly relationship with customers because we definitely need to have a gratifying relationship with our customers.

And then, distribution is always an important topic. I have the feeling that you see, it's full everywhere full of products we are flooded with products. So it's very important to maintain exclusivity for your products and brands. I think that we all human beings are in the lookout for something exclusive; somehow almost tailor-made [indiscernible] fascinated me with his statement. I can't...I can barely imagine a human being that is similar to me.

So every single one of us would like to look a bit different, and, of course, the online world definitely makes everything a bit more massified and this

is definitely where we have to focus on in the future. And this is true for all industries.

The other day, I was talking politics with a very important scholar, and I said to him that political leaders in my opinion are massifying the image. This is a very very utterly contemporary topic. For example, personally speaking, I'm fed up of seeing the very same face everywhere 10 times a day with the very same face talking about...saying about the very same things. So maybe it is high time for politics to think about this too. The political leader maybe...should be less exposed or less visible, more exclusive.

And as to the online world, we also tend to bear in mind whatever political leaders write. So I have one dated about to a few days ago. When just twitters were published were posted, which means that you don't, you should not overdo things.

And then another important thought, I would like to share with you concerns the internet world...the online world. I think that the internet is very fascinating, but also very complicated to interpret, so we have to safeguard our brand from massification. So as you know, as of first...January the 01<sup>st</sup>, 2017, we started this grand project which is not...does not consist of financial investments, but which involves all of us in protecting the brand worldwide through our multibrand presence, through our boutiques and also within our company itself, because I know that I might be boring, but this great posting of pictures of documents, of everything really deprives everything of fascination.

So we enjoy a great business relationship with MR PORTER, NET-A-PORTER, and I always say about them, that they are the top on line multibrands worldwide.

Mytheresa, they also have a very high-end physical store in the German market. They are also very, very good, so beautiful multibrand stores, but I'm deeply convinced and I was talking to Riccardo and Luca, my co-CEOs this morning. I think we are actually experiencing and seeing the growth of very important excellent multibrands worldwide because this is the future for every company.

So since January the 1<sup>st</sup>, we are now operating directly online from Solomeo, and we have two websites. On the one hand, we have the institutional website which is actually receiving positive feedback because if you log in, you can basically experience Solomeo first hand you can see who we are, where we leave, where we work, how we behave, how we work and the relationship we have with the creation with our mother earth and with the people because this is a very interesting thing.

On the other hand, we have the best worldwide boutique that we opened in January, and also the most important one. Sorry, I am just having sip of water, we had a great hunt today, but it was very savory and salted, it is part of our culture.

Anyway, so we have this great boutique, and honestly speaking, we would like to say that it is performing very, very well, it is displaying stronger growth. We do not know at what speed this on line boutique will move and perform, but you should know that we have a very important growth protection, which means that if in three-four years time it was to multiply five folds or four folds, it will just mean hiring some more human beings, some people to help with the packaging and the shipments, everything needs to be shipped from Solomeo, and we tried to always focus on the craftsmanship, the manual work, packaging, visual merchandizing, special relationship with customers, especially from the human point of view.

Well, obviously, if we have a special relationship with you, you might be sent some olive oil, some books, some flower. This year, we harvested eight hectares of wheat, so if you like wheat flour, you should know that we have produced high quality flour through our wheat. We also have a very interesting project with all our customers which is maybe mending and darning, their old cashmere pullovers because, you know, we always have moths in our wardrobes. So our customers basically send in their old pullovers and we darn it, mend it and to bring it back to become as new.

So it is some sort of one-to-one friendly relationship with our on line customers with handwritten notes accompanying the packaging. So we want to setup a very loving, a very human, highly human relationship. And we are also working on something very special.

The great value of anticipation and we actually noticed that when we say that a specific product will come out of production tomorrow and then we will stitch the personalized tailor-made label. Well, customers appreciated the value of anticipation. So I do not think that our service will be, you know, one hour delivery. We don't want that fastly, it is not for us.

And now to wrap up, we would like to thank you all for all that you do for us. And honestly speaking, we keep working with serenity, very focused, but with a lot of pleasure and passion, but we always try to strike a perfect balance between life and work, because when you are well rested the quality of your labor definitely improves. So, human being need rest. I have always thought that unless there is rest, there is no creativity because only creativity can only be spawned by rest.

So thank you very much for all that you do and best wishes too, may the creation enlighten our past. Thank you very much. And I open for

questions. We will meet you in November in New York, then in America, then in Milan, in England. But I would like to say that we are experiencing a great time of serene work. Thank you.