



OPERATOR:

Good evening, Chorus Call operator, welcome to the First Half 2016 Conference Call for the Brunello Cucinelli Group. After the conference call, you will have the opportunity of asking questions. The speakers will be Mr. Brunello Cucinelli, President and CEO, and Mr. Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations.

Now I would like to leave the floor to the CEO of the Group, Mr. Brunello Cucinelli. Please...

BRUNELLO CUCINELLI:

First of all, good evening to everybody as usual

But first item of our conference call I would like to dedicate a brief thought to our country which has been hit by the earthquake and get together with the people there, here in the region of Umbria are used to earthquakes. We are always left a bit flabbergasted and at the same time, I would like to thank on behalf of Italy, all those people who worldwide have demonstrated great affection and those very many of these, so thank you wholeheartedly for this, and this affection, this support makes us all on the one hand but also proud on the other hand for our feeling, so thank you wholeheartedly, thank you.

So I would now proceed in the following manner given that it's the first half '16 results, the visibility on 2016 is quite important because you know that we are already at the third part of the year. I'd like to talk about the Spring/Summer collections for 2017 and I would like to give you the highlights and my ideas about 2017. Then I'll briefly talk about the digital project and then maybe if we can dwell a bit more on the market and products because this is something which is very, very interesting in my opinion.

Okay, net revenue equal to €219.8 million, plus 9.7% with current exchange rates as of June the 30<sup>th</sup> of last year, adjusted EBITDA equal to €36.8 million, plus 10.2%, net profit €17.9 million, plus 15.7%.

An important growth in all international markets at around 10%, 10.4% more specifically, and also important results for the Italian market at 6...plus 6.9% in terms of sales and this is obviously very important to us. But anyway, we will go back to this later on. North America gives us plus 9.7%, Europe plus 8.3%, Greater China plus 15%, but be aware of the fact that this is still a small business and the rest of the world, plus 17.1%.

A positive trend in revenues in all our channels, in retail monobrand, plus 17.4%, wholesale monobrand, plus 1.2% and wholesale multibrand, plus 4.8%, again a very interesting piece of data. The net financial position is equal to €79.7 million, so basically in line with June 30<sup>th</sup> last year.

The '16-'18 multi-year plan will have a CAPEX equal to about €80 million, this is a three-year project and we have €17.9 million for the first part of 2016, mainly dedicated to the opening of selected and exclusive boutiques and also to support this important project of our IC platform for the management of the digital world and our presence there. Then obviously, we want to keep the exclusivity of our positioning for the prestige of our brand, both in our traditional channel and in the online channel.

I have sent this document to the paper, so we are frankly very satisfied with the results achieved during this first half of 2016, results which obviously highlights a decisive and balanced growth, both revenues and profits. And given that [indiscernible] two thirds of the year, we can surely predict a healthy result with healthy revenues and profitability growth for 2016. We are also extremely happy about the new

Spring/Summer 2017 sales campaign, both of the men's collections now concluded and the women's which is due to end in September. And I should also say that we have worldwide acclaim for our style and for the taste and this obviously encourages us to look forward with confidence to another very important year of steady growth for 2017.

I would also like to add something about Italy now because to this we can add the positivity we see in the Italian market which is gradually beginning to grow significantly again. We should add that we work on this recovery not only in the market but also and above all in our spiritual values. These values which in the hearts of each of us may help us bear the great pain that today once again afflicts our beloved and beautiful country. And for this, thank you wholeheartedly on behalf of all Italians.

Now, I would leave the floor to Moreno Ciarapica, and then I will take the floor again later on. Thank you.

**MORENO CIARAPICA:** Good evening everybody and thank you Brunello. The first half 2016 financial results concerned once again the preliminary revenues communicated on July 14<sup>th</sup> last, which has been commented and analyzed, and so, I would directly move to the analysis of the income statement.

Starting on Slide 11 of our presentation; let's now compare the first half 2015 data with the data of June the 30<sup>th</sup>, 2016 adjusted. Excluding non-recurring items related to €1,293,000 related to the termination of employment payment of former Co-Chief Commercial Officer. And also eliminating the theoretical post tax rate effect of this non-recurring items, whose absence would lead to further taxes for €406,000, in the presence of higher before-taxes profit, and the relative change of the IRES tax rate starting 1<sup>st</sup> of January 2017, equal to 24% against 27.5% we had before, and which is still effective to the end of this year, which leads to lower

deferred active taxes for about €1 million which are accounted for in the first six months of 2016. The comparison between the first half of 2015 with the first half of 2016 both normalized and reported is on Slide 17 where you can find further details.

Coming back to Slide 11, analyzing adjusted data we can summarize as follows. The first margin increases from 63.9% to 64.5% with an increase of 60 basis points, whilst operating costs increased impact on sales from 47.3% to 47.8% with an increase of 50 basis points. As a consequence, the marginality in terms of ordinary EBITDA increases by 10 basis points going from 16.6% we had last year to 16.7% this year.

D&As increased by €1.1 million to...from €8.5 million last year with a 4.3% incidence to €9.6 million this year with the same incidence, 4.3%, allowing us to believe, that by the end of the year, the expected D&As will be about €21 million.

Net charges related to our financial management are equal to €1.8 million decreasing versus €2.5 million at the end of June 2015, given the net average debt in the first six months of 2016 which is basically in line with that of the first six months of 2015.

The financial expenses and income remained unchanged €0.8 million whilst instead impacts related to exchange rate variations decrease in line with the dynamics in terms of sales. Adjusted taxes are equal to €7.5 million versus the €8.1 million of last year with an adjusted tax rate equal to 29.4% versus the 30.5% we had last year.

The reported tax rate is equal to 33.7% as anticipated before and you can see the details on the Slide 17. And we believe we can estimate that by the end of this year, the reported tax rate, should be at around 33% to then

go back to 30% starting in...at the beginning of 2017. The adjusted net income is equal to €17.9 million as Brunello was saying was an important increase equal to plus 15.7%.

Let's now move to Slide 12, which summarizes the variations in terms of first margin and operating costs. The increase of 60 basis points is given by the increase in the sales sellout and the positive like-for-like, plus 3.7% in the like-for-like between the 1<sup>st</sup> of January and August the 14<sup>th</sup> in line with the 1<sup>st</sup> of May date which has already been communicated. Then we have an evolution...a positive evolution of the channel mix, with retail revenues with a rate of 45.3% versus 42.3% of the first six months of 2015.

The increase of operating costs plus 11.1% is consistent with the business development, the increase of 50 basis points and of its relative incidence that grows from 47.3% to 47.8% is impacted by the increase in rents as we can analyze on Slide 13.

Rents in fact go from €22 million to €26.5 million, and this increased from 11% to 12% impact on the results, given that we opened some exclusive boutiques in the most important luxury areas we have also widened some of our shops and we've repositioned them and related to the second part of the six month of second part of the year, we expect an increase in rents in line with a data of 2016.

Personnel costs, both in the presence of some new openings slightly reduced the impact on sales going from 17.9% to 17.8%, and this is a positive lever on the other operating costs which go from 18.4% to 18%. Amongst other costs, which I have just mentioned, I would like to talk about those related to communications which obviously are extremely

important and strategic for our Company with an incidence going from 4.8% to 5.1%, so basically in line with our expectations.

Coming to the analysis of net financial position on Slide 14, at June 30, 2016, the net financial position is €79.7 million, which is basically in line with the...of June 30<sup>th</sup>, 2015 which was €78.3 million. As usual, as it happened during the last year between June and September, given the seasonality of sales, the net financial position reaches its relative peak throughout the year to then again go down at the end of December. The net financial position we expect at the end of the year should be between €56 million, in line with what was achieved at the end of last year. The evolution of that is mainly related to the CAPEX dynamics equal to €17.9 million in the 6 months of 2016, expecting €33 million to 34 million in terms of CAPEX for the full year as part of the three-year project 2016-2018 for a total of €80 million.

More specifically, on Slide 15, you find the incidence on sales of last 12 months of the net working capital which goes down by 280 basis points going from 38.6% to 35.8%, thanks amongst other things to the positive trend of the inventory and whose incidence on sales goes from 37.3% to 35.7% in presence of positive sell out data and like-for-like data. It is reasonable to expect at the end of the year an incidence of inventory that should improve versus what was reported at June 30<sup>th</sup> 2016.

I would like to thank you very much for your attention and I will leave the floor to Brunello once again. Thank you, thank you very much.

**BRUNELLO CUCINELLI:** Now, I just wanted to tell you that winter sales really started very well. Like-for-like data, we told you it's 3.7%, so we are very satisfied about this. It is true that the collections had been assessed in a very positive manner in February during catwalk. Obviously, the

judgment...papers is very important, but also multibrand judgment is important. Should I say a couple of things, well, tourist areas went very well? We were full of tourists everywhere in Greece, Spain, Italy, and this is obviously something interesting.

Now, in a couple of words, I would like to re-confirm the main topics for our 2016 plans. CAPEX at the end, we will close with €33 million, 34 million. The net financial position as we said €56 million as it was before and the EBIDTA is growing, slightly growing. So let's envisage a year which is particularly positive with a 10% growth more or less, and so let's say we are absolutely satisfied.

Now, a couple of data concerning the 2017, 2018 situation which we see very positively, we will have CAPEX during these two years of €45 million to €50 million. We should also have a growth project which would allow us to grow by 10% with higher marginality, proportionately so, and then we should also have a debt at the end of 2018 at around 5% to 6% of our results. So in the end, we can say a good two years in terms of cash generation.

We keep thinking that a company also now should invest about 4% of its results to keep up with time. Obviously, we are tackling these two new years with these ideas in mind. Anyway, I would like to talk about the great internet project which has now come into its final part. We will start with e-commerce in January.

This is a beautiful, very fascinating project because it is fresh; it's new and because obviously it becomes difficult to be innovative in this area, but before e-commerce, we find this project is extremely important for our communication. It's important to communicate about the Company and so, given that people know how our Company behaves in the physical

world, we want to show it in the virtual world, the culture of our country, its values. I mean, this is basically what we would like to give you with this new project...with this new internet project.

So in the end, we would like to repeat once again the most important commercial themes, more or less 50% multibrand which is still growing, 50% monobrand and we are also working very hard in looking for the new special multibrand in China and Korea and in other new markets.

Now, I would like to dedicate a few minutes to the important topic, the products. I have the feeling that the product is always absolutely basic, but this is especially true in top luxury goods because I think that worldwide there is wealth of special products, of high quality products which show great craftsmanship and which are costly and can be recognized by everybody.

Everybody gets informed about where the product is produced, how et cetera, et cetera. So on the one hand, this is all very interesting, but we would like our shops and also in multibrand boutiques and department stores to understand the visual should be particularly attractive. The atmosphere obviously must be relaxed. The sales people must anyway be full of taste and be fascinating especially in the men's collections because men need suggestions. Men don't really know how to choose, they don't want to throw away what they have in their wardrobes and so maybe you can suggest them something that can be mixed with what they already have to feel young, modern and more contemporary. And this is demonstrated by the most beautiful example, Mr. Porter. Mr. Porter, who tells you a story about the company, shows you a product, suggests, tells you how to match it with other products. So obviously, these are very special things, which I think in the end will allow people to buy because

obviously when you go and buy something, you've got to feel a strong emotion.

And I really think that each of us today must almost compulsorily be slightly more elegant. Why do I say that, because each of us on a daily basis shows images of ourselves? We post our images, and so in the poster you will post tomorrow you want to be elegant, you want to be chic, because tomorrow I'll go to Japan for example. I had prepared 13 outfits and my wife tells me what you do with all those things. Well, you know, obviously morning, afternoon, evening and obviously you got to be different because obviously your pictures are going to be everywhere on the web. So obviously, special search for special things, special accessories and special matching, I really believe that the concept of exclusivity is very strong. We've got to be sophisticated and so, obviously tomorrow we will have to be even more sophisticated than yesterday because that's the new world of internet.

Another important topic I would like to touch upon is caring, you are going to a shop and you need to find people caring for you, you don't want to be pressed, you do not want tension, you do not want too many emails or too many outfits. And so obviously in our business, we would like to actually follow this new relationship with our customers because obviously if I like your shop, I'll comeback, otherwise I'll never comeback and this is obviously very important for all of us.

I really think that in the end, I don't know about you, but I only buy if I actually get a pleasant experience in the shop because otherwise I get bored and I won't go back to the shop and this is obviously extremely important for us. So we've got to be careful about this. And then I'd like to say something which is fascinating to a certain extent I think. I went to San Francisco to this wonderful meeting and there were four, five young

people from Silicon Valley who were really special and who organized dinner for me. They came and they were extremely elegant following our taste and they are the founders of Instagram, Mike Krieger, they are 30 years old and they are really great. Then there was the founder of Salesforce, Marc Benioff with us and during dinner he told me, what do you think if I bought you off? And I said obviously, honestly I wouldn't say, so but anyway I will tell you why I found this evening interesting and fascinating, well because there was also Marcus from Facebook and he was also extremely interesting.

I found this evening fascinating because we had a great chat and at the end I told them, some way or another, I get the feeling that you are the new people, the contemporary people. And when they asked me what can we do that's special? I told them, I think that the person who will make the internet more humane, then that person will really become the new Leonardo da Vinci. And so what did they tell me. I mean they are a special partner in this internet project.

On Monday, I got this 40 year old guy, who came to us and said, how can we humanize the web. Well, obviously, I can't say, because I don't really understand the internet, but we need to care for our customers, there is people who like to receive 10 mails a month, others who want to get 10 a day, [indiscernible] we decided to develop a project dividing our customers into seven different groups, depending on their preferences, because this is obviously very important, because in the end I really believe that each of us is tired of receiving floods of documents. And so, obviously we need to care for our customers in a different manner.

I think they appreciated my observations, so I'm particularly glad. So in the end, what we would like to tell you, although we are doing this in a difficult day, because the story of the earthquake is something we had

three times in Karuja, and it was very strong. They have just finished restoring the monastery of the benedictine monks, and now they already have difficulties, they have transferred the monks. So God help us.

But then in the end we would like to convey to you that we are working in a very serene manner, we are very focused on the target you are aware of, which is quality exclusivity and craftsmanship for our product. And so, I would like to give you a very positive idea of our work still envisaging that people are actually looking for something totally exclusive.

So, thank you wholeheartedly. And now, we can open the Q&A, we are here to listen, so please go ahead. The Chorus Call operator, now we can start the Q&A session.