Brunello Cucinelli SpA
“Presentation of the First Half 2015 Results Call”
Wednesday, August 26th, 2015

M Od erators: Brunello Cucinelli, Chairman and Chief Executive Officer
Moreno Ci arapica, Chief Financial Officer
Peter Arnaboldi, Head of Investor Relations
BRUNELLO CUCINELLI: Good evening. As usual a particular thanks is addressed to investors, analysts and our esteemed and distinguished journalists. I hope you have had a good summer rest, so that you are ready now for the second half of the year.

I’d like to provide you with the main results first, and then I’d like to give the floor to the CFO, Moreno Ciarapica for details and then I’d like to resume the floor. I do not want to speak too fast, so that I can be of help of my esteemed simultaneous interpreter. I’d like to, as I was saying, resume the floor to try and give you some visibility on full year 2015 results, then a focus on 2016 because the Spring/Summer collections campaign is nearly finished and then I’d like to dwell on the ’16, ‘17’, ’18 planned investment and growth plan. So I’d like to start with the results.

Net revenues, €200.3 million, plus 13.9% at current exchange rates compared to 2014. EBITDA €33.4 million, plus 11.8%. Net profit €15.5 million, plus 2.7%. And then growth in all geographical areas, international markets, plus 17.1%, Italy, plus 1.8%. So we are particularly pleased with this result of our splendid Italy. And then a positive sales trend in all markets, I would say. North America, plus 25.8%, Europe, plus 5.3%, Greater China, 14.5%, and Rest of the World, plus 36.0%. Then there was an increase in sales in all distribution channels, retail monobrand, plus 36%, wholesale monobrand, plus 0.6% net of the conversions to the direct channel. This would be 4.1% at wholesale multibrand, plus 2.2%.

Then Investment plan, we invested €20.7 million in the first half 2015, €37.9 million in the last 12 months because of the considerable 2013-2015 three year plan amounted to €118 million in the period. In order to maintain exclusive positioning and being present in the most prestigious
location to develop production infrastructure, and IT and technological infrastructure.

Net debt at €78.3 million as of June the 30th, 2015 because of the important ongoing investment plan and the exclusive expansion of our presence in the most important locations and the business seasonality.

And this is my comments. We are very pleased with this first half 2015. We see these data...these results as excellent and since two thirds of the years have already gone by, it’s the end of August now; we can envisage a so-called beautiful full year. We are now about to conclude a significant investment plan for the three-year period to 2013-2015 that has enabled our Company to be much stronger and robust for the coming years and maybe decades, I’d like to say.

The sales campaign for Spring/Summer 2016 is drawing to a close for men’s and women’s wear with particularly positive results. Collections have received an excellent feedback and against this backdrop, we can therefore envisage a very interesting year awaiting us, 2016 with a double-digit growth.

As to the business strategy, we are still firmly convinced with a sense of responsibility, but honestly speaking also with some serenity, so we are convinced that the business strategy of our Company based on an apparel product that features high quality craftsmanship, manual work, exclusivity, and hopefully style and contemporary cuts, this will still be the keystone for our Made-in-Italy, so that Made-in-Italy can always be appreciated, sought after and a leader in the world, These are the most important figures. I’d now give back…to give the floor to the CFO.
MORENO CIARAPICA: Good evening, ladies and gentlemen and thank you, Brunello. As far as sales are concerned, I’d like to recall some points as the turnover results have confirmed the preliminary results released at the last, July the 16th. Net revenues growth at current exchange of net revenues was 13.9%, plus 9.3% growth at constant exchange rates. Most currency effects as usual come from the USD development in line with the sales breakdown and the weight of US on total sales.

I’d like to also point out that in some countries outside the EU, and i.e. for example Russia and Korea, invoicing to wholesale clients happens in euros, therefore limiting the impact of currency fluctuations.

Hedging on sales in foreign currency whose aim has always been mere hedging and never speculation, these hedging reduce the impacts of exchange rates on net revenues counteracting the effects at margin level.

As far as business conversion in Japan is concerned, from the wholesale channel, both monobrand and multibrand, from wholesale to direct channel as of December 2014, it has affected the following. Revenues in the rest of the world thereby favoring a 36.0% growth, then the wholesale monobrand result which excluding the three boutique conversions in Japan would report a 4.1% growth compared to the accounting figure which is 0.6% and then it has affected sales of the multibrand wholesale channel increasing by 2.2% and impacted by the conversion of the 13 dedicated selling spaces in the Japanese luxury department stores to the direct…the retail channel. The slides between 4 and 11 go a bit more into depth of…as far as the sales are concerned. And I’d like to remind you of the positive like-for-like performance that was plus 5.1%.

I’ll now move to the income statement. In the Slide #12, as it was the case for the first quarter, we compare data as of 30/06/2015 with data
30/06/2015 adjusted in order to have a comparable basis. To that end, we exclude from the other revenues item of 30 of June 2015, we exclude the capital gain of €0.76 million having to do with the sale of a non strategic building.

Before focusing on the analysis of the EBITDA change, I’d like to give you a sum up of the most important items of the income statement. D&A increasing from €6.3 million to €8.5 million with weight going up from 3.6% to 4.3% because of the investment for new openings, existing stores and showrooms and as well as the doubling of the size of the Solomeo facilities, whose amortization started at the end of 2014.

Higher financial charges from €1.3 million to €2.5 million because of the growth of NFP…average NFP. Tax rate at 30.5% lower than last year, mainly because of the rates of the regional tax on productive activities has gone down, and we….thanks to the good benefit from it, thanks to the fact that most profit in subject to Italian taxes, this is in line with…tax rates expectation for the full year around 31%, slightly lower than the tax rate in 2014.

As far as the EBITDA change is concerned on Slide 13, we report the growth of the first half compared to the adjusted value from last year which is €3.5 million with margins as of 30th June 2015 of 16.6% against 16.9% of last year. Together with this slight decrease of margins just 30 basis points there was also a significant increase of the first margin plus 400 basis points with a relative weight moving up from 59.9% to 63.9%. Then operating cost rising by 130 basis points with an incidence from 43% to 47%.

As to the first margin, plus 400 basis points, the sizable increase is driven by the channel mix with the weight of the retail revenues reaching 42.3%
versus 35.5% of the first half of 2014, favored by the positive like-for-like and by the contribution of the new selected openings.

Now, moving on to Slide 14; the 430 basis points increased, our operating cost is driven by the personnel cost 120 basis points from 16.7% to 17.9%. And above all, as anticipated in the previous calls, it is driven by rent costs plus 380 basis points from 7.2% to 11%.

Increases of personnel costs and rent costs have to do with the growth and other results of the business growth, the monobrand network with new openings and conversion to the direct channel which as of 30th of June 2015 it includes 79 boutiques with the 11 openings and 3 conversions in the last 12 months, on top of the 13 hard-shops in Japan.

And then the results of the direct management of the business in Japan, this conversion happened in September 1st, 2014 with the increase of structural costs, then the trend of rents in the most exclusive locations and the renewal of expiring contracts, and this trend has to do with the general increase of the rent markets for the most important most exclusive locations. And then the footage expansion of some existing flagship stores, for example, Burlington Gardens in London and Faubourg Saint-Honoré in Paris, together with important major relocations with increase in footage, for example Rodeo Drive in Beverly Hills and the prestigious Shin Kong Place mall in Beijing and Nanjing Road in Shanghai.

As far as personnel cost is concerned, this increase was driven both by the new staff…to staff the direct monobrand stores and also the new structure setup to directly manage the business in Japan. These increases are included in the item, store employees and office staff and the FTE moves up from 670 to 834.
Moving now on to Slide 15, the percentage on sales of other operating cost is decreasing, the weight dropped by 70 basis points from 19.1% to 18.4%. A&P costs always play a very important role and these costs have gone up by 6.6%, moving up from €9 million to €9.6 million, with an incidence that is always around 5%, which is a healthy figure that is consistent with our positioning.

Moving now on to the balance sheet and NFP, starting from Slide 15 where we analyzed the increase of networking capital €25.8 million plus, this increase has to do with the growth of inventory because the business developments and the direct monobrand network and also the business conversion in Japan to the direct channel. The €16.2 million increase of other debt has mostly to do as it was the case in March 15, with the adjustment to fair value of hedging for expected sales in foreign currency at the time when price lists are established. More details on Slide 21. I’d like to remind you of the fact that these changes as they concern exchange risk hedging only they have a temporary impact that disappears when hedged contracts are closed upon billing.

And now, briefly on CAPEX; NFP before giving the floor back to Brunello. And I’d like to point out, Slide 17, €20.7 million investments in the first six months of the year €22.4 million in the first half 2014 and €37.9 million, the CAPEX in the last 12 months. As part of the major project of €118 million investment plan spread over the three years 2013-2105. The NFP as of 30th of June 2015, Slide 18 amount to €78.3 million minus, because of the developments of the net working capital investments and the business seasonality, and this latter is analyzed in depth in Slide 19.

In line with seasonality, I’d like to remind you, as it was also the case in 2013 and 2014, the peak of NFP is expected between June and September
and then it drops in the last quarter, thereby confirming our full year expectation of around €58 million.

This is the end of my contribution; I’ll give the floor back to Brunello.

Brunello Cucinelli: So now I’d like to give you our view on 2015. We have already reach two-thirds of the year, it is now August. Winter sales in monobrand and multibrand have…were off to a very, very good start and this season for us seems to be a very satisfying one. Women’s wear and men’s wear collections were particularly appreciated, visual merchandizing very pleasing and considered so. And also the advertising campaign very special last year, and this year it seems beautiful to us, but it’s up to you to expect the [indiscernible] anyway the mood around the brand seems is very special to us. We tend to say it every year, but we might repeat this year to, this is a very important major year for our Company.

As of 2015, today like-for-like is 5.1% in line with expectations, we always guide for 5%, and also this year…this is the last year of this very important sizeable investment plan, the last three years, we invested €118 million altogether. And so this money was used to double the size of the factory, all the stores are…in contemporary, the showrooms and IT platform that I will dwell upon in a few minutes very shortly.

As a result, we envisage 2015 with an NFP around €58 million, and net equity about half of sales of revenues, so we feel that we would have pretty robust tax rates around 30.5%, again 31.5% last year. Honestly we consider this as a healthy tax rate. Well, this said, we forecast an excellent 2015 with a growth in line with the first half in terms of revenues. As far as EBITDA are concerned, we expect around 17% as a result and we as a result can envisage that we can confirm a dividend around 25% of profit as it was the case in the past few years.
A couple of words I’d like to spend on work on sales. As far as tourist traffic is concerned, the special thing about it is that there is a huge inflow and we notice this in all European capital cities and resort locations. There are lots of arrivals to Italy by very, very wealthy people. It is really something very detectible this season, people from the Middle East, from the Far East, South American, American people. And this said, maybe thirty seconds to the Chinese market.

Well, the first time I went there was 1989 on the eve of Tiananmen event, to purchase cashmere and we think we know China pretty well since we procure our cashmere from there, but we have always adopted a very high quality, selective approach, in order to give a specific image to our brand worldwide. But since we deal with apparel, we decided to adopt the very same taste in Europe and America and also elsewhere. So it’s always the same taste in collections worldwide. It is...for us China is still a very limited market in size, but it is growing, sales are around 6% including Hong Kong and Taiwan.

And we estimated between 0.8% and 1% the revenues outside of very rich Chinese shops outside Mainland China. But I keep thinking that this very large country represents an important [indiscernible] economic growth for mankind for the next decades. I am under the impression that they are working in order...they are striving to make their growth more manageable and better in the world. So as a whole, as far as China is concerned, we are serene and confident short-term, but also long-term because we consider this market as a giant one. And this was 2015, so we would like to end 2015 in a particularly nice way.

I’d now like to provide you some visibility on 2016 since we have completed the men’s wear campaign, men’s wear campaign 100% and
60% the women’s campaign which will end in Milan with very, very special results. I have to say that collection were particularly beautiful, you know, sometimes collections can be beautiful but not sellable, beautiful and sellable and we think that this latest collection is beautiful and sellable. So we are particularly pleased with this result.

So we can forecast for 2015 a double-digit growth. Of course, this means that the first half of the year we will have a product in our multibrand that has been judged in a very positive manner, with a very positive feedback and in our monobrand stores too and we are very, very confident about the quality of the products.

And now before providing you with some visibility on the ’16-’18 three-year period, I’d like to briefly dwell on this large significant project we are working on which is the digital project. We call it a great project for the future. This project in my view is very strong and robust for communication and it will also be very helpful for sales.

Over the years, we have put together a pretty strong team led by 40 year old gentlemen, Francesco Bottiglio and we actually call him CEO of the Internet. And honestly speaking, I’d like to tell you that I would like to be the Co-CEO of the Internet because I am very fascinated by this universe. I am not an expert, I’m not very privy to it, but I am very fascinated and charmed by it and I am convinced that we have to convey all that we were able to give to our monobrands and multibrands in the real world, we must be able to convey the very same message also in the virtual world.

We have always joined together digital and IT. Well, today we have a beautiful monobrand boutique run and powered by YOOX. We are also in the portal of Net-a-Porter and I consider this to be the most beautiful online multibrand boutique worldwide. We started this relationship a
month ago, they were great. And I have to say that we really went right to the bull's-eye, they got the gift immediately in the core. Therefore, I’d like to address a great compliment and congratulation for all that Mr. Marchetti did in this deal.

I have to say that the last prize that we were awarded a few months ago in New York men’s multibrand, Jim Gold, the President from Neiman Marcus, he gave us a great gift because he stated that we were able to provide something very special to multibrands in terms of visual merchandising, punctual delivery and mood surrounding the brand. Somehow we would like to ask online customers to receive their merchandise with a very specific tag, our tag but also maybe the name of the customer, maybe the packaging could contain the book on Solomeo or the season, the theatre season for the Solomeo theatre. As a matter of fact, we want to provide our online consumers everything that represents, epitomizes our country.

And I am particularly fascinated by the following, because somehow we would like to be a kind advisor in styling, in clothing, someone who gives you some suggestion and recommendation because since we deal with men’s wear apparel and accessories, it is very important how you mix and match. So we would like to be your kind advisor to give you some suggestion because this would give you more value because at the end of the day you have a sportier look, a younger look.

We have many women or wives of very important men who ask us to suggest to their husband what to wear especially for leisure times and we are very pleased with this. So there is no doubt about this. I can say that the Internet has been the greatest phenomenon of the last centuries, not century. And we would like to strive in order to be humanist artisans of the web, but at the end, we want this to become one individual monobrand
and multibrand sales channel on everything that has to do with the internet.

I’d now like to conclude by saying to you what we envisage from this three-year period. For the next three years, we think that we can deliver around 10% growth in terms of revenues. And then EBITDA more than proportionate to revenues growth. We’d like to confirm our business strategy that envisages a return to ordinary investments, more or less €25 million and as a result, subsequently we imagine a gradual cash generation. And to conclude, I’d like to highlight that we are particularly happy with how our business is doing.

Of course, we have slightly more time now because the facilities, the factory is finished, the stores are on their way. So now we have all the time available to devote to the web, to the internet because we are fascinated by it. So our point of view is that we are very serene, very focused, very confident in the Chinese, European and US markets and we are very pleased with how things are going.

Thank you from the depth of my heart. I hope we were not too long in our presentation. So we are now available for your questions. Thank you.