Brunello Cucinelli

"First Quarter 2015 Results Call"

Tuesday, May 12th, 2015, 5.45 (CET)

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PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS.

OPERATOR: Good evening, the Chorus Call operator speaking. Welcome to the presentation of First Quarter 2015 Results of the Brunello Cucinelli Group. After the initial presentation, there will be a chance to ask questions. The speakers will be Brunello Cucinelli, President and CEO, Moreno Ciarapica, CFO, and Pietro Arnaboldi, Head of Investor Relations.

And now, I'd like to give the floor to the President and CEO of the Group, Mr. Brunello Cucinelli. The floor is yours.

BRUNELLO CUCINELLI: Good evening, ladies and gentlemen, and thank you, thank you warmly, I'd like to thank analysts, investors and because we consider them to be our shareholders and thank you for the confidence and trust in us.

We'd like to do the following. I'd like to read the strong highlights, then just a small thought about current times and then I would like to give the floor to the CFO, Moreno Ciarapica, who will delve into details, then I'll take back, I'll resume the floor just to tell you about the current year and our vision for the coming years.

So I'd like to start from the results. Net revenues, €111.7 million, plus 12.1% at current exchange rates compared to 31st of March 2014. EBITDA, €19.2 million, plus 9.5%, net profit €9.3 million, plus 3.3%. International markets with the rise of 15.2%, Italian markets increased by 1.75% and we are always very pleased with this result. And then we were able to grow in all distribution channels North America, plus 34%, Europe, 5.5%, Greater China, 10.2% and rest of the world, plus 3.8%.

And then revenues increased in all the channels, distribution channels retail plus 33.1%, wholesale monobrand, plus 1.3%. As a matter of fact, it would be 7.7% net of conversions to the direct channel, and then, plus 1.8%

And then investments, €13.6 million in the first quarter 2015, €40.3 million in the last twelve months. And then in the multi-year program plan 13-15, we invested €115 million altogether. Then it is important for the exclusivity of our footprint positioning and in order to develop production infrastructure, the extension of the industrial plants in Solomeo and the IT platform.

And then, net debt €68.2 million at 31st of March 2015, in line with the seasonality of our business; it's the important CAPEX plan and also the exclusive extension of the monobrand network. So I have tried to sum-up this…take stock of the current situation.

We are particularly pleased with the way in which 2015 has started for our brand. We perceive strong channel, powerful sign, sorry, in the light of the very positive results achieved in the first quarter and having collected all the orders of a fascinating next winter season, and also considering the important sell-out rates for the summer, we envisage for the current year a confirmation of a double-digit growth that we'd like to call pleasant and gracious. Moreover, his year will be the final year of the three-year plan of large investments. And they prompted us to feel as an industry with very sound foundations that keeps focusing on the artisanal Made in Italy that we so much believe in.

And another important remark is that you know, all the people we work with both in Italy and abroad, we perceive in them the start of a positivity phase and enthusiasm, So this said, I'd like to give the floor to the CFO, Moreno Ciarapica, and then I'll resume it later on.

MORENO CIARAPICA: Good evening and thank you, Brunello. I'd like to move straight on to the analysis of results and then I'll give the floor back to Brunello and leave the floor for your questions because I am very well aware of the multiple conference calls taking place today.

Starting from the performance of net revenues, the growth at current exchange of 12.1% matches a constant exchange growth of 8.6%, with the main currency impact coming from the dollar…American dollar. Moreover, the impact on revenues, it should be reported of the conversion of business in Japan from the wholesale channel, both monobrand and multibrand to the direct channel which took place as of September the 1st 2014.

This conversion affected revenues in different segments, the geographical areas, the rest of the world reporting a growth of 3.8%, the wholesale monobrand channel, excluding the 3 boutique conversions in Japan to the DOS channel would report a 7.7% growth and finally the wholesale multibrand channel impacted by the conversions of 13 dedicated spaces in the luxury department stores in Japan, conversions to the retail channel involving the deliveries of the Spring/Summer '15 season. On the back of the retail management, they produced revenues in the first but also in the second quarter 2015, above all.

I'd now like to walk you through the income statements starting from Slide #12 of our presentation and underscoring the need to compare the first quarter '15 with a normalized first quarter '14, i.e. excluding from the other revenues item in the first quarter 2015, the capital gain of €755,000 related to the sale of non-strategic industrial business. This…we should be doing that in order to have a homogenous basis of comparison, in particular on an individual quarter like the first quarter we are talking about.

Before moving on to the EBITDA change, I'd like to speak about the items below EBITDA, depreciation and amortization from €3.1 million to €4.2 million, with weight moving from 3% to 3.8% because of the investment for new openings, existing stores and showrooms. Besides the double size of Solomeo plant, we have higher charges from financial management from €0.7 million to €1.2 million impacted by the growth of the NFP. And then, we have a tax rate of 31.9% in the first quarter, lower than last year, and in line with the expectations of tax rate at the end of 2015, which should be lower than the tax rate in the same period 2014 which was 31.5%.

I'd now like to analyze the EBITDA change. Well, the first quarter of '15 has grown by €1.7 million compared to the normalized value of first quarter '14, thus moving from €17.5 million with a margin of 17.5% to €19.2 million, with a 17.1% margin, thus reporting a slight decrease in margins, but just only 40 basis points against a very strong increase of the First Margin 380 basis points, with operating costs increasing by 420 basis points.

The remarkable development of the First Margin was driven by the evolution of the channel mix and the higher weight of retail sales…retail revenues on sales 39.2% compared to 33.1% of the first quarter last year. And then also the development of the business and the positive like-for-like rates in the first three months of 2015, and we'd also like to point out that the quarterly results cannot be projected as full year trend, because there are some costs, for example, R&D, it's a very important cost for our Company. Well the accounting of these costs can happen at different times from one year to the other.

And as far as operating costs are concerned, the increase by 420 basis points is driven by the personnel costs development, plus 130 basis points from 15.1% to 16.4%, and it also driven by rents, plus 310 basis points from 6.2% to 9.3%, as shown in Slide 14, of our presentation.

The increases of both items have to do with the business growth with the performance of the monobrand network, with new openings and conversions to the direct channel and also the shift from the…the shift of the Japanese business to the direct channels in last September with the increase of structure costs. As a whole, the retail network as of 31 of Mach 2015 include 75 direct boutiques with 9 openings and 3 conversions, from the Wholesale monobrand network in the last 12-months, and then on top of that 13 hard-shops in Japan.

The performance of rents in the most exclusive locations in the last 12-months impacted not just the costs for the retail network, but also the costs for the [indiscernible] extension of some existing flagship. For example, our store in Burlington Gardens in London and Faubourg Saint-Honoré in Paris and also its affected some repositioning, including the repositioning and extension to the Rodeo Drive in Beverly Hills, and also the repositioning to the Shin Kong Place in Beijing, and Nanjing Road in Shanghai.

The increase of rents is in line with the trend that we expect for the full year compared to the weight of rent at then of end of 2014 which was 8.1%. We would like to point out once again that this increase represents a generalized rise of rents for most exclusive locations. And it therefore affects both new openings and the renegotiation of expiring contracts. The increase of personnel costs has to do with the increase of staff in direct monobrand stores, and also the new structure for the direct management of business in Japan, that are included in the item, store employees and office staff, where the full time equipment moved up from 672.8 to 847.4.

Moving now to Slide 15, we'd like to point out, net of cost personnel and rents. We would like to point out a small operating leverage on the remaining operating costs moving down from 17.2% to 17.0%. Within these costs, communication A&P costs has grown in value from €5.7 million to €6 million with a weight on revenues of around 5.3%.

Moving now on to the balance sheet of our quarterly accounts, I would like to highlight the increase of NWC, plus €24.8 million, with a weight on the 12-months revenues moving from 26.8% to 31%.

I'd like to point out, as you can see in Slide 16 that the increase in inventories is structural, is closely linked to the developments of the business and the direct monobrand network, and also a structural with a conversion of business in Japan to the direct network. By the way in April and May, the new boutiques of Monte Carlo and Ala Moana were opened in Hawaii.

And then change in other debts increasing by €15 million, has to do with the actualization to fair value according to the IAS accounting principles of the hedging for the expected sales in foreign currencies performed when price list were defined. These changes have hedging for exchange risk have a temporary effect which disappears when hedging contracts are closed upon billing.

As far as investments are concerned, Slide 17, it is important to read them progressively, €13.6 million investments in the first quarter 2015, but investments in the last 12 months amounted to €40.3 million, and in 2015, will be the last year of the important €150 million projects for the three year between 2013 and 2015.

The net financial position, Slide 18 amount to €68.2 million. This value is consistent with the seasonality of the coming quarters whereby the annual peak as it was the case in the previous years, is expected between June and September and then it will drop again in the last quarter, thus closing 2015 in line with expectation of an NFP around €56 million, €58 million.

I'd now like to give the floor back to Brunello and then there will be room for question and answers.

BRUNELLO CUCINELLI: Since we have reached mid-year, I would like to take stock of the situation. We have had the summer sell-out that was pretty important for the season. And so, there was a very healthy spring climate, and then for the 2016 collections, well, we are working on them. And then men's collection at Pitti in about a month time and you should come because it is a great event and then, the women's collection in the second half of July.

The Fall/Winter orders have already been collected. It has been a particularly appealing season, multibrands, I have commented on it in a very positive way, and we esteem them a lot and international press and the managers of our DOS. All expressed positive comments. The production of these goods is proceeding properly and is very high quality, because production you see…it's all very important, it should be done properly. The network is 4.8% in line with the expectations of 5% sustainable figure for the full year.

At the end of the year, we will have opened nine monobrand stores and three franchised stores, the main monobrands are in Monte Carlo, Turkey, [indiscernible] Frankfurt and then there is Lima, it's also a franchisee stores. Of course, in this place we do not feel confident to open DOS. And we also envisage a year that we'd like to call beautiful year from the image point of view, it is mainly…probably the most important in our history. Today, we are seen as one of the beacons for luxury ready-to-wear collection for men's and women's. I think we can have a double-digit growth both in terms of revenues with an exchange rate impact and it should be in line with the first quarter.

You should also consider that we export more or less 50% in dollars and by tradition we tend to set exchange rates. And as far as 2015 is concerned, we expect an EBITDA; we confirm…we confirm our expectation is around 17%.

And now I'd like to focus on CAPEX because 2015 is the third year of this very important three-year of CAPEX plan. All investments performed over the last few years. Well, we invested in different segments and we feel that we are till now safe and confident for the next three, five years of work. We invested in the Solomeo headquarters and we have more than doubled its size and it should cater for our needs for the next three to five years. And then a very high…we have started production at d'Avenza for menswear and we have really taken a close look towards very high production sites and we have taken a close look to them and we are definitely not concerned for the years to come.

We have tried to make our showrooms as contemporary as possible. The latest was the New York showroom. So today, we have very contemporary showrooms, but I have always thought that if the showroom is outdated even by three or four years, your collection might also seem not contemporary. But these showrooms in Tokyo, Shanghai, Munich, Paris, Milan and New York are very contemporary. So I think that for the next three or four years, the showrooms could be pretty important.

We are investing a lot in the IT platform. And I'll go back to this shortly. And these investments will be completed at the end of 2016, beginning of 2017. And another important remark, we have one single structure where we do IT and digital. So it means that we can all work better from a single platform.

Then just a couple of words on the Project of Beauty that we performed with the foundation with my wife, we have now reached 40% of works. We think that by the end of the year, we will have reached 70% of required works. Of course, this has nothing to do with the listed Company, but I have to say that you see our Company has benefited from it, our territory has benefited from it. And we also envisage and think that when this Company has the need to develop, it can do so in the valley (ph) by building a property but respecting the environment at the same time. So we will close this year with minus €56 million, 58 million at NFP and net equity of more or less half of revenues. So we feel pretty sound and solid.

I'd now like to go back to the IT platform, because for us it is a very important issue. We believe very much in online, in the e-commerce. So about 10 days ago, we decided this should be enhanced even more. Well, first of all, I'd like to congratulate Federico Marchetti on his deal with YOOX and prêt-à-porter and MR PORTER. It's something very special.

As for the next winter, by the way Mr. Porter is coming tomorrow to see us. So we will be both on Net-a-Porter women, MR PORTER men, we will be present there. And to tell you the truth, I find that they are very, very good, they have a great image, we have had some packages delivered from them to see the taste and really the quality is very high, and undoubtedly it is the best boutique online, so we can say that we are now present in Net-a-Porter, MR PORTER, and with the on line boutique powered by YOOX, so we are very, very happy, with all this presence and footprint.

I also said to Federico Marchetti, that maybe the next challenge will be to make everything even more artisanal and unique and in the way which we communicate on the web because we want the kind of atmosphere that you can perceive in the real life.

Monobrand stores can also be perceived online, and how can we do that? Well, maybe when you deliver a $4,000 worth coat, you can receive a note by the tailor, maybe the packaging must be very special, maybe the Solomeo book will be [indiscernible] will come with it, and the program [indiscernible] Solomeo because we want our customers to become acquainted of the place where we live.

So to summarize, this…we have invested a lot time wise too, but this is really something we believe in the online work. So now, if you want, I would like to provide you with some conclusions.

So at the end of 2015, and we have a positive view on it. We are trying to envisage next three-year period where we would like to confirm our growth projects for the next few years, so growth projections a double-digit growth of revenues and EBITDA growing proportionately, so we envisage something very gracious.

We confirm our CAPEX plans for the next three-years with an...on average €25 million per year, which means more or less 5%, 6% of revenues. But you see, I have always argued that a Company, even in the best of times should always invest between 4% to 6% a year, otherwise it runs the risk to outdate. This has always been a conviction of mind, a belief of mind because if you invest, if you do not invest in the product then you are doomed, so €75 million CAPEX more or less in three-years. And with that, we can generate cash…increasing cash.

So following the first three-year period of CAPEX after the listing, we expect now a three-year period that should be in the name of cash generation, because when we went public it was 35% of proceeds where proceeds were invested in the Company. And as of today, we feel a solid enough, sound enough. We would like to be considered a men's and women's luxury apparel worldwide. And we keep planning for quite a serene three-year period, which does not mean that we should not be working day-by-day to innovate the product, because product needs to be contemporary.

So thank you very much.