Brunello Cucinelli S.p.A.

"Nine Months 2014 Results Presentation"

November 11, 2014

MODERATORS: MR. BRUNELLO CUCINELLI, PRESIDENT AND CHIEF EXECUTIVE OFFICER.

MR. MORENO CIARAPICA, CHIEF FINANCIAL OFFICER

MR. PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS

OPERATOR: Good evening, Chorus Call operator speaking. Welcome to the Presentation of the Nine Months 2014 Results of the Brunello Cucinelli Group. Following the initial presentation, there will be the opportunity to ask some questions. The speakers are, Brunello Cucinelli, President and CEO of the Group, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head Investor Relations.

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

BRUNELLO CUCINELLI: Good evening. And I'd like to start by thanking all my partners, investors, who always believe in our Company. I'd like to thank analysts who write very nice things about us, so thank you everybody. So I'd like to report on the nine months 2014 results of our Company. I'd like to give you an overview of 2014, because since we have reached November the 11, we can really say that the year is drawing a close. Then I'd like to give the floor to the CFO, Moreno Ciarapica who will be giving you some additional detail. And then I'd like to resume the floor to speak about our expectations.

Well, you see, the fact is that over the last three weeks, I've spent a week in the US, a week at home and a week in the Far East. I have to say that I am a bit impacted by the jet lag since I came back only last Sunday, but I have to tell you the truth. From all these business trips, whenever I come home, I'm exhausted obviously. But for example, as far as I am concerned, whenever I go to America I come back with beautiful ideas. And then when I go to the Far East, and I have been going there since 1989, every time I travel there, again you really see a world which will become very, very special for each and every one of us in the next century because there are 4 billion human beings living there.

So let's start with the results concerning the first nine months. Net Revenues €277.3 million with an increase of 10.2% at current exchange rates and 10.7% at constant exchange rates. Then we have a net Income amounting to €25.9 million, that is plus 10.2%. We have an EBITDA of €48.8 million, plus 6.6%, then a like-for-like rate of 5.5%.

As to the geography distribution, North America, plus 16%, Europe plus 11.6%, Italy plus 1.3% and I'd really like to focus on this just for a split second because our splendid Italy is starting to see the light at the end of the tunnel, so very interesting developments there. Then Greater China 35.5% but please you should remember that it is a pretty small market for us. Then rest of the world which is minus 5.6% accounting wise, but plus 41.8% in reality, if we exclude actually the business conversion in Japan as of September the 1st but we will focus on this a bit more later on.

Now, since we have reached November the 11, so 2014 can be basically considered as a closed financial year. I'd like to spend five minutes on the few we have to take stock of our Company at the end of 2014. What can I say, for us it is definitely a founding year because close to three years down the road from the IPO, we really considered this year as a kind of foundational year for our Company, and it's a basic year. We think that we have definitely laid some very healthy foundations there.

Now let me talk about FY 14. We have one single brand positioned at the very high end of the luxury segment, 67% of women's wear in terms of revenues and 33% in terms of men's wear, as a matter of fact in terms of SKUs, its 60% women's wear and 40% men's wear. And of course, the reason is very obvious, because the average ticket for women's wear is much higher because for example, if a lady buys a mink coat or something like, that the price goes up. It shoots up.

As for our revenues we have basically achieved what we have always wanted in terms of breakdown, 50% wholesale, 42% retail or own stores and 8% accounted for by franchised stores.

As far as customers are concerned, 650 multibrands worldwide, first class multibrands, these are our clients. And then 105 stores, 70% monobrand stores and 30% franchised stores. You know, we decided to go with franchised stores in further away, in more remote locations or where it is more tricky to basically manage the stores. And by that, we mean the former Soviet Union for example. What about the weights of the markets at the end of the year, US around 35%, Europe around 33%, Italy around 19%, Greater China roughly 6% and rest of the world approximately 7%.

Well, as far as production is concerned, it's 100% made in Italy. We are headquartered in Solomeo, and in May…June we have basically moved to a new expansion…expanded plant. And this new plant should cater for our needs until 2016, 2018. We have 1,250 headcounts. I think we enjoy a quite good relationship with all of them. As you know, no one clocks in to work, but there are very, very strict rules to be abided by, and we are very, very pleased also by the fact that voluntary absenteeism is lower than zero, which means that maybe someone is sick, they are allowed to stay home for seven days, but if they feel better on the second or third day, they decide voluntarily to come back to work. That's why it's lower than zero this rate. So we think we enjoy quite a pleasing relationship, but on the one hand, it is a pretty kind of strict relationship, but on the other hand, we are also very human, but also very loving from another point of view. This is who we are today.

What about the last three years since when we went public? Nearly three years, we went public in April 2012. We invested €108 million, only in the current year there will be nearly €40 million. The net debt at the end of the year will be around €49 million. And then the tax rate will be around 31%, barely 31%. And I'd like to stop here for one second, because I think that this is a pretty healthy Italian tax rate to be told.

Then important initiatives that we implemented this year, as of September 2014 we have bought back Japan, Japan business, a very important step. We still have the very same partners since when we started business there Itochu, but as of September the 1st, Itochu has a 25% stake in a joint venture and we manage these stores directly. There is no distributor anymore, so we can basically look after the image of our brand in a very particular way, and we are very pleased with that.

And then, I'd like to spend a couple of words on Russia too, because it has been a very relevant year, a very important crucial year for them. So sales went well there. But the most important thing is the following. The Spring/Summer collection in Russia, it sold with plus 6%. So we have collected orders to be executed and we are very happy with this.

Another interesting development, its November already, the winter sell out rates have reached quite a good level. And we are definitely led to think that 2015, that I will talk about later, will be another important year.

So to close 2014, I'd like to point out that we think that we will be closing the year with double-digit revenues with a net income also double-digit and also envisaging that for us this has been a very special funding year. And then because, as a matter of fact, we enjoy a particularly good acknowledgement and image. We are a 100% Italian Company, a very peculiar specific lifestyle. But I'll be dwelling on this after Moreno's speech, who will be going into a bit more of details.

MORENO CIARAPICA: Good evening ladies and gentlemen. Revenues result with all the details as to geography distribution channels has been extensively commented by Brunello. So I'd like to basically dwell on the important developments concerning the Japanese…the Japan business.

You can see it in the Slide #4 of the presentation. So the business conversion occurred starting from September the 1st, 2014 in agreement with our partner who had been active locally for a long time, Itochu. With them we established a joint venture where we own a 75% stake and Itochu 25%, and this Company is the one that distributes directly since September the 1st.

Conversions as anticipated involved, both the three monobrand boutiques, two in Turkey and one in Kobe, and the 13 hard-shops inside the most prestigious luxury department stores where we are currently selling, including Isetan, Takashimaya, Daimaru and Mitsukoshi, so first class department stores in Japan. These developments impact nine months sales, because 3Q '13 results showed deliveries of the Fall/Winter collection to wholesale monobrand and multibrand clients that is the sell-in revenues. Whereas this year the same deliveries to points of sale occurred, in the third quarter of this year will contribute to Japan sales sell-out mainly in the next quarters…in the coming quarters. This is the reason behind the decrease in revenues reported in the rest of the world, which as Brunello said, if we exclude Japan, it would have enjoyed a double-digit growth 41.8%, it would have been like thanks to the result in existing stores, and the contributions from some new DOS openings in Sao Paulo June 2014 and then franchised stores in Seoul April 14 and Riyadh October 2013.

The Japan conversion also affects, the performance reported in the wholesale monobrand channel. As we explained in Slide #7, because it shrinks by 4.4%, however, this performance if we exclude the impact of the three boutiques…conversion in Japan would have shown an increase by 23.4%.

Well, we now move to analyze the income statement and the balance sheet. And I'd like to point out that the Japan business conversion also impacts the third quarter and nine months profitability because all investments and costs to manage the business and to manage the structure there were brought-forward to July and August, whereas the sales will mainly show only in the next few months. Another item to be taken into account is the inventory as of 30 September 2014 which is impacted by the three former franchised stores and the 13 hard-shops that are now part of the retail business.

Let's now move onto a more general analysis of the income statement, Slide #12 of the presentation, where we see a double-digit growth of total revenues and net income in line with our expectation for the end of the year. The EBITDA growing by 6.6% and reaches 17.5% of total revenues, this growth is accompanied by higher depreciation and amortization increasing by 13.9% whose weight moves up from 3.3% to 3.4% of revenues linked to investments for new openings and also for existing stores.

I'd like to point out the result of the financial management whose value moved from €1.4 million to €2.0 million from 0.7% to 0.7%. And the tax rate amounted to 30.7%, lower than last year, but in line with the trends as of 30 July 2014 and consistent with our expectation for the end of the year.

Let's now move onto the EBITDA trend Slide 13, whose margins decreased from 18.1% to 17.5% this year. This shows a significant increase of the first margin plus 250 basis points with operating costs rising by 310 basis points. The remarkable increase of the first margin 250 basis points is the result of the following.

The evolution of the channel mix with a higher weight of retail revenues on total sales 36.4% versus 31.5% of last year than the cost for the manufactory of men's suits develops in-house following the acquisition of the D'Avenza know-how, with very highly specialized tailors and accounted for an operating costs mainly in personnel costs without any impact of the first margin. If this work had been performed by a third-party manufacturers the cost would have increased the cost of subcontractors and so we would…thus resulting in a smaller improvement of first margin, and of course, of lower operating costs, in turn, operating costs increasing by 310 basis points.

In the Slide 14, you see a sum-up of all these trends, and we can say there was an increase of the personnel…of the staff cost 150 basis points with a weight that goes from 14.4% to 15.9%, and this was a result of the increase of staff in direct monobrand stores, included in the item store employees and office staff, and the new structure…operating structure in Japan.

Moreover, a higher number of tailors following the acquisition of the D'Avenza know-how included in the item manual workers. There is then an increase of cost of rents whose weight amounts to 180 basis points higher than last year, moving from 5.5% to 7.3% mainly due to the development of the DOS network, the rents of the new buildings in Japan stores and showrooms. And then some renegotiation of expired lease contracts, then the 20 basis point reduction of other operating costs whose weight moves from 19.6% to 19.4%.

And then among operating costs, I'd like to point out the investments in technical and specialized craftsmanship training courses that the Company organizes in the school of arts and crafts in Solomeo, whereby there is a…there are 60 students and highly qualified company staff interact daily. With new classes towards this year for example, cut and assembly and tailoring, they are adding up to the classes already introduced last 2013, mending and darning.

And these courses will take place next year too. The continuity and long-term planning they have as an objective, hiring the most proficient students and some of the students have already joined the Company flanking the existing staff and the continuing their learning process.

As far as the balance sheet is concerned, in Slide 16, you see an increase of NWC, plus €26.3 million driven by the increase of inventories as of September 30, 2014, plus €25.7 million compared to 1st September 2013.

Inventories increased structurally as a result of business developments and developments of direct monobrand network for new openings, plus 8 conversations to retail including the three boutique conversations that we mentioned about in Japan. Then the 13 hard shops in luxury department stores in Japan converted from the multibrand to the retail channel, and then a very sizable offer strengthening in men's suits in our stores and in our management.

Let's now move onto Slide 17, where we see the ongoing sizable investment plans that continues amounting to €31.1 million as September 30, 2014, commercial investments €16.1 million, and this is the level that we consider ordinary for the commercial development consistent with the brands positioning and exclusivity. Then we have investments for production logistics amounted to €10.4 million focusing on the expansion of the Solomeo plants, which will be completed by the end of 2014. And we think that it will cater for our growth until 2017.

And to conclude, among other investments, I would like to point out €2.3 million to consolidate and further develop the IT platform, a relevant project that will be further developed in the next three year period. All the trends analyzed that are summed up in the Slide #18, lead to an NFP that as of 1st September 2014 reaches minus €49.5 million.

This is the end of my presentation. I would like to give the floor back to Brunello. Thank you for your attention.

BRUNELLO CUCINELLI: Thank you, thanks again. So I would now like to focus on the expectations for next three year period, 2015, 2017, but before moving on to this, I would like to take stock of the current situation. So we think that we somehow have created a true Italian lifestyle and this is maybe the most interesting thing to mention. We are considered an apparel ready-to-wear Company and this is important although our accessories weigh more or less 15%, but I really want you to consider us a luxury ready-to-wear men's wear and women's wear Company.

And this is very important, because this is the Italian heritage and also, because, I'm under the impression that there is really a shortage in supply of luxury day wear; so ready-to-wear Company. And also the men's wear initiative, the project with men's suits is very, very important. It was the only thing that were missing somehow, we were lacking. Well, it is enjoying a staggering success.

And it is very important that we were able to design a more contemporary fit for our suit. This is what our clients say, both monobrand and multibrand, so the D'Avenza deal with very, very ancient long established

Company. We think that this acquisition has contributed knowhow and also a very long established heritage of men's suits.

Well, the truth be told, the image that we currently enjoy worldwide is that of an Italian Company, no clients, no consumer, asks us any longer whether the product is made in Italy or not because it is taken for granted it is manufactured 100% in Italy. There is lots of care for the way we work, there is lots of attention to human relationships, and I deem this pretty, pretty important because as far as…what I have noticed during this business trip, you see everybody knows everything. This happens both in the US and in China too. So enjoying an image of a very high quality Company that works and focuses on genius and creativity, also in deliveries, in service provided, and in a contemporary style. This is what we believe in. So today, 2014, we consider it in excellent year and a founding year for our Company.

And what about the next three year period, 2015, 2017…so as to 2015, we have a very concrete kind of visibility, pretty strong also for 2016, and for 2017 the visibility is slightly lower. But there is nevertheless, some visibility.

We envisage a double-digit healthy growth each year, both in terms of revenues and in terms profit. Because we think that this three year period could also be a feature, a slight operating leverage and we are very glad with this. Why do we say that 2015 we already have a pretty good visibility on it? Now, let me tell you about this later. Now, I wanted to mainly focus on investments.

So in 2015 CAPEX could be be €33 million, 2016 about €25 million and 2017 more or less €22 million. So €80 million altogether versus the first three year period since the IPO of €108 million, but of course, in the first…in the past three years, that CAPEX also included the expansion of the factory. And we think that the current headquarters that we have can be sufficient for us until 2018. So after the investments, the debts at the end of 2017 should amount it to more or less minus €25 million. And this is another important thing that I would like to mention.

And I would like you to listen carefully. We have envisaged a 5% like-for-like rate. And why is that, because my conviction is that at the very top end of luxury, for example, if you have a customer in New York, they shop in New York, and then they have a second residence in Aspen, and the third residence at the Hamptons. Of course, when you open your monobrand store in Aspen, they go and they can shop both in New York and Aspen. And so, somehow we would like to…we have actually factored in a healthy like-for-like rate for us, which is 5% taking into account this development in the three year period.

And 2015, why do we have pretty good visibility on that, because we have achieved very very good results in selling the Spring/Summer collection 2015, we have the orders in place men's and women's wear, there are interesting developments there. And so, we are very confident as a result because it is not just the fact that you have orders already placed by monobrand stores. But you know, that the goods displayed in stores from January to June, has been appreciated by the press, and by the experts, and by the multibrand clients too, and it's very interesting.

And, you know, how much we value our multibrands, because multibrands are the real guardians of the brands. They never pay you too many compliments, they are pretty harsh in their feedback, and maybe they say that deliveries are not on time, you know, they tend to be very strict with you. So collections went very very well. And another thing that we are very pleased about is that these collections were very much appreciated also in the former Soviet Union, where we had plus 6%, as I was saying before. And I'm also very very happy of how things went in Italy.

Well, you can see that things are now looking up for a splendid Italy. So collection is very well, winter sell-out rates as of today is very very interesting. So you know, in the end if the sell-out has performed well, the budgets follow suit. Then store opening that should be between 8 and 9 stores for 2015, they are…they have all been secured, and we can say 8 out of 9, so 95% is already secured. And all this leads us to hope that it could really, really be a very very interesting year, yet another interesting year, but also very very strong, as far as the taste and the collection is concerned.

As to the latest fashion shows in Milan, very famous and important journalists from worldwide have paid us a very good compliments, and we are very honored by these acknowledgements. And this is also a good result for our staff that works with patience, with genius, with creativity on a daily basis in our Company. These store openings is very important stores in North America, we have Vancouver and Houston and Hawaii, North America and Canada. Then we have a couple of European locations, Monte Carlo and Frankfurt, and then another important opening in Ginza in Japan. And then, we have a couple of franchised stores, strategic stores both in Dubai and Singapore. So we are pretty serene about next year.

So where are…what are we currently focusing on, and what do we want to keep focusing in the next three year period. Training courses, Moreno was saying before, that the value…I am talking about the value of the school of crafts, a year has gone by. And I have to say that we have hired some of the most proficient students because you know all these classes last for one year. And the students are being paid…students are paid €700 a month to work five hours a day because we didn't want them to be busy for 8 hours a day from the very beginning because it is a pretty repetitive and hard work.

You know, the Company supports the four classes that pertain to our business, and the private foundation, the Cucinelli foundation supports other classes, such as, agriculture, and also masonry. So training is very, very important, because at the end of the day, product is basic, we can give the idea of a craftsmanship company, of an artisanal company. This is what we are, and this is what we keep…what we want to keep conveying in the coming years. It's true, we are a pretty large Company for Italian styles, but we work in a very artisanal way.

We want to really convey an important idea of visual merchandising, and our Company hinges around this. You know, visual merchandizing is very important for women's wear, but it's really crucial for men's wear, because otherwise you see a great suit is a great suit, of course, our fit is slightly different, but if we can match it with different details, maybe with a denim shirt with a blue tie, with a pocket square, because pocket squares for men basically are the same as handbag for women. If we can do that well, we can convey a very important message.

And in these stores, not just in DOS, but also in hard-shops, in department stores, the most important worldwide. When you enter the store, you must really breathe or perceive this ambience, this idea of home of Italy, of culture, I don't know if any or some of you had the chance to see the advertizing campaign this year that was pretty successful and basically represents Italy. This is…we want to provide a manual work, a handmade, Italian style, the sorts of made customized products. And then events, events are also very important, and this is also the reason why I went to the US and then to the Fareast, because it means organizing events in the boutiques that's when you meet your customers, that's when you meet the press people who want to meet you.

I'm very pleased to go there, but sometimes it can be very tiring. And yes, the store is Seoul is beautiful, I would like to…we'd like to thank our partner there.

In Beijing, we opened the fourth floor women's wear in this so-called the Chinese Bergdorf Goodman in Beijing and the world, we are many of us there, and we were wondering that at the end of the day, we could be anywhere here. You couldn't really tell that we are in Beijing. So just think of how much change has happened, of course, very quality. In Shanghai, there was…we organized this as an evening event, I know that you all travel very much, but every year, you see everything seems to change on a yearly basis, so the value of visual merchandizing and the value of events in monobrand stores.

The value of events also in department stores with Trunk Shows which means that you go to the hard-shop; in this case to Neiman, Saks, Harrods of the Japanese department stores. The French ones, you go there, you invite your customers and you basically sell the goods that are their on display in season and then you organize fashion shows where consumers already book the items for the following season, and it's a very interesting thing. And I want to repeat it once again; the value of the multibrand channel is very high for us. And today we do…our breakdown is 50 multibrand and 50 monobrand between franchised and DOS stores.

This industry is not supposed to lose its Italian character and its craftsmanship. And another important thing we would like to invest in…we are actually…well, we actually already investing in the IT and the internet world. We started in 2014, spending €2.5 million, and we'll continue to invest in next three years.We will spend additional €13 million, €14 million to complete the whole project. And I keep repeating to my staff, I believe in this very, very much. But somehow we must manage to be artisans of the web. So how can we do that? We have to showcase our goods displayed in a very special way, in an exclusive way. We have to change web windows very often. We have to offer special services, special packaging. And thanks to the YOOX relationship, the average ticket is above €1,000 Marchetti says to me, it's very, very interesting because at the end of the day, you ship also cashmere coats for €4,000. So on the one hand we believe in the web very much, but on the other hand, we want to remain exclusive artisans of the web. How can we reach this?

Well, you see when I was in China last week I was astonished because I gave some interviews and one of the interviewers had two mobile phones and an iPad all with images. So this means that we have to be very good and we should not break the exclusivity of our brand, not jeopardize it. Because I have the impression that especially very affluent people they want to buy very special things. I might have said this already, but during the Cannes festival, film festival, you see in our stores we can only display one single model and one single item of women's dresses, you can't display two dresses that are the same, because you see, if two customers buy the same dress, and then it can be a disaster. So I wanted to give you an overview of the three-year plan so that you can…we can foresee three good years of corporate growth, of cultural growth, of beautiful Italian image for the products, of course, collections are very wide-ranging. But an important fact to be mentioned is that their original taste is Italian and European and I'd like to also include the West there, because basically there is no longer any difference between the ways an American or a European dresses.

Another important thing, we manage Europe and North America, 85% of our business altogether as if it was one single domestic market. And I have to say that there is no longer any difference and this is very important. And since we deal with apparel, we must be very careful with sizes. But there is an interesting thing to be mentioned here for us and for Italian companies alike. And I was talking about this in Shanghai the other day. Many young people, male and female alike, are much closer to the European build which means that the problem of sizes is now less strongly perceived than 15 or 20 years ago. It might sound something…sound negligible, but for those who manufacture clothes like we do, it is a very important change that has occurred.

So the year has basically finished. I hope we…I was able to very clearly explain to you extensively the 3-year plan. I'd like to thank the Americans in particular because 20 days ago in New York, we were awarded this fashionistas award; it's a very important fashion prize in this industry. And thank you, thank you from the deep of my heart because we are moved by the reason that why we were given this price. Of course, it is a one-of-a-kind prize in the world. And I'd like to dedicate this price to my Company, to Italy, to our land, to manual work.

I'd like to conclude by thanking everybody, thanking the Americans for the prize given to us. I'd like to thank our analysts because to tell you the truth, you write very…even sometimes even two beautiful things about our Company from the viewpoint of human relations or behavior, and we are very much honored by this because we would like this Company to survive for the next 200 years. So we now feel stronger, more powerful, sounder, and therefore, thank you, thank you very much.