Brunello Cucinelli Group

“Presentation of Full year 2015 Results”

Thursday, March 10th, 2016, 18:00 CET

MODERATORS: BRUNELLO CUCINELLI, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

MORENO CIARAPICA, CHIEF FINANCIAL OFFICER

PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS

OPERATOR: Chorus Call operator speaking. Welcome to the Presentation of Full Year 2015 Results of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. After the presentation…the initial presentation there will be the opportunity to ask some questions.

Speakers will be Mr. Brunello Cucinelli, Chairman and CEO, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations. To receive help from an operator during the conference call, press "*" followed by "0."

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: Thank you and good evening ladies and gentlemen. Tonight, I will try and speak a little slower, so that our esteemed translator is able to translate. I have to say that she can translate anyway, but at least she can translate more at ease. So I'd like to start once again by thanking you all wholeheartedly for the respect and regards that you usually pay to us, you investors, analysts, the press and then in-house and out-house cooperators, and also some other…some fans of our brand.

There is no doubt that this is probably the most important call in the whole year. First of all, because we are providing you with the whole results of the whole year and also because since it is March, we can have a good visibility on the ongoing year. So I'd now like to read the first part, the highlights, then I'd like to give the floor to Moreno Ciarapica, for more detailed information. And then I'd like to resume the floor to provide you some visibility on 2016 and a pretty good visibility on the next 2017 and 2018 the next two years.

So net revenues €414.2 million, plus 16.4% at current exchange rates compared to 31st December 2014, EBITDA €69.1 million plus 11.0%, the net profit €33 million, plus 5.4%, a significant growth of revenues, both in international markets plus 19.4% and in the Italian market plus 3.6%, we are particularly delighted with this, very positive results where reaped across all international markets, Europe plus 10.5%, North America plus 27.4%, Greater China plus 23.3%, Rest of the World plus 18.1%.

And then all distribution channels had an increase of growth…retail monobrand 30.1%, wholesale monobrand 8.1%, and wholesale multibrand 6.3%, net debt €56.4 million as of 31st December 2015; significant investment plan in 2015, €40.8 million to complete the major 2013-2015 three year plan amounting to €120.4 million altogether. The Board of Director will propose the dividend distribution equal to €0.13 per action, to 26.5% payout ratio which is slightly higher than the previous year, just a couple of percentage points.

I'd now like to read out what my thoughts are about the full year. 2015 has been a splendid year for our Company. In this year, we have enjoyed a healthy growth in terms of both volumes and profitability. In this year, our brand has strengthened its identity even further. The Fall Winter 2016 sales campaign has ended with excellent results, it just ended in the last few days. We have the impression that the feedback on our collections was enthusiastic, both from the press and the multibrand clients.

As of today, we can therefore envisage a particularly beautiful and serene 2016, with a gracious double-digit growth. We will be able to achieve these objectives, thanks to the young fresh inquisitive minds that are attracted to both the stimuli from the web and the craft of our artisan's skilled hands. As usual, we would like to pay special tribute to all those who somehow share our thoughts on mankind.

So thank you for now. I'd now like to give the floor to the CFO Moreno who will be going into detail a bit more.

MORENO CIARAPICA: Good evening ladies and gentlemen. Thank you, Brunello. So after presenting and commenting the preliminary results…revenue results on January the 10th, I would now like to recall just some revenue trends starting from the performance at constant exchange rate. At constant exchange rate, growth at 31-12-2015 was 9.5% in line with the trend of the first nine months. It was 9.4%.

Over the last quarter, there was a remarkable acceleration of the positive currency impact on revenues in the full year 2015, the currency impacts amounted to 6.8% versus 5.1% of the first nine months of the year.

I'd like to point out once more, as in the previous times that the hedging on revenues, net of cost in foreign currency is aimed at eliminating the impact of currency fluctuations on the absolute value of Group EBITDA. Also considering that the very same costs borne abroad are subject to the same currency trends.

Let's now move on to the income statement Slide #14 of the presentation you received. It is fair to compare on a progressive basis and not on individual quarters as some costs…the allocation of some costs can change on a quarterly basis, but still be flat on a progressive basis and considering the rate, the retail total revenues have on individual quarters linked to the openings timing.

Let's now compare the 31st December 2015 report results to the normalized results of 2014, excluding from the other revenues item 2014, the capital gain of €755,000 relating to the disposal of a non-strategic real estate asset.

The first margin increase from 62.8% to 64.4% plus 160 basis points whereas operating costs increase the impact on revenues from 45.3% to 47.7% plus 240 basis points, with EBITDA margin at the end of 2015 amounting to 16.7%. Last year, it was 17.5%, so decreasing by 80 basis points also due to the dilution effect of currency on margins versus our initial expectations, as absolute values, as a matter of fact, the achieved result confirms our initial expectations.

Amortization are on the rise by €4.4 million from €13.7 million to €18.1 million, incidence 3.4%, incidence from 3% to 4.4% due to significant investment in the 2013-2015 three year plan amounted to €120.4 million investments, including the investment to double the size of the Solomeo factory whose amortization started at the end of 2014, considering the investment trends of the last three years and also of the following three years, the coming three years, we expect that in 2015, the impact of amortization on revenues is around 5% to then decreased slightly in the following years.

Charges relating to financial management increased from €2.9 million to €4.8 million due to the increase of the average net financial position of 2015 versus 2014. Tax amounted to €13.2 million, compared to €14.6 million at the end of 2014, with the tax rate of 28.6%, benefiting from the reduction of the regional tax on productive activities in Italy, which is the country where we actually generate most of our revenues, compared to 31.5% of tax rate of the previous years; that was impacted by some non-recurring components.

As to our expectation for the next few years, well around 29% is what we expect, net income 2015, €32.9 million with a 5.4% increase. And as far as the Group profits is concerned, €33.3 million, we'd like to point out the significant improvement of minorities that moved from minus €1.3 million to the current minus €0.4 million. Thanks to the improvement of subsidiaries results which are still engaged in important commercial initiatives since some of them are still in a start-up phase.

Let's now move on to Slide 15, and analyze the changes in first margin, operating costs in the EBITDA margin. The increase of the first margin plus 160 basis points was mainly linked to the positive like-for-like in 2015 plus 5.4%, a slightly higher performance than we expected for the full year. It is also due to the performance of the channel mix with the retail revenues, impacting the total revenues by 46.6%, compared to 41.7% in 2014 and also thanks to the currency effect.

As far as the trend of the retail monobrand network is concerned, boutiques went from 71 units in 2014 to 81 DOS at the end of 2015. The increase of the retail channel weights was affected by the fact that the business in Japan was converted to the direct channels starting from September the 1st 2014, and this included three direct boutiques and 13 hard-shops in luxury department stores.

The increase of operating cost is in line with the business development and partially impacted by FOREX, in line with the performance of currency on revenues. In particular, the increase of 240 basis points is driven as you can see in Slide 15 by the personnel cost developments, plus 60 basis points from 17.5% to 18% with a total above FTEs going up from 1,240 in 2014 to 1,364 in 2015. And it is also impacted by rents plus 250 basis points from 8.1% to 10.5%.

These two cost items were mainly driven by the business development, the evolution of the monobrand boutique network, the conversion of the Japanese business to the direct management, and then the rent trends in the exclusive locations, renewal of some expiring contracts, as well as, the extension and refurbishing of selected boutiques and showrooms worldwide.

I'd like to highlight the positive leverage on other operating costs and then impact going from 19.7% to 19.2%. And among other costs, I'd like to point out those related to communication that always…that have always been very important strategic for the Company. Such costs increased from €19.6 million to €23.3 million with a percentage amounted to 5.6 % in 2015, basically flat compared to the 5.5% incidence on revenues in 2014.

Let's now move on to analyze the net financial position. As of 31st, December, 2015, net financial position amounted to €66.4 million after peaking as usual between June and September, due to the seasonality of sales as you can see in the tables on Slide 17.

And then debt, the debt evolution is linked to the net working capital and investments. As far as net working capital is concerned, Slide 18, I'd like to highlight the decreasing impact on sales from 27.4% to 27.1%. Among all the different items, I'd like to highlight inventories because of the business development direct monobrand network and the conversion of Japanese business to the direct network which impacted the first nine months of the year with an incidence that decreased by 40 basis points from 35.2% in 2014 to 34.8% in 2015. This level of inventory can be considered typical to our business and sustainable in the medium range.

As to trade receivables, plus €0.6 million, this was driven by business developments and the currency effect benefiting from the favorable management of collection, income collection in the last months of the year. The increase of trade payables is linked to the business developments and the balance increases because of purchases of raw material and then outsourced work and the particularly significant investments made in November and December.

Slide 19, dwells on investments, but Brunello already mentioned this. I give the floor back to him.

BRUNELLO CUCINELLI: Yes. So I'd like to spend now a couple of words on 2015, on the great highlights of 2015. It has been a particularly good year, may be the best year in our history, but very often you know, it is the case that we say the very same thing. Then besides results, I'd like to stress the fact that in this year, collections have been really much appreciated as a very high image attached to the Company, digital merchandizing plays and important role and it represents our Italy, our community and the culture of labor.

As for advertising, it has being a pretty good year. I don't know whether you saw the image of the sheep in the snow, it's been very much appreciated. In 2014, we have had the photo of the table in the…in Umbria representing our heritage. I'd like to stress once more that we are an Italian ready-to-wear Company. We have 16% of our revenues in accessories more or less as a whole 67% women's wear and 32% men's wear, like the other years, there is absolutely no difference there.

As far as our revenues, I would say 50% monobrand and 50% multibrand originated. And as you know, we are a great fan of the multibrand channel. So this year basically marks the end of the major investment plan 2013-2015 following the listing to the Stock Exchange in April 2012. We invested €120 million altogether…in the two years 11% of our revenues.

And what have we achieved, we have doubled the factory, the surface of our factory in Solomeo and it should cater for the needs for the next four to five years.

All showrooms worldwide in…at the end of the year, they had been either refurbished or extended. We have a great network of DOS in the best cities worldwide. And honestly speaking, we can't say that they come cheap, but they are located in the best areas.

More or less 1,400 employees as of today, average age 38 years, top managers 43 years of age, but if I was to step down and I am 62, then the age average would drop to 41. About 900 out of this 1,400 are based in Italy and 550 employees work in the world, worldwide staffing stores and showrooms.

Net equity at 50% of revenues, net debt €56 million, as Moreno was saying before, 13%, 14% of sales. Honestly speaking, our tax rate is pretty healthy, pretty fair, 29%. I think it's pretty fair. So as we were saying before, we propose to distribute dividend around 26.5% of profit with a slight increase 2% compared to 2014.

At the end of 2015, we would like to be seen as an artisanal manufacturing Company, Italian Company. And to conclude, I'd like to say that now in April we will be celebrating the full year since the listing and honestly speaking, we are very satisfied with this. With you investors and analysts, we are always able to better understand and grasp the value and the strategy of our Company. You really are very special advisors to us. And there is no doubt that you seriously speaking are a great source for debate and inspiration. So if I were to take stock of 2015, in a nutshell it has been a great year.

I'd now like to talk about 2016, providing you pretty good visibility on this and then just some highlights on '17 and '18. As you know, we always like to provide with a three-year visibility. At 2016, the campaign has nearly ended, sales campaign, and it has performed pretty well, excellent feedback from the press. And we are always pleased by this. But we are also pleased with the feedback from the multibrands; they were also very, very enthusiastic about our brands.

Well, men's wear and women's wear collections, we can say may be they were the best in our history, although I have already said this. But seriously speaking, they were particularly good.

Then sales campaign started very well, the summer collection was also appreciated as of today like-for-like 4.1% as per expectation. And then we will be opening six to seven stores worldwide this year, 5 plus 2 or 6 plus 1 at DOS and franchisee. Franchise stores, they are…all the contracts are secured. So 2016 should report growth once again, both in terms of revenues, double-digit growth, and slightly…and then EBITDA on the rise too. So we are very confident.

Investments, CAPEX in the year between €33 million and €34 million belonging to the 2016-2018 three-year plan where we have envisaged about €8 million overall investments spread over the three years. And if we consider €1.5 billion revenues, €8 million basically accounts for 5%. So at the end of 2016, NFP should be around €56 million, minus €56 million whereas at the end of the three-year period in 2018, it should be around €30 million €35 million with a 5% incidence on revenues and sales and we are pretty satisfied with this.

So over the next three years, we foresee a slight increase of dividends, a couple of points per year to then achieve 30% in a couple of years.

At the end of it all, we can say that we will be targeting a gracious healthy fair growth and also slight improvement in margins with a fairly good cash generation. So we can say that it will be a pretty appealing interesting three-year period cash-wise.

And now before moving on to the digital world, it's something we are very excited about, I'd like to welcome a young manager who decided to move to Solomeo to work with us. His name is Luca Lisandroni; he is 37. We had three meetings and I was very impressed by him also from the human point of view, very extensive international experience, coming from a great Italian Company that I have held in lots of esteem for, and the same as Riccardo Stefanelli who is 35 and you all know him. And now, he has been with me now as a Co-CEO for three years. Luca will be basically holding the same position of Co-CEO.

So I really like the idea to be that I who…and I am 62 years of age. So I'd like to say that I am flanked by two young guys that I have a lot of esteem for. They can definitely improve, grow and they can contribute modernity and vision. Well, Luca Lisandroni, who is an outsider, so to speak, and then on the other hand, we have Riccardo, who basically was trained and grew up inside of industry and he is also the husband of my older daughter. But for this reason, I would like to say it once again, I think that you do not inherit a Company, this is something that is very, very important and this is the rule of history.

I'd now like to say a couple of important words on the digital world. As you know, we have made this major investment not just from the economic point of view, but what we basically did, we asked the best mind in our Company to express their views. So, in 2016, we will be completing this major difficult project which should enable us to combine digital world and IT, a very important project communication-wise, very relevant for the e-commerce which will play a very important role in the future. We can't really pinpoint and assess how large this importance will be, but we are sure that it will be important.

And then last but not least, we can have a very robust industry altogether. So as a whole, we believe that the digital investment is very valuable. Honestly speaking, we can't really know to what extent this digital world will develop, the only thing we know for sure is that we are ready from the technical and…from a technical point of view.

So we will be managing our boutique online from the beginning of 2017. As you know, we still enjoy a great relationship with Net-a-Porter, YOOX and MR.PORTER with the whole of their team and we are very pleased with this. So we will be having our own online boutique starting from early 2017. And I think we can convey to the web the very same quality of work and life that we try to implement the physical work here in Solomeo.

And I'd now like to devote two minutes to the markets, the market trends. So we can abide by the allotted time. And then you will also have the chance to ask questions, we will be available for you. But first of all, as far as the market is concerned, I'd like to express…to reiterate my view. I believe that the future will be marked by two very clear trends.

On the one hand, we will have products with a very high rate of manual skills, exclusive products, and recognizable products and without a logo; this is my idea and very expensive products. That will not be very easy to find. And on the other hand, we will be having industrially made products, very largely distributed, manufactured at a very good price and in larger volumes. As you know, we have decided to embark upon on the first root, so choosing artisanally-made products and handicrafts in Italy.

Now if I was to give you an overview on the markets, I would say the following. Europe, I think that there is a very positive mood surrounding Europe large tourist inflows, both rich and ordinary tourists, who are all somehow fascinated by our European lifestyle, by the beauty of our continent, by our lifestyles. So Europe is very appealing market.

China, you see I have a cold throat because I play football outdoors. Then China, I'm seriously still convinced that China is and will be a great market for everybody. In my view, this country is trying to rule a growth and we are talking about a very informed people, always online, and generally speaking, they are always connected. Generally speaking, I think that especially the well-off Chinese are pursuing exclusive, expensive, localized products, but also at a fair price. And by that I mean a price that is no different to the price in the rest of the world because in view, they are upset by the fact that maybe prices in China different to other markets.

Plus plays…it's a very tiny market, as you can see, 6% more or less. But we see a very rosy future ahead. We also have the impression that the value of our brand, the way it perceived in this country is pretty, pretty high and it is not yet very well known. And luckily so, I would say, I'm not…I do not mind that at all. These people, I think the Chinese…well, after purchasing large quantities of our accessories; they now want to buy European ready-to-ware apparel. And when I say European, I also mean American because the taste is a same. And this is precisely what will ensure great results in the future for the Italian ready-to-wear industry, but also the French industry. But as you know, we are very pleased to say that most of the production of French ready-to-wear happens in Italy.

One last thing, I'd like to say about China. I have the feeling that multi-brands are starting to be established there too. As of today, we have five multi-brand stores, you see but they are very, very special. And I have no doubt whatsoever that in China what is happening is the same that took place in the former Soviet Union before, now in Russia, there are about a 100 multi-brand clients, there are beautiful huge stores, 10, 20 million in revenues. So this will also take place in China in my view because it is inconceivable that such a giant market only survives with monobrand stores. I'm ready to bet anything you want on this. I'm convinced, well, you see the Chinese they have really trade in their DNA. So I'm sure that these multibrand will start blue booming there too.

And then, a couple of words on our highly esteemed America. To me, America is the largest market worldwide for luxury, authentic luxury, true luxury, I mean. But you see for us, America is a domestic market, the same as Europe. But I find that it is a pretty demanding market. You see, I was very impressed by this sales campaign that has just ended. During this campaign, both menswear and womenswear, these multibrand clients came to our showrooms, both in New York and in Italy, and they expressed the same request. They said no evergreen models, we want newness, and we want sellable models, very high quality models that are not too widely distributed, exclusive models. And this is not easy to achieve, but this is an unprecedented thing. These multibrands are really pursuing an increase in their quality and exclusivity.

Together with them, we try to achieve the following, that our selling spaces in department stores display special digital merchandise. We train DSAs, our sales people, and it is also important that our sales people do not hassle customers.

And then, to conclude, I think that America has achieved a very high level in taste, both for men and women. But maybe what makes the difference in our view is the products, that the product rules. And to conclude, I would like to thank my esteemed Mr. Draghi because a few minutes ago, I read that he announced a great support to banks, to the economy. I'm not an expert, but I believe that Italy can benefit from this.