

Brunello Cucinelli Group

“Nine Months 2018 Results Presentation Conference Call”

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BRUNELLO CUCINELLI: Good evening ladies and gentlemen. Although this time theoretically speaking, I will be the only speaker, although we are all here, the eight of us in this room. As usual, I would like to thank you all analysts, investors, journalists and I hope that you are all fine. So for us it is always a great pleasure to disclose results, maybe it's not the same for you because you might be listening to five or ten calls a day. But you see, for us it is somehow a way to communicate with you, to convey to you our thoughts about our company, the world, the time we are living in. Well I have to say that this conference call is very important for us, because somehow it marks the end of the current year and we can also give you some visibility about the next couple of years. Therefore we would like to structure it as follows. So first of all I will give you the main financial highlights, then I'd like to say something, spend a few words on 2018 because it is really ending nearby. Then I'd like to spend some more time on 2019 and 2020 a couple of words on the very important precedent that we organized last September with 500 journalists. I'd like to really talk to you about the great experience at the Silicon Valley last September and then devote some time to products and markets.

I'd now read out the...my comment. So net revenues €422.1 million plus 8.2% at constant exchange rates...at current exchange rates plus 10.9% at constant exchange rates vis-à-vis €389.9 million in September 30, 2017. Revenues are on the growth on the rise in all markets, Italy plus 5.5%, Europe plus 9.7% excluding Italy, North America plus 3.3% but of course at constant exchange rates there is a high single-digit increase Greater China 29.2% and Rest of the World 9.5%. So all distribution channels marked a rise, Retail plus 6.8%, Mono-Brand Wholesale 11.4%, and Multi-Brand Wholesale 9.5%. So this is my comment to results.

2018 is drawing to a close and to our immense pleasure further growth was confirmed in terms of both double-digit revenues and profitability. But also and above all in terms of brand positioning and credibility and we like this especially. The truly very positive performance of our Winter Collections and the appreciation displayed for the next summer ones also in terms of all the collection lead us to envisage further double-digit increase in 2019.

I have just come back from several trips around the world and we are now back with renewed great confidence in our country. Abroad there is still strong admiration for our culture. Our handcrafted products and our ability to find the best and beautiful side in all things. Maintaining the quality of products that the world expects from us will be increasingly important. This will be the future for our company, preserving the harmony of places and people we are renowned for, maintaining the creativity, craftsmanship and exclusivity acknowledged to us by experts and customers, designing fresh modern and contemporary collections of very...very high standing, representing the true essence of luxury.

Let's now move to 2018. So 2018 we can call it a nearly ended year, and we can call it a record year, double-digit revenues, EBITDA more than proportional, and the same also goes for the net income. But I would rather like to focus on the contemporary taste of the brand and specifically the menswear collection, because you see menswear collections, they need to be fresh and modern all the time. So as to 2019 and '20 as a whole, for 2019 considering the sellout of the Winter Collections still ongoing and the orders collected, there are very, very good menswear and womenswear alike, for next year we can definitely envisage a healthy fit double-digit growth.

The feedback from the specialized press during the Milan Fashion Week and also our Multi-brand feedback on Collections, while these feedbacks were very, very positive, so knowing that for the next Spring/Summer we will be displaying collections that have stirred interest and appreciation in all the different markets. Well this gives us a lot of confidence but now we have to think of the Fall/Winter Collections that we are just now designing them as we speak. But we are already satisfied with them, but of course if we are satisfied with them that's not enough; customers need to appreciate them. But when we have a unanimous positive judgment from the very beginning, then it means that it's all downhill.

Then as to the healthy equity situation after revenues and the net financial position, as such that we can feel very confident about the future and this gives us the opportunity to keep investing for growth, development of our enterprise. As for the next...the two coming years, we can envisage Capex that could be between 7% and 8% of revenues. You see, I think that there is no doubt about it, because of the expansion of e-commerce everything tends to commoditize very quickly. So in order to be contemporary in your stores, in your showrooms, well you need to refurbish them as frequently as possible and new technology must be extremely...extremely modern, because you see you enter a showroom, you take a picture, the collection, but while you are taking a picture at the single item, you're also photographing somehow the showroom and the second season if the showroom is still the same when you take your photos, I'm not saying that your collection ages, but it is definitely less fresh. So we have to accept that everything happens quickly, and this means that all changes must be quick.

Now a couple of words on the 4th of September event. Well I held over 129 interviews, you know on the run up to that date, and I was, you know, very, very exhausted because of that. It's the same as when I took the

road show the IPO, one of the last people I met, the potential investors, she basically told me can you tell me about how your company was setup and I would have shot myself instead of answering because it was the end presentation, the 101 that I had but anyway this 4th September event was grand because we invited 500 press from all over the world and we showed them our places, the places where we live and where we work. We showed them the restoration work in the village and also in the periphery because as you know the outskirts was restructured by the foundation and not by the listed company where you are analysts or investors.

And undoubtedly we are experiencing a time when the...when sustainability is important, everybody talks about it. Honestly speaking, we like to call this human sustainability because the truth is that if human beings are happy at work, at the workplace, their creativity rate goes up. And then the online world, you see I went to San Francisco, the Silicon Valley and I had a great week there. And I was the first speaker at the Mark Benioff's meeting Salesforce between force meeting I went to see the Apple new headquarters a great, great factory I have to say. We had lunch there and there were 6,000 people there but I was impressed by the fact that you know, all these people they were not really smiling a lot, they were 27, 28 years of age more or less.

I went to meet Mr. Jeff Bezos who wanted to meet me and it was a great moment to get acquainted. We discussed for a couple of hours in serenity and I was very pleased with that meeting and then I also went to see three smaller businesses but very fascinating ones and why do I say that, because while I was going back home, I could say that this unforgettable experience gave us an opportunity to reflect upon the great topics of the e-commerce and how mankind is evolving.

We are increasingly all the more convinced that we need to have sophisticated technologies, this is definitely important so much so that we do invest a lot in this field. And you see what happens if these technologies tend to become obsolete in six months' time, but you can tell the difference between contemporary technology and what dates back to a few months before. As to the digital world we are pretty satisfied with how things are going for us and now we have our e-commerce, you know we've had it for two years nearly and we are now investigating the opportunity to enter the Chinese market because we could do that in maybe mid next year because as you know, the rules and regulations there are slightly different.

And now I would like to talk about the market more or less, an overview. So, we spent two months travelling around the markets worldwide and this is what usually happens in this industry between September and October then we hold a great assembly and we decided to do the following. So, China has become a domestic market for us too, although sometimes they do not have really "domestic" rules, but this makes a difference. I went to China 30 years ago for the first time, I know this country and I like the fact that my staff travels there with a completely different view on the people, because you should see, you should consider that there's 4 billion human beings living there and we don't even have a 14% or 15% of revenues there in this market therefore we have a lot of untapped potential for the future.

We have the impression that there is a special attraction to some specific products worldwide and I am talking about high quality exclusivity and craftsmanship products and also even more so if they come from Italy because at least for our concept Italy represents true luxury. Of course everything must be very fascinating, visual merchandizing, to all the salespeople must be very young contemporary, kind and polite and

especially for menswear. Where if you have sales staff that is fascinating they can talk you around, they can make you feel young.

Well lately, a lot has been said about China. Well, first of all, we would like to highlight that we have not experienced any slowdown in that market. On the contrary, when you actually come back from these business trips and if you actually see what happens in just six months' time, so many breakthrough changes happen that you are fascinated when you come back. This world for us is just a small market for us but we believe that it is bound to become the market of the future because of size, because of knowledge of the brand and I've always been keen on the Chinese people because they are very much online all the time but at the same time they really are the ancestors of civilization. When Rome was established 700 years before Christ, China could already boast centuries long of sophisticated, refined civilization. So, honestly speaking, this could be the century of China like the 20th century was the century of America and the century before that the century of Europe. Now it is a very important thing for us.

So another thing I wanted to mention today, our revenues is 50% mono-brand and 50% multi-brand. We would like to keep growing in both channels in the same kind of breakdown but what matters is that in the mono-brand 47% of this 50% is the brick-and-mortar stores and 3% is online stores. As for the multi-brand breakdown is similar 47% and 3%. For example, Net-a-Porter, MR PORTER, Mytheresa, these are really the companies in the multi-brand channels.

Well, we are convinced that multi-brands are on the rise worldwide. I give you an example, in China; we went from about 10 accounts three to four years ago to 35 nowadays in just a few years and I think a staggering

growth will be experienced by small multi-brand names, small...MR PORTER, Net-a-Porter online, but it will be definitely growth there.

So, mono-brand stores can grow both in the physical and the digital world. And as of today, we think that globally there will be a 10% online market. You see, we have 50% of our market that is multi-brand and we don't really know what that percentage of online business is. But of our revenues 10% is online, so in the end we envisage a balanced growth over the years between mono-brand and multi-brand.

And now lastly, I would like to mention another important topic, menswear. You see, this is an important issue. We believe that this market might experience a staggering evolution. Of course, I do not mean by that the so called fashion menswear that accounts for 15%, but rather, I mean the 85% of menswear...85% of the market, so called the contemporary businessman's market because this market can be broken down between suits...so suiting and then sporty chic apparel. Of course, the business side...business suit side, is a very...has a very high share because you spend more or less, less when you dress casually rather than formally.

In this world and I don't want to offend anybody with this, I think that we need new fresh brands in the suiting world, fascinating brands. So after 30 years of market rules or dominated by the same brands maybe you know the market becomes bored. You see, when I was young I was modeling for Ellesse, you might remember this was a top brand for ski and tennis wear. So I was a model there and I knew darn well all the presentation of collections 1978, 79, number one in the world.

And the label that you would wear on the front, it was a tennis ball and it was really everybody wanted it. After two years nobody wanted to buy

Ellesse. And I remember the owner, Mr. Leonardo Servadio, who said to me, Brunello come and take a look at this collection, but what's wrong with it? And I said to him, my dear friend Leonardo, do you know what's wrong with it? The logo. If you make it a logo-less collection, it will be different, and so it was a great experience for me.

Going back to suits, it seems that among these new suiting brands, what we are named among the new brands too and we are honored by that and this also gives us an idea of the large opportunity in menswear suits. So we started with tailoring herein Solomeo, we call it Sartoria Solomeo, and it's made to measure tailoring. This started for the top 25 accounts worldwide and it works this way. There was a young tailor and many young tailors come directly from the schools that you know about that we set up.

So, when customers step in, tailors suggest or give recommendations for something made to measure with a contemporary taste. So it is as if you were experiencing something new because if you are 50 or 45 and you have a 35-year-old tailor, it is easier for you to be recommended as something younger.

We would like to...so we manufacture in Italy, so you know, what our prices are like. So a customer wants to feel young when they wear suits because by nature suits they don't make men look younger, whereas on a Saturday and Sundays when you wear something casual and chic, even if you are a senior man with a sneaker, jeans and a hoodie you automatically look younger at least by...by at least five years.

So to conclude, I just have one minute left, so I would like to hammer once again what we deem fundamental. We strongly believe in absolute luxury. We believe in made in Italy. We believe in high top notch

craftsmanship. There are many new artisans they are starting up the trade and we believe in exclusivity. You see, I don't want to sound like a snob, but I don't want to buy distributed...widely distributed products.

We also believe in the importance of renewing suits. We also believe that shops and stores must represent some sort of home where you are being welcomed and where you basically breathe the atmosphere of the brand. So we can say that this work conditions and this concentration enables us to work on new collections, in this case, with 2019 with confidence, but also with the awareness that everyday it is our duty and task to try and be creative and not just for the style and design. In order to be creative, you need to be open minded, but also you need to have the courage to listen because listening becomes tough, especially when you are successful. So thank you very much for your attention. I apologize for having spoken at length, but I really wanted to once again hammer on the fundamentals, quality, multi-brand luxury. I'm here at your disposal for any questions. And you can still always come and visit, give us a call, you are always welcome.