

Brunello Cucinelli S.p.A.

“Presentation of Full Year 2016 Results”

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MODERATORS: BRUNELLO CUCINELLI, PRESIDENT AND CHIEF EXECUTIVE OFFICER
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OPERATOR:

Good evening, Chorus Call operator speaking. Welcome to the Presentation of Full Year 2016 Results of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. Following the presentation and the introduction, there will be the opportunity to ask questions. Speakers will be Brunello Cucinelli, President and CEO, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations.

I'd now like to give the floor to Mr. Brunello Cucinelli.

BRUNELLO CUCINELLI:

Good evening, ladies and gentlemen, and thank you. So first of all, I'd like to open this presentation with a warm thank you to everybody, in particular to investors, my esteemed analysts who always give us great inputs, we call them advices actually, then the press and our friends in general. Thank you for the attention you devote to us and hopefully we always meet your expectations too.

As it is our habit, first of all, I'd like to give you an overview of the highlights, then the CFO, Moreno will drill down to details and then we will go back to the most important topics. So there's myself, Luca and Ricardo, the young CEOs, co-CEOs right here with me, then Moreno, CFO a bit less young, and then his younger co-CFO, Dario, Pietro, Head of Investor Relations and then this evening, we have Francisco, the CEO of Internet [ph] and Federica and Carolina, who are in charge of Interim Communications.

So like every year, we are back again. We believe that this can be the most important conference call. So first of all, the full year '16 results, then pretty strong visibility on 2017 as the sales campaign for women ended yesterday. And then we will be giving you some colors on the market 2018, '19 and also the grand digital project.

So as to the results, net revenues €456 million, plus 10.1% at current exchange rates compared to the previous year, EBITDA adjusted €78.2 million, plus 13.2%, net profit adjusted €39.1 million, plus 18.8%, then revenues increased both in international markets, plus 10.7% and also on the Italian market, plus 7.3%.

Then sales up in all geographies, North America plus 7.1%, Europe plus 5.8%, Greater China 21%, and rest of the world 39%. The last two figures have a limited weight on our revenues. Then revenues on the increase in all distribution channel, Retail, Monobrand, plus 17.1, Wholesale Monobrand plus 2.4% and Wholesale Multibrand up 4.3%.

Net financial position €51 million, decreasing compared to €56 million last year. Investment €29.8 million, thus completing the project started in 2013 with €150 million, including the full year period 2013-2016 to support the prestige of the brand and the exclusive positioning, both in the traditional channel and the online channel too, thus making growth sustainable, the long...medium to long term gracious growth, the way we call it.

The Board of Directors proposed the distribution...of a dividend distribution equal to 29.9% payout ratio. The dividend will amount to €0.16 euros, last year it was 23.5% payout ratio.

I'd now like to read to you my thoughts in general. 2016 ended reporting very, very positive results in terms of both revenues and profitability. It has been yet another key year for the image of our brands since we have completed our grand project called "Humanist Artisans of the Web", by launching our e-commerce platform. Moreover, our core philosophy kept delivering materials and consistent results and I hope it meets the

expectation of all those who have decided to join us by investing in our business.

The sales of the Spring/Summer 2017 Collection are going really well and since we have obtained, completed the Full Winter 2017 sales campaign and obtained excellent results there, we can be pretty certain that also the current year should deliver double-digit growth in terms of both revenues and margins.

Such results are the outcome of our ongoing efforts to combine profit making and the concept of giving back the great existential issue of mankind; this is a great topic of mankind. We achieved that through offering top notch quality, Made in Italy goods, obviously Made in Italy, striving for exclusivity, such a great value and at the same time, nurturing the great lifetime dream of ensuring more an economic dignity to all the workers in our industry. So this said, I'd now like to give the floor to Moreno Ciarapica, and then I'll get the floor back and drill down on details.

MORENO CIARAPICA: Good evening, everybody and thank you, Brunello. I'd like to start analyzing and commenting on the economic financial data results 2016 starting from Slide 10 of our presentation, where we compare last year results with 2016 results adjusted. I'd like to remind you that adjusted figures factoring in the following elements.

The exclusion of non-recurring cost for €1.5 million mainly ascribable to the termination of the employment contract with the sales co-director, and the stabilization of the theoretical tax effects of these non-recurring costs with a higher profit before tax, and the change in the new corporate income tax rate as of January 2017, 24.0% compared to 27.5%, which

results in there with deferred tax assets €156000 [ph] accounted for in 2016.

If you want to compare 2015 to 2016 income statement, both reported and adjusted, I refer to Slide 19 in the annex where you will find some further details. So still on Slide 10, I'd like to highlight the increase of the first margin by 60 basis points from 64.4% to 65%, the increase of the incidence on sales of SG&A from 47.7% to 47.9%, so only 20 basis points up. The increase by 40 basis points of EBITDA adjusted from 16.7% to 17.1%. I'd like to remind you that the hedging operations for revenues net of currency...costs in currency are carried out to remove the impact of FOREX fluctuations on the absolute value of Group EBITDA.

This is the reason why the comparison of the margins reported in 2016 as compared to last year plus 40 basis points should factor in the following. The absolute value figure of 2015 EBITDA was not affected by the currency performance, whereas the margins in percentage had been impacted by the dilutive effect of FOREX due to the strong fluctuation of the foreign currencies. Net of these effects, 2015 margins would have been around 17%.

The improvement of 2016 EBITDA margin amounting to 17.1% compared to last year thus adjusted, would amount to around 10 basis points, in line with our expectations for a sustainable yearly improvement. Depreciation increased by €1.9 million with an unchanged incidence of 4.4%.

Considering the investments and the timing of the depreciation plans, and considering the expected investments for the next three year period, we expect a mild increase of the incidence of depreciation in the coming years which should be below 5%. The net cost relating to financial management

amounted to €3.2 million, down compared to €4.8 million last year, considering the reduction of the average net debt, the reduction of interest rate and the lower impact for FOREX hedging because due to a lower volatility compared to last year.

The adjusted tax rate amounted to 27...28.7% in line with 28.6% last year. Whereas the tax rate reported amounted to 30.5%, you can find more detail in Slide 18. Due to the reduction of the Italian income tax starting as of the January 1st 2017, we assume that the tax rate level can be better and further optimized around 27%, 28%, but this level excludes, rules out any positive impact ensuing from the Patent Box.

And I would like to say that based on January 2017, the first meeting with the revenue agency was held in order to access the special tax scheme for income ascribable to some intangible assets, generated from intangible assets in order to examine the assets [ph] needed to define the methods of calculation. As of today, the ruling activity with the revenue agency is still underway, but we are confident that it will be terminated shortly...completed shortly. The normalized net profit amounted to €39.1 million with a significant increase by 18.8%.

Now on Slide 11, we change...first we will analyze first margin operating costs, and normalized EBITDA. The increase of first margin, plus 60 basis points was driven by the evolution of the channel mix with the weight of retail revenues amounting for 49.6% compared to 46.5% last year, encouraged by the excellent sales results and like-for-like results. The 10% increase of operating costs is in line with the business development. The increase of the related incidence, 20 basis points is driven by the positive operating leverage of 130 basis points of all operating costs excluding rents which increased by 150 basis points from 10.5% to 12%.

The increase of revenues incidence in the retail channel determines a physiological growth of the two operating costs that are strictly linked to the business evolution, rents and staff, personnel. The increase in rents has to do with the opening of exclusive boutiques, the extension of some selling spaces, some in prestigious relocation and you should bear in mind our structural presence only in prestigious location in order to maintain the allure of the brand, that's why we think that the current situation can be considered ordinary. And the expectation next year, you should bear in mind the evolution of the retail channel.

Also the evolution of personnel costs which increased by 6.8% in 2016 from 18% incidence to 17.5% is due...is linked to the evolution of the network of retail spaces. And the overhead costs grew less than proportionately. And then a positive average on other operating costs of the incidence from 19.2% to 18.4% and a lot of attention was devoted to investment in communication that are still important and strategic for the Company with an increase by €1.3 million and an incidence of 5.4%, that is ordinary business costs.

As far as the strengthening of the brand image is concerned, I would like to point on the important investment on the digital world, 7% an integration of the communication investments, thus contributing to the allure and exclusivity of the brand.

Let's now move to the balance sheet. Net financial position, Slide 13, there is a reduction there from €56.4 million to €51 million, thanks to the cash generation which absorbed investments for €29.8 million and the increase of net working capital by €16.9 million. This increase had to do with the business development.

Inventory €144.8 million reports organic growth ascribable to the business development and the important delivery of the Spring/Summer collection in the first weeks of 2017, with a very positive trend of the order collection. The incidence on sales dropped from 34.8% to 33.9%, thanks to a careful management and the positive sellout results.

And this incidence is healthy and sustainable considering the evolution of the retail network. The increase of inventory by €10.8 million takes into account the five exclusive opening in direct boutiques and a hat [ph] shop in Japanese luxury apartment, and the increase range and depth of our online offer, our boutique is now directly managed to better represent our taste and lifestyle.

The...as a trend the dynamic of trade receivables, plus €1.6 million is driven by the business development and there is a very limited incidence of reliance on bad debts provision which represents 0.20% of the revenues.

Slide 15, analyzes CAPEX both for 2016 and also investments...to the significant investment in the time between by 2013 and 2016 that amounted to €150.5 million supporting the brand prestige and its exclusive positioning, investments both in the traditional and the online channel. In the full year period 2013, 2016, commercial investment amounting to €83.6 million, for commercial, and for production, logistic and IT digital amounted to €65.5 million.

I'd now like to wrap up highlighting the fact that we converted four boutiques in Moscow one of which on a very important street [indiscernible] and three within the most prestigious shopping malls in the city. Four stores that were converted from the monobrand wholesale channel to the monobrand retail. We had a project therefore, this purchase

and conversion happens finally on the March the 2nd because the Company decided to opt for the direct management on these stores at a time when we completed our knowledge of local market.

The decision was made in agreement with our partner with whom we have been working for 20 years and with a minority stake this partner will keep cooperating, managing the boutiques highlighting his deep knowledge of local clients and relations. As it was the case for the previous conversions from wholesale to direct channel in the first year of management, the positive contribution arising from this path, the sales that are accounted for as retail is partly impacted by the lower selling revenues which will become sellout revenues in following time period only.

I give the floor back to Brunello.

BRUNELLO CUCINELLI: But first of all, I would like to thank you all investors and analysts five years down the road from our IPO, I want to thank you for the suggestions and the inputs that you gave us and this enabled me to grow a lot professionally and I am working with serenity and confidence for the future, well done Moreno, close to Brunello.

So a few remarks on 2016; first of all, this year for us is the first year of a new world, the internet has changed mankind, there is no doubt about it especially in the last couple of years. So everything has changed, so we decided to make 2016 the starting year of a new world, and that's where it all started for us. So what about this trend at the end of this year? We think the image of the brand is particularly good, craftsmanship, manual work, creativity, exclusivity; these are really the great pillars of this industry, of this business.

We don't want to hide that we are pleased that we acknowledge the way of working whilst respecting the creation and the human beings, and I like this, you should consider that many luxury final customers gather information, such as info before making their purchase, they want to know where these products are manufactured, how they are manufactured. So it is very important the way in which we present ourselves.

We are acknowledged, a very specific and special way of doing visual merchandise and which is a very important point especially for men's wear. We are fully confident in this, so we've always invested in it. And then always talking about the full year results, we'd like to be seen as a luxury ready-to-wear company, men's wear and women's wears, specializing in day wear.

You know that 15% of our revenues accounted for by accessories, so 2016 pretty happy and pleased with how it went. And now I would like to give you some strong visibility on 2017. So the other day, we finished the women's wear collections. Men's collection already finished the sales campaign and it all went very well. The current like-for-like is 3.8% and this is always in line with our plans.

It's been now three, four years that we consider that as three...like-for-like between 3% and 4% means that we have worked well. We have completed our order collection and the results then were really excellent. And I have to say that never before after the Milan Fashion Week we noticed that vendors really want beautiful garments. They look at taste before price.

The most important thing for them is to have a very limited distribution. This was the typical word for this season, low distribution. And the judgment, the feedback from the clients is also important because one

thing is the judgment of clients and the another thing is the press. And [indiscernible] men's wear about two months ago and then Fashion Week last week. In this case...in both cases, we received a fascinating feedback. I don't know about the future, but so far, it's going very well.

So on the back of this, we can say that we can be pretty serene in envisaging 2017 with a double-digit growth in terms of revenues and EBITDA, more than proportional growth of EBITDA. This said, this should be the end of 2017, so revenues around €500 million.

Last...the other day; I was talking about this with my father, 95 years old. He said how money is that and then as usual he keeps repeatedly "mind you, that works on Sundays too," and I said "Dad, you always remind me of that," so first €100 million revenues, the equity about half of that investment, €36 million to €37 million, net financial position around...net debt around €40 million to €42 million, dividends around 35% of revenues, that is 30% this year and 26% last year.

So I would say a good year for cash, although I keep repeating to you what cash means to me. I've always been scared by debt, so cash is important. But you should be very careful because if you make your brand age without investing, that's worse than maybe having a poorer cash situation, so for our three year project '17 to '19, where e-commerce plays a major role, we envisage investment for €85 million, €90 million at the end of 2019, net debt of around 4% of revenues. Of course, if a great opportunity arises, we will try and seize it, that's for sure.

Then commercially what is our purpose, 50% monobrand, 50% multibrand in the next three years, we will open two, three maybe four stores per year. We will relocate if the street is no longer appealing and as

for our multibrand, we are seeking out for important multibrand stores in emerging countries.

For example, for full winter this year in China, we will have the first very special 15 multibrand stores and one of them will even have a dedicated corner store, so there is no doubt, as it has been the case in the former Soviet Union and now in Russia, about a 100 of beautiful boutiques and by the way, we enjoyed a very special season in this market, both for the Spring and the Winter. So what happened in the former Soviet Union will also happen in China and Korea soon with the multibrand stores.

And now let's move on to this great topic, the grand internet project. So we have been working on this for three years, and I'd like to say first of all, something on a joking note. "I'm super CEO of the internet." You should know this "I'm not the CEO, I'm super CEO." The CEO is Mr. Francesco Bottigliero, I am the super CEO, and why is that? I'm not as online as the average person, but the objective is that of tackling the web as follows.

On the one hand, we want to be Humanist artisans of the web, and the other hand, we want to safeguard and preserve our brand because this is really what will matter in the coming years. So we have put together two websites. I'm sure you are both familiar with them and I hope you like them. The first one is more on the philosophical side and the second one is the e-commerce boutique, and they both went live in early February.

This philosophical website, so to speak, that's where we wanted to convey our heritage Solomeo the place of work, the way we work, the local community, respect, dignity, guardianship, ideals and also we wanted to leave some mystery, an aura of mystery there, so we did not want to exaggerate in posting photos and images.

And the second website is the e-commerce, the boutique online. So starting from here at Solomeo...we from the Solomeo spaces, we planned the space of our boutique for the next five years because we firmly believe in this channel, but we cannot at all have...we cannot have an inkling of the speed at which we will grow. This is the reason why we are ready, so by the way 1400 is the average ticket, but if in a year, we were to prepare 140 parcels a day, we just need to hire a few more people but the facilities are there, they are ready.

So why is this year important for us? Because we opened the largest universal store on the web, this is the Solomeo store. A few days ago, we opened in Milan the largest Brick and Mortar store in Milan, so we have a physical store in Milan. It's a bit on the expensive side to be told, but it's working pretty well so far.

So like we did in the Montenapoleone Street, we have build the collections for men and women and the same thing in the online boutique. You need to have the same atmosphere, so you walk into the store, you should the breathe the world that we live in, the work that we do on the visual, the welcoming attitude, the politeness, the fact that we don't to hassle our customers because we are always over-flooded by loads of emails than human quality, packing, representing Solomeo manual skills.

The fact that we prefer to call people instead of sending group mails, handwritten thanks, you can maybe go to the boutique in New York and touch and feel the garments. And then we also offer proposals and suggestions and tips on how to combine the different garments, so we should remember one important thing. We work with ready-to-wear and as a matter of fact, you can tell who somebody is from the way they dress,

90% is down to ready-to-wear. So our customers are important too, but what you are wearing is more important.

Now, I would like to devote 30 seconds to what we do in the web. So on the one hand, we have MR PORTER and NET-A-PORTER, I am talking about the presence on the web apart from the...our own online boutique. They are very refined and NET-A-PORTER and MR PORTER, the packaging is very special; the visual merchandise is very special.

They purchase, select, combine, suggest, and this is a very fascinating way of working, they are very serious as far as the price matters are concerned, when uploading products and this means a lot. It means respecting the times for selling items, also we hold very interesting discussions budget-wise, plus 5, plus 7, plus 9, but as it happens for fiscal stores, brick and mortar stores, they are in charge responsible for what they buy from the day one, but believe me, it is a very happy relationship.

So, in the end, we keep saying the same thing. We think they are the two most beautiful exclusive boutiques, luxury boutiques on the web worldwide. Let me support NET-A-PORTER and we can...we are confident in saying this, and we told them this too, I hope you don't mind. But, when we put together our own boutique, we drew inspiration from your way of working. And the first time we ordered a couple of things to see how their deliveries were, and we received parcels and packages that work so beautifully. So, this is the excellent relationship we have with these two worldwide boutiques.

So to conclude, so we keep supporting the digital strategy that we have always supported, which hinges around three pillars, our e-commerce, that YOOX powered for five years and now it's managed directly from us. Then, NET-A-PORTER MR PORTER are present there, and then the

online, e-commerce of the multibrand stores, with whom we have tried and will keep striving, so that everything that puts online...can...our taste is displayed the very same way we display it.

This is what we have built in over 40 years in our fiscal stores, you see a next we will celebrate our 40 year anniversary. So, in this period, we only had activities with 650 accounts, multibrand accounts worldwide to keep the distribution level very high, strongly supporting the concept of exclusivity. So the main objective is absolutely the protection of our brand, and the brand of our partners.

At a time, that I especially find at a time of a very strong massification of the market. So, we must work, run counter this, we can't of course go against our time like what Ted [ph] said, if you don't accept change, embrace change in that time, you will be left with worst of it, we won't do want to embrace change, but we can't recognize that, we must know what to do, massification allegedly [ph] working for us before coming to Milan for the Fashion Week.

She had picked something to wear, but she said then to me, Brunello, I don't want to buy this item anymore because I had already seen it posted everywhere, so, it's not a good sign. So, now I would like to say goodbye to you. And I would like to always keep conveying this idea that we have to work in harmony, very focused and also with a balance.

And the last thing I would like to invite you all here to Solomeo whenever you want because in two to three months, we will complete the grand projects of beauty for our Valley [ph] a bit on the expensive side, but it was funded by the private foundation, not by the listed company obviously.

So, thank you immensely for your esteem and regards and comments here, we...and myself will come and meet you to America and then Europe and we are always open to your suggestions and especially for this great change in the world. And we consider 2016 the marking year, the first year that marks a new world. So, this is fundamental for us. Thank you very much to all of you. See you soon and we are available for any questions you might have. Thank you.