

Brunello Cucinelli S.p.A.

"Full Year 2019 Results Conference Call"

Wednesday, March 11, 2020, 18:00 CET

MODERATORS: BRUNELLO CUCINELLI, CHAIRMAN AND CEO
 MORENO CIARAPICA, CHIEF FINANCIAL OFFICER
 PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS

OPERATOR:

Good evening. Chorus Call operator speaking. Welcome to the presentation of the Full Year Results for 2019 of the Brunello Cucinelli Group. I'd like to remind you that all participants are in listen-only mode. Following the initial presentation, you will have a chance to ask questions.

Speakers will be Mr. Brunello Cucinelli, Chairman and CEO of the company, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations. In order 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.

BRUNELLO CUCINELLI:

So welcome to you all, dear investors, analysts, journalists. It is with my utmost pleasure that we are about to start this call at a time there are call of insidious apprehension, that is spawning uncertainty and fear, although in these very last few days, our scientists worldwide have somehow confirmed that we have almost gained control over the virus, and our governments worldwide are seeing to it that everything gets done with priority and authority.

Well, personally speaking the human fear that I was feeling about a month ago has come down slightly, because from the human point of view I'm slightly less dreading the situation. However, I have always claimed that creation has its own rules, and it is not always up to human beings to rule over them, that's how...what history teaches us.

So I'm still here in my office at Solomeo, and I'm sure you all know them, but this time there's a bit more of us, there are my daughters, Camilla and Carolina, Francesco the person in-charge of the e-commerce and Michele you all know who is in charge of production. So I would say about 10

people gathered here today. So we are all here because we have defined set up this kind of follow group that we call Alertness Committee, because our task is that of watching over on a daily basis to be super alert, focused without giving into any distraction, since we have to make very timely decisions according to the daily developments of the situation. We are fully aware that we are about to face a crisis that we decided to call an economic crisis or a temporary crisis. Maybe it will last for 3 or 4 months, but it has absolutely nothing to do with the 2008 recession that was a structural recession, and actually you might remember that we didn't really know our way around that, so we would like to follow this schedule for this call.

First of all, I'd like to read out all the highlights of the full year 2019 results. Then I'd like to give the floor to the CFO, Moreno who will be enlightening you and giving you some insights on important data and numbers. Then I'd like to resume the floor to give you the highlights of 2019 and also focusing on who we were up until January 2019, then a summary of our Plan 2019-2023 and also the 10 year plan. And then another very important point, mine and my company's take on this 2 months period. And also the ways in which we are tackling the present here, and last but not least some results as of 29th of February, very important ones.

So we have in our available...but as far as we are concerned, I also said to all the other attendees we are available for all the time you might need because as usual your questions and opinions play an extremely important, relevant role for us, especially at this time. And now, I'll read out.

So basically net revenues €607 million, plus 9.9% at current exchange rates plus 8.6% at constant exchange rates vis-à-vis €553 million last year. EBITDA €106.1 million rising by 11.5%, net income €49 million adjusted

rising by 7.1%, then revenues in international markets plus 11.5%, Italian market 1.7%, Europe 12.9% plus and North America 9%, China 14.6% and Rest of the world 12.4%.

Then growth in all the different distribution channels, retail 14.7%, monobrand wholesale 8%, multibrand wholesale 4.1%. Also significant investments at €52.6 million still supports the brand within the 3 year plan with a financial net debt amounting to €30.1 million vis-à-vis 2019. And then the board will propose to the Shareholders' Meeting on April the 23rd the distribution of €0.35 dividend some sort of 45% of the profit which is basically you know we targeted pay-out at 50%.

So what about my comment on that? We have defined the past year 2019 as an excellent one, because of the growth enjoyed by our company, both from a financial point of view, with a sound increase in sales and margins, and in terms of also brand positioning. We are leading our brand with balanced apprehension and collective commitment, as we try to implement all of the indications provided by the World Health Organization and our government, fully sharing their strategies and anxiously awaiting reassuring news from the scientists around the world.

With the very same dedication, we are taking care of the relationship with our Italian external production chain that represents something special for us and for our beloved nation, fully aware that what is happening to the economy is something that will soon be solved and does not resemble the deeply structural 2008 recession that weighed upon us for years.

Knowing that the trend in fashion has veered towards a taste that is more suited to our own, having completed the Spring/Summer 2020 deliveries, as well as the Fall/Winter 2020 order collection, and I have to say with excellent results and with pleasing feedback from buyers and the trade

press alike. We look towards 2020 with a positive attitude. We are fully aware that the coming year will call for a very careful reading and we will see it as a standalone year because it will not affect our 2019-2022 plan and the 10 year one 2019-2028, in which we expect to double our turnover and achieve healthy, balanced and sustainable profits. So this is what we have written. So we have called 2019 as an excellent year.

I'd like to convey to you what we felt our sentiments so to speak on January the 18, 2020 just to make a comparison. Well undoubtedly, what we are most pleased with is that the taste of fashion in general has veered very much towards our own taste and this was very strongly confirmed during the fashion shows in Florence, first during the Men's Fashion Week and then in Milan with the Ladies Fashion Week. And as you know, these can be considered some sort of 5 year cycles.

We have the feeling that the image enjoyed by our boutiques, boutiques really shows this idea [indiscernible]...whoever enters into our doorstep, you basically feel at home where you experience a very serene and pleasant experience while shopping and where you basically buy something that could last for a longer time, especially for women, something done for men...sorry something that you can mend, that you can recondition these items and garments there are producer places where we try not to harm creation.

This idea of absolute luxury brands Made in Italy synonym of craftsmanship, quality, exclusivity and contemporary taste. This is basically the core of what we do. So we are very particularly pleased with the image that we have being able to convey in our e-commerce and we have Francesco here who's in charge, also both as a presentation of the company and also in terms of sales results. And in these fairy days, we have increased our staff by 60% approximately. Well, we are just talking

about staff, because the space was already fully fitted because we think there has been an increase in demand in the last few weeks. Another important thing is the fruitful relationship with the community. They have confidence in us and we have esteem and regard for them. And this enables us to work in serenity, creativity and full site.

So this is the sentiment we felt back then. So in terms of numbers, we think we are a pretty sound company almost debt free, although we have €30 million net financial position with equity, around 55% of revenues more or less. And we have always nurtured the idea to work in order to achieve healthy balance and sustainable profits. In 2012, we went public, and it has been a great experience that we will be ready to do it tomorrow morning. It's been 8 years now, 8 years down the road. And from the first year since the listing our turnover has doubled slightly more than doubled at an average...annual average of 11% EBITDA stabilize between 17% and 18%. And we feel this is a healthy number. So this is how we felt until a couple of days ago. But, we don't want to change any of this.

So, I'd like to give the floor to Moreno, the CFO now. So he will give you some insight on 2019 and then we will talk about the rest. Thank you.

MORENO CIARAPICA: Good evening and thank you, Brunello. I'd like to start immediately from Slide 10, the income statement. And I'll try and be as brief as possible, so we can leave room for the further discussion. And I will...I am definitely available for any further requests you might have or any detail you want to receive more in depth after the conference call.

The full year numbers have been processed, neutralizing the effect generated by the application of the new IFRS 16 principal in effect since January the 01st, 2019, in order to make comparison with December 31st, 2018. As it has been already the case for the numbers as a 30th of June

2019. The impacts IFRS 16 are anyway referred to in Slide 17 and 18 EBITDA €106.1 million with plus 11.5% vis-à-vis €95.1 million last year.

Margins improved by 20 basis points moving up from 17.2 to 17.4. This increase is driven by the first margin development, whose margins moved from 65.9 to 68.5, with plus 260 basis points additional thanks to the favorable business development, the increase by 4.2 of like-for-like sales, very positive sellout rates, favorable price mix, increase of retail from 53% to 55.8%.

Operating costs increased by 240 basis points from 48.7% to 51.1% and driven by the business development and the strengthening of facilities in terms of staff services, communication, investments for ongoing initiatives, including the digital world and the new projects including the natural extension of the kids line and the bespoke men's suit.

There is also the increase in the cost of rents driven by the development of the network in 2019, 6 monobrand retail boutiques were opened with some extension of existing boutiques, and 5 new spaces directly managed in concession inside malls and luxury department stores. The growth in staff costs was impacted by the business development by the new boutiques and the increase of staff to support new projects.

Investments in communication very relevant to support the allure of the brands and the setting up of customized relations with each customer. In 2019, they amounted to €35.5 million up €3.2 million vis-à-vis last year. The incidence of D&A, depreciation and amortization moves from 4.7% to 4.8%, highlighting a gradual growth in relation to the important investment plan that is ongoing that is about that they it will carry on over the coming years. The incidence of net financial expenses amounted to 0.9% unchanged vis-à-vis the 0.8% of last year.

Then adjusted net income excluding the tax benefits ensuing from the so called Patent Box reached €49.3 million up 7.1% vis-à-vis the €46.0 million in 2018, including the benefits of the Patent Box in the tax burden amounted to €5.6 million in 2019 against €5 million in 2018. Net income improved by 7.7% thus achieving €55 million.

And as to the net working capital, Slide 13, there is an increase of its incidence from 23.4% to 25%, mainly the incidence of on sales of inventory amounted to 33.7% vis-à-vis 31.3% incidence as of June 2019, due to the development of network the expansion, high growth of production levels because of very positive order intake and new initiatives, including kids line and strengthening of the bespoke men's suit and the development of the digital channel.

Trade receivables decreased, thanks to the usual careful management of cashing's and with the impact of the wholesale channel sales. Trade payables increased mainly because of the increase in production in the second half of the year following very positive order intake.

Let's now move on to investment and net financial position Slide 14. Investments €42.6 million, and they are part of the multi-year plan whose target is to maintain our company and of the customers' in the long-term, support the presence of the market and have the most innovative production logistics and IT infrastructure available. Trade investments amounted to €37.7 million and other investment achieved €14.9 million.

And finally Slide 15 net financial position €30.1 million that it sounds and healthy thanks to the positive cash generation of the operating activity of the healthy management of the net working capital and the significant ongoing investment.

BRUNELLO CUCINELLI: So, let's now move on to 2020. Towards the end of January, when rumors about the virus started spreading around, we convened a general meeting with the company we actually do it once every 3 months. But then I said that I did not know what was going on. But, we have to proceed into ways business wise.

The first thing was to go along and comply with all the indications issuing from the WHO and our government and implement all the good practices that we knew. And now they have become common knowledge, this in fact as much as possible to keep more distance and avoid close contact, and then also we have large workspaces going to the restaurant in 3 shifts to favor air circulation, you know, we are at the countryside anyway and we use technologies instead of personal meetings and also anxiously awaiting the results of science, hopefully they'll find the solution.

The second aspect of the business. Up until a few days ago, the world economy was proceeding and fairing quite well with good fundamentals. So we still consider this to be a cyclical non-structural moment. And I'd say this is very important, mind you, it is a lighter, more light-hearted way of looking at the problem, which we believe is temporary. So hopefully this issue, big issue will last as little as short as possible 3 months, 6 months, maybe a year, hopefully not. And at the end of the general meeting, we agreed that we would definitely throw a huge party as soon as we defeat the virus.

But I asked all my staff, as we did in September 2008, we...I asked them to be fully available to be concentrated, focused, creative, respectful, graceful, understanding towards every human being, wherever they may come from. And we said, let's work in a focused manner devoting all of

our time to creativity and let us not spend too much time discussing what we cannot change and that instills fear and negative attitude.

As my great master, Thomas Moor the philosopher said, "My God, help me change what I can change, help me accept what I cannot change." This is the truth, so as in 2008, a few days ago, we spoke with all our 500 multibrand accounts, and we told them that we can mutually support each other and like back then, you should believe me, we received very moving answers. I believe that 5% of today's revenues actually stems and ensues from those letters that we wrote in 2008. Because we have this great relationship with them and there is no doubt that if you stand by me when I'm in difficulty, I would never give up on you. And we have been receiving really fascinating letters as a sort of response to what I wrote years ago. So these letters are moving for us, but at the same time, this really reasserts what the great value of our company is.

Let's now move on to the operating parts and the results. As of February the 29th, as we say in Italy, we say that usually a leap year is usually a very unsafe and unfortunate year. So on February the 29th we have a like-for-like of the first 2 months was very, very positive, and in line with expectations and of course, excluding China, because we started with 2 types of management. Our business in China accounts for more or less 10% and 2% out of this 10% is accounted for by multibrand customers. So in this market, the first 2 months we have basically delivered 50% less. But honestly speaking, in the first 10 days of March, we have witnessed a clear improvement. And as of today, we have no closed store; no store is shut over there. As you might know, we have not yet started with a troubled retail initiative, which is part of the new project...future projects we are working on.

Our revenues are currently broken down as follows, 45% wholesale, 55% retail. So we have already completed the spring/summer 2020 deliveries where we had enjoyed a great season. We have basically completed the order intake for the winter 2020 with particularly pleasing results. But as we said, what's really supports us is the fact that the trend really is in line and very much akin to our taste.

So before moving on to production and inventories, I'd like to read out to you a letter that was sent to us. We call him president, but it's a 40-year-old guy, who basically leads the Chinese markets, Michael, and it is very, very interesting because of the human and economic development of the whole situation. Just a minute and a half, but it's a really beautiful letter. My dear, Brunello, in China, it's all started in the last week of January with the lockdown of the Hubei state fear first, as a perception of the real danger a second later. This fear has reached all the different provinces of domestic China, Hong Kong and Macao have been overwhelmed by the very same feelings immediately afterwards. The timely measures...regulatory measures by government have given way to an abrupt and painful change in our living habits. A month and a half down the road, the scenario is already very different, emotionally speaking; the drive to start again has definitely beaten fear. And thankfully, I wanted to give you a snapshot of the current situation because it can definitely offer solid reasons for hope for your country. As of today, all our stores are open. We had as much as 70% of our stores shut when the outbreak was at its peak. My homework travel time is increasing on a daily basis and I can estimate that the city traffic has already achieved 80% of its regular volume.

Of course, this gentleman lives in Shanghai. There are more and more people dining out every day. Yesterday, our President, Xi actually visited the city of Wuhan and his visit played a very important role, has a very

important significance for the whole of the nation in marking the end of the emergency time. Individuals' confidence is growing as the number of diagnosed cases declines. This said, in order to give you a fully updated picture, I'd like to tell you that in order to fully go back to normalcy, what is still missing is the following. Well, we are waiting for schools to reopen, the international traffic in inbound and outbound from our country, plus domestic travel in China are now happening for nearly all regions, but they are discouraged by mandatory quarantine measures on returning home.

Of course, we are missing events that usually living up to the calendar of our stores. Then, Brunello, Luca, Ricardo, I cannot yet carefully predict what time we will still need in order to cover the last mile. You can tell that he studied in...he studied in the U.S. and he loved the movies like the Last Mile. And I can guarantee, however, that this short break, that our Country has taken in its great race for development has not changed our ambitions, our desires, and our potential.

The recovery has already started. It might reach out to Hong Kong with...a few a few months later, but we are already feeling confident. The whole of our team is looking at the future with balance and courage and we feel fully fit to resume our path. Then just a night a couple of nights you will receive a small gift, but very highly from the human point of view that has been from our sales associates to show the gratitude for what you have done for them and their families of the past months.

Of course, during this time we gave them the very same remuneration as the past year. Once again, in this gesture, I have...I could appreciate the authenticity of the values that our Company features and our brand features, and I'm sure that all our Chinese friends will appreciate and hopefully choose us for this reason too. So this letter, I was really keen on

reading it out to you because hopefully it can be an inspiration from the human psychological point of view and maybe from the economic point of view too.

So as you know, we manufacture everything in Italy, 70% of our production is located in Umbria, and the remaining part in Tuscany and the market region. We have 364 small businesses employing 15 people on average by high quality, so 5,000 people in terms of third-party contractors. We are working normally, but we are extremely, extremely alert, because of what we have been saying so far. We have plans with the third-party contractors with this solitary event in 2020. So we monitor everything on a daily basis, and based upon this we push or slowdown production. However, we are ready at any given time to double if needed the works shifts if needed, and maybe postponing our holidays, so maybe in September, October, so that our co-workers can also gain some important rewards and bonuses. And I have to say that this extreme flexibility that we have, really is a source of a peace of mind for us and also what we really want to highlight is the value of our community.

In terms of inventory, we have set up a team of reliable people, valuable people headed by Ricardo and myself to monitor together with Michaela the daily value...extraordinary daily variations. So our past experience tells us the 8...in the 8 years since our listing...listing sorry, our average in terms of investment has been 31% of revenues. So this year, we must be very smart and flexible.

As far as investments are concerned, well, investments are mainly focused on the first-half of the year with 3 important openings for us for the image of the brand, London towards the end of March, Paris, May, and New York opened in January in the meatpacking district, a charming neighborhood.

So we are also working on 3 new opportunities to take opportunities. And we have just received a confirmation from Tokyo that it might be done and that we have scheduled between 21 and 22. But as you know these beautiful locations in prime streets, you cannot possibly choose when this can happen or not. But where we do have the opportunity, we think that we might open towards the end of this year, i.e. New York, Madison Avenue, Tokyo beautiful location, and St. Petersburg. So these are 3 opportunities and projects we are working on. Hopefully, they will be secured; this is an extra, something additional in 2020 that was scheduled for 2021. But actually we would remove...if that was the case; we would remove that part share of the investment from the 2021 accounts and transfer them to 2020.

So my dear friends, it's a very important call, this one, and we'd like to seize the very important opportunities that arise, so that we could be among the stars when it will all start again. And I think it will not be too far away this idea...this restarting point. And we also want to consider 2020, see 2020 as a standalone year that should not absolutely impact our immediate long-term plans.

So thank you very much. For now, I really wanted to highlight all these concepts. I'm sorry for being a bit lengthy, but we really wanted to be there for you. We wanted to convey this message. One last thing before Q&A. The next call is scheduled for May the 10th, I believe, but if you need it, if you need some more clarification, you investors, analysts, journalists, do not hesitate to call us because we can help each other. We can give suggestions or advice, so please do not hesitate. So, thank you for the time being.