Brunello Cucinelli S.p.A

"Nine Months 2015 Results Call"

Tuesday, November 10, 2015, 6.00 PM (CET)

MODERATORS: BRUNELLO CUCINELLI, PRESIDENT AND CHIEF EXECUTIVE OFFICER

MORENO CIARAPICA, CHIEF FINANCIAL OFFICER

PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS

OPERATOR: [Starts abruptly] Brunello Cucinelli, President and CEO, Moreno Ciarapica, CFO and Pietro Arnaboldi, Head of Investor Relations. In order to be…to receive help from an operator, you can press "*" followed by "0."

I would now like to give the floor to the President and CEO of the Group, Mr. Brunello Cucinelli.

BRUNELLO CUCINELLI: Good evening, ladies and gentlemen, thank you. And I have to say that for someone who is an early bird as me, to speak at 6 PM is very difficult, especially for me to speak in the morning. So you will be forgiving if I make some mistakes. So thank you very much, my esteemed investors, analysts. And obviously this is a welcome opportunity to thank our very well esteemed employees, more or less 1,400. And I would like to thank in a special way all our co-operators, our seasonal sub-contractors who amount to 3,500 people more or less, especially because of the very high rate of devotion and manual work.

This November call is always very interesting for me, maybe they are most interesting in the year because we have the sell-out results for the Winter Collection, and we have the Spring/Summer Collections that have been closed. So we have the year that is really drawing to a close. And I find this a very interesting time.

So as usual, I would like to provide you with some highlights and then I'd like to give the floor to the CFO, Moreno Ciarapica, who will go a bit more into detail and then I'd like to resume the floor to say a couple of words on the final plan 2015 with some good visibility on 2016 and then also some forecast for 2017-2018, because we would like to give you some guidance for that too as usual

Let's start from these nine months. Net revenues at €317 million, plus 14.5% at current exchange rates compared to September 2014, plus 9.4% at constant exchange rates, EBITDA, €53.9 million, plus 12.1%, net profit €25.7 million, plus 1.2%. Then sales growth, both in international markets in expansion by 17.9% and the Italian markets plus 1.9%. And then I'd like to speak about this market again. Then revenues increased in all geographical areas…North America, plus 25.4%, then Europe, plus 6.8%, Greater China, plus 18.3%, as usual, it is a small absolute value and Rest of the World, plus 33.6%.

Then the revenues is developing in all distribution channels, Monobrand Retail 34.5% , Monobrand Wholesale, plus 0.9%, it would be 3.7% excluding conversions to the direct channel, Wholesale Multibrand, plus 3.4%.

Then net debt €83.7 million as of 30th of September 2015, in line with the seasonality of the business. And the investments of the first nine months of the year, €32.4 million, as a conclusion of the important three-year Investment Plan started in 2013 which will be concluded at the end of this year. So I'd like to read to you what I think about this.

The current year is drawing to a close reporting beautiful results with constant growth, with a robust and fair growth, and this growth affects both revenues, margins and we hope for the…to the satisfaction of large and small investors who wanted to support us in our Industrial Plan. The sell-out of Winter Collection is going well. We are completing the Investment Plan of 2013-2015, thanks to which we are now an even more robust industry for the coming years.

The sales campaign Spring/Summer 2016 has ended with excellent results and with very special feedback, but both from the Multibrands and the trade press. So on the basis of these results, we envisage 2016 and the next three year as very positive with a double-digit gracious growth.

Our commitment is now as usual that of seizing all the stimuli, the inspiration, indications from the outside world and especially from the web and to translate them all to reality on a daily basis. And we always think of the physical and digital world as a single and integrated thing with the purpose of combining identity and projects in a consistent way.

This is a pretty good thing which is to say about our Italy. As to our lovable Italy, there is a new sun shining, warming our hearts. It is a new mood that creates new projects, the awareness of the value of Made in Italy worldwide. We are once again proud of our country. We have returned the trust of the state and we are really experiencing positivity and we are now witnessing the construction of a new future. So thank you for your attention on Italy.

I'd now like to give the floor to the CFO, who will go into details and then I'll resume the word later on.

MORENO CIARAPICA: Good evening and thank you, Brunello. As to financial and economic data, I would like to make a brief remark on net revenues improving by 14.5% in the first nine months of the year, with a growth at constant exchange rates of 9.4%. As far as the currency impact is concerned, the lion's share is played by the dollar in line with the breakdown of sales and the weight of the United States. Considering moreover the euro invoicing to wholesale clients in different countries outside of the EU, i.e. Russia, Korea and Middle East for example, the impact of exchange rates on revenues is reduced by hedging on sales in foreign currency, net of foreign operating costs. These hedging have…the purpose of this hedging has always been that of neutralizing positive or negative effects and never for the sake of speculation. Moreover, the way in which hedging works is to neutralize the impact on the absolute value of Group EBITDA, the impact of FOREX.

As far as the sales trends are concerned, I'd like to show the impact on growth of the conversion of the Japanese business from Wholesale to the direct channel, and this conversion from…since the September the 3rd 2014, has favored the growth trends in the Rest of the World, 33.6%. It has impacted the results of the Wholesale Monobrand which excluding the three conversion of Boutique in Japan to the dealers channel would have had when it was compared to the accounting data which was 0.9% and also the Multibrand Wholesale channel considering the conversion to the Retail channel of the 13 dedicated spaces in the Japanese department stores.

Starting from September the 1st, the comparable basis has become increasingly homogenous, with normalized growth in line with the business developments. All the sales details are analyzed in the slides between 4 and 11, and I'd only like to point out the following aspects. The trend of demand increased in all countries, both by local clients and the high end tourists, the unchanged shopping habits by our clients regardless of macroeconomic picture and political picture and in case of Asian consumers, regardless of the performance of the stock markets, the staggering sales results in all European countries, Russia included, and even Greater China, Hong Kong included, the like-for-like performance growing by 5.3% in line with the previous trends and with the full year expectations.

Now, I'd like to move to the income statement. We would like to compare on Slide 12, the 30/9/2015 data with the data of the same period in the previous year, normalized data excluding from the other revenues item, the capital gain of €755,000 related to the sale of a non-strategic building. The first margin increased from 60% to 63.7%, in line with the trend as of 30th of June this year. SG&A increased their impact on sales from 42.7% to 46.8%. EBITDA margin dropped by 40 basis points from 17.3% to 16.9%. And net profit increased by 1.2% considering the amortization and depreciation, the financial expenses and tax rate as you can see in Slide 13.

The amortization has increased from €9.5 million to €13.7 million with an impact that went from €3.4 million to €4.3 million, considering the large investments in the Three Year Plan, both commercial investments and also to double the size of the Solomeo facilities, whose amortization started at the end of 2014, the amortization of the first nine months of the year are in line with an expectation for the year-end that is just over €18 million. The financial expenses increased from €2 million to €3.4 million, considering the growth of the average net financial position. And finally, the tax rate is 30.1%; it was 30.7% at the first nine months of 2014 in line with the full year expectations of tax rate around 30.5%.

Let's now move on to the EBITDA analysis. EBITDA increased by €5.9 million with margin amounted to 16.9% compared to 17.3% last year. The significant increase of the First Margin by 370 basis points has to do with the evolution of the channel mix with the retail revenues reaching a weight of 42.9% against 36.4% of last year. Thanks to the like-for-like improving and the network (ph) evolution and development.

The retail network moved from 70 to 78 boutiques, with 10 openings and two conversions to the Monobrands, with the growth of sales favored also by the conversion to the direct management of the Japanese business, 3 boutiques and 13 hard-shops, since the 1st of September 2014. The 410 basis points increase of operating costs was driven as you can see in Slide

14, by the personnel costs plus 90 basis points, and especially by the rent costs plus 360 basis points from 7.3% to 10.9%, and partially impacted also by FOREX.

Personnel and rent costs increased because the business grew, the Monobrand network increased, and also the Japanese business was converted to the direct management, and also it was related to the rent development in exclusive locations and the renewal of some expiring contracts, and the renewal and expansion of some important boutiques. As far as personnel is concerned, the total number of full time equivalent is 1,365 against 1,213 last year, considering the network developments of the Monobrands and also the staff devoted to manage the business in Japan.

Positive performance on other operating costs, as you can see in Slide 15; with an incidence that goes from 19.4% to 19%. And then I'd like to point out the communication costs, how they've always been very strategic for the Company. In the last 12 months they grew by 10.8%.

Now balance sheet; let's now analyze the balance sheet and the NFP, starting from the networking capital Slide 16. As of September 30, the €32.6 million increase is mainly correlated to the inventories growth plus €29.6 million considering the business developments, the direct Monobrand network and the conversion of Japanese business in line with the…what happened on the June 30th. The increase of trade receivables plus 6.6% is driven by the business development and also by the FOREX effect, whereas trade payables stayed the same.

As far as the changes in other credits/debts, there was an increase of debt of €3.5 million ascribable (ph) to the discounting to fair value according to the IAS principles of the existing hedging on the sales in foreign currency.

Let's now move on to Slide 17, which is NFP, €83.7 million because of the end net working capital development investments and the seasonality of the business. As far as the business seasonality is concerned, the graph in that bottom part of the slide shows that the usual…as usual the peak was reached between June and September, and then there was a decrease as of the 31 of December.

And then on Slide 18, €32.4 million invested in the first month of 2015 (ph), because of the important three year investment plan which should amount to €120 million altogether. In 2014, we also started an important three year investment plan in the technological digital field to renovate the IT and technological platform and to manage the presence of the brand in the digital world.

Thank you for your attention. I give the floor to Brunello, and I leave you the floor for questions to.

BRUNELLO CUCINELLI: Thank you, again. So we can say that the 2015 is about to end, so we can take stock of the year. Winter sales sellout was very, very excellent. And for our Company it has been a splendid season, women's wear and men's wear collections were particularly beautiful, very crisp, very contemporary, very fresh, so very appealing, visual merchandizing. And we believe that it's very much…is very representative. It should always epitomize Italy, our labor culture, the life in our lands and our country.

And also the advertising campaign was very successful. Last year we had great laid-out table, and this year we photographed that line of sheep in the snow that was also very successful. So I would like to say firmly once again, that we consider a company as a seller of luxury ready-to-wear, 15% in accessories, there might be 16% or 17% in a couple of years in accessory, but we still want to be luxury ready-to-wear. And this is very interesting, because there is a strong demand on the market for this luxury apparels.

Revenue is broken down in 50% Monobrand and 50% Multibrand. And we keep saying that we believe in the Multibrand very much, because they are the real guardians of the brands. The mood around the brand is very pleasant, this year we will be closing the great investment plan 2013-2015. And we invested €120 million altogether out of €1 billion sales, so 12% of our revenues to basically double the surface of our factory in Solomeo. Refurbishing expanded the showrooms worldwide, and hopefully they are very modern and contemporary. You know, that if your showroom is contemporary your collection is also contemporary. And we also have a good network of sales of DOS…DOS stores. We have reached a good point in the developments of the IT platform.

So to conclude, we can say that for our industry this is a foundation year. Well, this is a year when three years down the road from the Company going public. We have devoted these three years to build something important. So as Moreno was saying before, like-for-like 5.3% in line with expectation. We…at the end, we invested €41 million this year, €3 million extra compared to the budget. And at the end of the day NFP should be around minus €60 million. So we can say that by the end of 2015, we expect revenues and EBITDA in line with the nine months of the year.

So, we think…so we have more or less net assets, this is more or less half of the revenues. The tax rate is around 30.5, and we think that this is a healthy tax rate. And so, we think that next year our dividend could be around 25% of our profit. So we feel pretty solid.

Two words on the value of tourism, because we have the impression that there has been a lot of traffic in Europe from all over the world, traffic of wealthy people, high-end tourists, fascinated by the European culture, by our places, the way of life. And we have felt this strongly in Italy too.

I am still firmly convinced, and I am talking about China now. You see, I have known China for 30 years, it is a very small business for us not even 6% of the…of our revenues including Hong Kong and Taiwan. But I believe that it will become a giant market, and it will represent growth for mankind from the cultural and the economic point of view.

But we should always bear in mind that this people is very fast, very informed, very connected. Just commenting on the fact that he is speaking very fast, and I am trying to keep up. Now, 30 seconds about Italy. Seriously speaking, I think that the sun has really come back in sky. In the last week, we had a meeting at the industrial association. There were 40 entrepreneurs in different industries, and believe me, all of them claimed that they will have growth this year. So it was a particularly good atmosphere. I am saying this about Italy because I'm very fond of it, and also we are following the Spring/Summer campaign, following the sell-out of the season. We envisage 5% growth for next year in Italy, which is actually a good result considering that it is a mature market, but you see Italians are pretty demanding.

So I would now like to give you some visibility on the three year plan ‘16-‘18, where 2016 is more concrete in visibility, and then ‘17, ‘18 less good visibility. For the next three years, we envisage around 10% growth rate with EBITDA in proportion…inline with it.

As usual, sustainable like-for-like around 5%, and we would like to confirm for the next three years, a return to ordinary…an ordinary level of investments, which means that in 2016 we will invest €33 million, in 2017 €23 million, and in 2018 €23 million, again, for a total of €80 million approximately against revenues for the next three years "may God help us" €1.5 billion with investments weighing 6%, against 12% in the previous three year period.

According to this plan, there will be a slight acceleration €3 million, and then in 2016 and 2015 for the new project of the new technological project, the IT project. So to conclude the three year plan, we envisage a gradual cash generation, a gradual percentage increase of dividends. And in NFP, which at the end of the three year period could be around 8%, 9% of revenues, this is up vision a picture for the next three years.

And now two minutes for this project. So we are working very hard on this great project for the internet, the way we call it. We have always believed the importance of putting together the digital world and the IT world. As a matter of fact, we work on both fronts, communication very, very important, e-commerce extremely important for the future, we can't really…we do not have a crystal ball, but this will be definitely very important. And then third, it is basically the nervous system of our industry.

We started working on this project in 2014, in a remarkable manner and we envisage a strong commitment for the three years. And this kind of commitment involves hopefully the best creative and strategic talents in this industry. Although, I think that every single human being has some genius in them of different kind, of different intensity. I am not a great expert of the web, because of my age. So I do not want to go into technical detail. But I have actually…my view on what is advisable to do.

I'm convinced that we need to daily listen and be in line with the development of the world. And Voltaire used to say "those who do not accept change do not embrace change, in their time they will be left with the worst of it." So I attempt, I try, although I am 62, I try, because I am fascinated by this project.

So there is a team, and Francesco Bottigliero leads the team, and we call him our young CEO of the web. And I want to be his co-CEO, and sometimes I want to think out-of-the-box too. And undoubtedly, we are now facing one of the greatest innovations in mankind. I don't know whether this will be the greatest innovation of the next century of the millennium, but I think it is very, very important.

So as of today, we stand as follows. We have a great relationship with the YOOX and Net-a-Porter Group, and congratulations on the merger. And then, we…in this the Fall 2015, we started with Mr. Porter, Net-a-Porter and we are very pleased. We have presented us in a great way in three minutes; they really capture the soul of our Company. And I think that they are the best online Multibrand in the world. As you know, we hold in high regard the Multibrand channel, and we want to do the same online too.

So generally speaking, in the online world, we would like to convey the same atmosphere, the same uniqueness, the same life in the village of Solomeo the way in which we work. The respect for everybody, for the people, for the community, and somehow, we would like to convey an idea of ours as artisans and humanists of the web. We would like to tackle the web in a very artisanal way, because we are an industry. But as a matter of fact we adjust large artisans.

For example, you order a coat or a suit online €4,000-€5,000, and we would like your shopping to be shipped to you with a special packaging, with a special label with your name, and maybe it will be… it will come with a book on Solomeo, and if I know you in person, I might send you a picture of another item that I might like. And we might show you that how the chain…production chain works, if you…if something is wrong with this item, you want to take it in, you can go to the shop nearby to have it taken in.

I would like to write my thanks to you by hand. You see 30 years ago, we did something that was then acknowledge to us, the person in-charge of shipments then, we were working with the German speaking market, and we have people speaking German. So the German customers when they could, they could communicate in their language. So service was always very, very special, and this is what we want to do on the web too.

So our e-commerce warehouse, we want to bring it back to Solomeo, so that you can have all that we promised and with the support of our technicians, and the precious valuable help of YOOX and Net-a-Porter. We think that in 2017, we might start this business. You see, we are experiencing a time of serenity, and this can be very useful to better understand the great changes of mankind, because I am sure of this thing. I don't know where we are going, but quality is key. The internet has changed mankind.

So thank you for everything.