Brunello Cucinelli SpA

"First Quarter 2014 Results Conference Call"

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BRUNELLO CUCINELLI:

Good evening, ladies and gentlemen.

The first greeting goes to our esteemed investors, partners and analysts.

Well before starting, I'd like to say that in the press release that you have in your hands, actually I took the liberty to say that this 2014 really seems to be a very special year for us. I think that all the things that we really wished for are coming true, and this is a very strongly felt sensation, especially for Italy. It seems to be a moral, civil, political, economical, human, spiritual revival and rebirth that is going on.

I have the impression that we are credible once again worldwide, and I like this very, very much. The last few interviews that I have given to worldwide first class important journalists, well, I have said that we are going back to being a first quality country, and thank you to all the press and to everybody, to all those who keep saying that we are a very first class, quality country. So before moving on to results, I'd like to thank investors and analysts because two years after the IPO, after the listing, if I have to draw some conclusions, take stock of the situation, I have to say that these have been two very special years.

So what did we actually receive from new investors and analysts? Of course, if you then listen, if you are willing to listen, we have received a lot, very much. I have to say that no consultancy Company even though you were to pay very staggering prices, no one would ever have told us what you have told us. So for us, it has been a really interesting high quality debate, discussion that we've had from the economic strategic moral point of view. We feel reassured in some of our strategies. So thank you very much for the two years we've spent together and I would define them two quality years.

Let's now move on to the results for the first quarter. So we had €99.6 million in net revenues, thereby posting a 12.2% growth at current exchange rates, and for us this topic of current exchange is very, very interesting. And why is that? Because by setting the exchange rates, we do not have any capital gains or capital losses on currencies, because we basically set them. So it can somehow impact revenues, but not the income statement.

Last year for us this gap was 1.6 as of today, it would be around 1.2. And we estimate the full year it could fluctuate between 1 and 2 points, if exchange rates remain basically flat. But obviously, you should be aware that there is no differential in terms of income statement. So a 12.2% growth in terms of net revenues, then EBITDA posted an increase of 13.5%, so €18.3 million.

And as far as exports are concerned, 76.9% of total sales, so it is basically plus 17.6% and then, the geographical break down. America grew by 13.2%, a very interesting growth, Europe 16.5%, Greater China 25.9%, but you know that as far as China is concerned, it only weigh 5% of our revenues. So you see this 25.9% should be you see taken with a pinch of salt. And then, Rest of the world 27.7% growth reported there, in this case though these are not in absolute huge values.

Well, as far as Italy is concerned, I'd like to spend a couple of minutes on this, because in the first quarter it was minus 2.7%, so which means basically €600,000 in terms of value. But believe me, I trust Italy. I believe in Italy very, very much. And by that I mean, that in the last

Prime Trade Fair at Pitti, Milan, since I had a chance to speak to many players in this sector, the mood is completely different. So we could say that there is slight differential between Northern and Southern Italy. And then some…a gap between large cities or resorts and then small provincial cities, but why does Italy play such a crucial role for us? Because you see, having important stores, high quality stores in Italy, it means having a very high…highly appreciated image worldwide. And then taste, taste has such a lot of importance to that because if your collection is not appreciated by an Italian operator, player or consumer, then we…it means that you are really struggling. So it is very, very important to bear in mind what the feedback of Italian customers' is. Of course, for us now Italy accounts for 20%, but in terms of taste, its value is much, much higher.

Then like-for-like in the first months of the year, we had 5.5% like-for-like, and you know, that always we have always envisaged and factored in our balance sheet a like-for-like that can fluctuate between 5%, 6% or 7%, this kind of rates, because I have always argued that a healthy like-for-like rate can be around 5%. So by that I mean a very, very healthy growth.

Another important topic here, investments and CAPEX. We are just completing 2014, 2014 will be still a very important year in terms of investments, the third year then. During the whole year we will invest altogether between €35 million, €39 million, which in addition to the €26 million in 2012, then the €40 million nearly in 2013, we could achieve between €106 million, €107 million or €108 million invested in the three-year period. So it is true that through this kind of investments, we can possibly say that our Company can be considered pretty solid and robust with good foundations for the future.

A few days ago, we moved through the extension of our factory which is just here before us, and you will have a chance to see during the "Investor

Day" next week, and thanks to this, it will cater for our needs in the future. We would work better, not that we did not work good in the past, but we appreciate and we think that this kind of expansion might be very useful for the years to come to support a healthy growth in which we believe. And through these investments between €35 million and €40 million this year, at the end of the year our net financial position should be around €30 million, €32 million. This is basically the plan. So you know, that have always maintained that that is not the right thing to have, because I've always been afraid and scared of them. But through these investments, we think that we are pretty well balanced and you know, they are pretty important for the Company.

You also know that we hold a one single brand and in the second part of this conference call following the data reports by Moreno Ciarapica, I'd like to go back to discuss of the value of the no-logo products and also of the time that we are going through, that is a very appealing interesting period for luxury apparels. But we will be talking about this in the second half of the call. So we still believe in one single brand, 67% women's wear and 33% menswear as you know, it is true and I'd like to repeat this. But I'd like maybe some new listeners to know this from me. So 67% women's, 33% men, 85% through apparel and 50% accessories and we would like to be seen, considered and identified as a true apparel Company. you know that there is a sort of come back to investing in apparel, because there is a demand for this in the market, but we will be dwelling on this in the second half of the call. And we currently export to 60 countries.

As of today, we have about 100 monobrand stores and we could say roughly 70% DOS and 30% franchise stores. And you know, that the reason why we opened franchise stores is because maybe we want to open new stores in Eastern Europe and in other countries and whereas DOS is the right formula for the rest of the world.

For these 100 monobrand stores…so we have 100 monobrand stores and 700 multibrand stores worldwide. They represent the top customers among which many department stores Saks, Neiman Marcus in America and Harrods in England, just to name a few. At the end of the day, our sales is broken down. It will be broken down in the year as follows, 51% multibrand channel and 49% monobrand channel. That 49% monobrand channel should be broken down between 39% DOS and 10% franchise stores.

So now since I have already given you…reported all the results, I'll give the floor to the CFO, Moreno, and then we will be…we will go back to discussing on topic such as taste, distribution and the value of craftsmanship of our products. Thank you for now.

MORENO CIARAPICA: Very well, good evening ladies and gentlemen and thank you Brunello, CFO speaking. So let's now move onto analyzing the quarterly results. I'd like to say beforehand that quarterly results can be affected by typical seasonality effects, typical of the effects both in terms of quarterly sales and margins.

Among the elements for example, I'd like to point out the different point in different quarters of the retail and wholesale monobrand and multibrand channel. And on top of that, the specific shipment trends of collection between the end of the quarter and the beginning of the following month. Well, this said, I repeat it all the time, but I'd like to say it once again because it's important to point out the weight of the different channels of the different trends.

The Group like Brunello said has reported a 12.2% growth at currency exchange rate and 13.4% at constant exchange rate. I don't want to repeat the survey, the breakdown by geographies because Brunello was very exacting in case of explanation, but I'd like to point out another important aspect that is that the growth affected all sales channels. So we can say that the retail channel grew by 24.1%, the wholesale monobrand channel by 10.4%, the multibrand by 6.3%. And this growth was achieved maintaining great care and attention to the exclusivity of the distribution network.

This focus enabled us to achieve 100 monobrand boutiques, 98 at the end of the quarter plus the 2 boutiques that were opened last…this month of April in Vienna and Seoul in April 2014. And the same focus we have also devoted to our footprint in more or less 700 exclusive multibrand clients among which the very important luxury department stores with increasingly prestigious and unique selling spaces allotted to us.

As far as the like-for-like performance, Brunello already focused on it, on the 18th week we are now at plus 5.5% which is a result that we considered the normally expected level in our budget. So you should know that this is basically the level of our economic focus. But once again, I'd like to remind you of the importance of the…of the like-for-like performance analysis.

For the whole season, so more than…instead of focusing on a single quarter or on a single week, what we basically do, we analyze the like-for-like to give a feedback on the six months period. Because during a six months a wholesales campaign sales season is concluded, it's completed and according to the different types of products that are being sold or being successful in one season or the other. The…in between like-for-like result could not be really mirroring the truth. So the time span where you can really have a proprietary of the like-for-like performance is not the single quarter, so, it’s the season.

One last remark as far as sales are concerned has to do with tourist flows. For us, they have been robust and stable, thanks to the kind for the type of offer that we…offering that we have which is exclusive and prestigious and also in terms of profile of our consumers which belong to the very high end of the market. In the last road show in America, we actually had a chance to speak with you about this topic…with many of you, and we basically agreed that for a very highly sophisticated consumer, the economic situation, the juncture doesn’t really have a say.

Let’s now move now onto Slide #11 of your presentation in order to comment the income statement part. The first quarter results basically highlight the following, plus 130 basis points in the first margin driven by the evolution of the channel mix and subsequently of the higher weight of the retail sales on revenues. The first margin went from 29.9% the first quarter to 33.1%.

As far as SG&A are concerned, the increase was 110 basis points mainly made up of two factors. On the one hand, the increase we often commented on, that is the increase of cost relating to business developments and the growth in the retail monobrand channel. And these costs are strictly linked to the monobrand store and we are talking about rents and the personnel costs…

And then in the first quarter of 2014, we had an increase of labor costs for the production because some tailors basically came into the Company, about 70 units that were employed by d’Avenza previously. And we acquired the know-how and once again we’d like to repeat not the brand, but the know-how, so the know-how was acquired last January in order to strengthen our proposal offering in the men's suits, a very interesting product for us that really matches perfectly the brand positioning and our exclusive proposals.

As a result of these two trends, first margin and general…and SG&A combined, so the end result is an EBITDA margin increasing by 20 basis points from 17.9% to 18.1% this quarter compared to last year. We'd also like to report higher depreciation and amortization from €2.5 million to €3.1 million because of investments for new openings and existing stores, and then the financial expense is slightly higher than last year with a weight that goes from 0.5% to last year to 0.7% this year. And then a tax rate around 34% in line with the expectation on the full year and this is a typical Italian tax rate.

As to the net result for the period affected by important depreciation and amortization; I mentioned before and also by the other variables that result went up by 8.7% and with weight on sales of 9.5% vis-à-vis 9.8% last year.

In Slide 12, we basically comment on the changes resulting in the EBITDA increased from €16.1 to €18.3 million. In Slide 13, we basically see how the €5.1 million SG&A increase and their basically weight on the total revenues, that is 170 basis points is driven by the increase in personal costs and rents.

The personal costs increased by 100 basis points from 14% to 15% on total sales, and they grew not just because of the increase in the staff in monobrand stores, but also due to the d'Avenza acquisitions. As far as the rents…as rents are concerned that incidence on total sales went up from 5.0% to 6.1%.

In Slide 14, you basically see the trends of the other items composing operating costs. And I think the only thing to be reported here is advertising and promotions which were basically stable in terms of the incidence on total sales that is; it went up from 5.6% to 5.7%, so basically in line.

Let's now move onto the balance sheet, let's analyze now Slide #15, where we basically show the evaluation is working capital whose incidence of the rolling revenues increased by 60 basis points moving from 27.8% up to 28.4% because of the structural increase of inventories which considering the six openings and the six conversions of the direct channel basically increases its weight by 110 basis points going from 26.4% to 27.5%.

In 2013…and I am now referring to Slide 16; massive investment…the investment plan goes on with commercial CAPEX and investments to expand the production site that are still ongoing. And we have just started to use these facilities last April and works will be completed over the next few months. Against net investment amounted to just less €12 million over the quarter.

The net financial position Slide 17; in this graph you really see the yearly trend of our net financial position, and this amounts to €28.3 million vis-à-vis the €16.1 million as of 31 December, '13, thus confirm the seasonality of the business on single quarters that had already driven NSP in the first quarter of last year from 0.9% million at the end of 2012 to €14.8 million as of March 31, 2013.

I'd now like to give the floor back to Brunello. And I thank you all for your attention.

BRUNELLO CUCINELLI:

I'd now like to spend 10 minutes with you talking about this time because I think that this time we are experiencing is extremely interesting for several reasons. First of all, absolutely speaking, and for the absolutely luxury segments; I think that some of you might have noticed that this morning the Financial Times talking about the luxury business. The quality journalist Rachel Sanderson basically spoke of two very important crucial topics. The first was the idea of no-logo luxury, and the second even more important that I've always supported is the value of traditional markets in the US and consequently of the European market. Why is this interesting?

Well, first of all, studies and the surveys say that in the next 10 years the US market is bound to become the most important luxury market. But I would also like to also say that Italy will be…Europe will be as important, but which new affluent consumers doesn't want to go to Europe or America and subsequently by European and American products, no one. So these two worlds, the US, and Europe, let's call it the old Europe, high quality Europe, so their consumers will be their own consumers who lived in Italy, in England or in America; but on top of them there will also be these new oncoming consumers. And I have always said even to my staff here, that we have to be extremely strong in Europe and America because one day the new consumers would arrive. Who doesn't want to leave in New York or Miami, or Las Vegas or in Milan or in London, in Paris you name it. So you see here, you see the great value of your brands that must be…that performed very, very well in Europe and America.

Well, truth be told, we have always managed the Company envisaging basically the following; managing Italy, Europe and America in the very same way as if it was all a whole single domestic market. But you see, there is something very, very important going on in the absolute luxury segment. That's what I'd like to focus on. Tomorrow night the whole Neiman Marcus staff will be in Milan. And, you know, there are new owners in the Company now, and we…Italian suppliers are also invited to this meeting and the new owners want to talk about the new developments with the President and Vice President and new Managers. I actually went to pay them a visit about a month ago, and I was there with a guest for a couple of days and I was really impressed…favorably impressed because they want, you know, beautiful visual merchandizing, special trunk shows.

They basically demand and require whatever can be demanded of true luxury; a few days ago in a great statement by Mary Gade the new COO of Saks. Well, Mary Gade basically talks about the way in which she sees Saks in the future and how she sees the different vendors inside the Saks department stores. We are going back to the Financials Times today's issue, it states that…it says that, niche brands according to them, and I'm very pleased with this because they put together Loro Piana, Brunello Cucinelli and Hermès. In their view these brands will enjoy advantageous conditions because they have always refused to be no-logo. So the topic of traditional markets that will become the true luxury markets in 10 years time and then the topic of the no-logo luxury is what we are basically interested in.

But I have to say, that I had heard a lot about this over the last year and a half during the fashion shows because everybody asks for special products, very high quality products and that are not too widely and wildly distributed, and this is another important thing that value of distribution. So I'd now say, so high value attached to products, very high focus on daily innovation this must be the great value that lies in products.

Now, let's now talk a bit about men's suits. We were very pleased the other day to note that the first sales of suits. The average age of the consumer is 39 years; on average, you see these suits cost $5,000 or €3,500 in Europe retail price. So this means, that young gentlemen, 30-year old gentlemen are now starting to buy very high level, high quality suits, and we are…therefore we are very hopeful for the future, because I seriously think that men's suits must undergo a great renewal. But by renewal, I do not really mean something very overwhelming or setting. We are just talking about tiny details, and, of course, these details change the whole thing and they attach a specific taste to the product.

And I seriously think, that we could really enjoy a right future in men's taste. Everybody keeps demanding more and more visual merchandising…mind you visual merchandising is a very, very special aspects. And if it is very important for women's wear, it becomes really essential for menswear because at the end of the day a navy blazer is just a navy blazer unless you can match it and combine it in a very special way. So we, as far as, absolute luxury is concerned, we agree on the fact that everything must be…must have high quality and creativity.

So if this is so, how can we possibly invest in people who thanks to their manual skills actually manufacture these garments? Because, if I was to give you a forecast for the next 10, 15 years time, I do not think that, Italians or French in the absolute luxury segment will encounter any difficulty in terms of sales but rather, we will maybe bump into production related issues because they will always be in the world someone wanting to buy, to purchase these special handcrafted products. So we have to invest in these special hands that really manufacture, craft these products. And in order to do this, we need to invest in training.

As you might know, we opened…we set up these schools at Solomeo. And I have to say they are pretty fascinating also visually, and you will have the chance to admire them next week. And I have to say the world press has devoted a lot of time and attention to them. But honestly speaking, being all these schools of gardening, masonry, agriculture, farming and then our specific classes in mending, model making, tailoring. And, of course, there is the [indiscernible] and music classes too. But if we personally…I have a very positive sensation because I am pleased report that we were able to find many, many young people who want to ply artisanal work, of course, we keep repeating the same thing, provided that this kind of work, and since we are talking about contemporary artisans because they employ iPod, Scissors, iPhone. So they are work in a very contemporary way, but we have to give them moral dignity and not just that, also economic dignity. So particularly pleasing work environments for those who ply humble work, and they also should be earning a bit more; you know, that here in our Company, workers…the wages of workers and blue-collar…class blue-collar workers are basically balanced.

On average we can say, that they are 20% higher than the average of the market. But what is important to report, is that, all workers that have a special qualification or traineeship, they receive 20% more than the other general workers without any specialization. And we are very pleased to report this, because we envisage quite a rosy and serene future for these human beings.

And now, I'd like to spend three minutes…more minutes with you because next week we will hold a great debate on this. I'd like to talk about healthy profit. What do we mean by that? Well, seriously speaking, and I really like to have a discussion with you on this topic next week. I argue that this decade will be the decade of credibility of truth. You see already nowadays everybody knows everything, thanks for the new media. And if we know everything, then we would be more prone to purchasing products, of course, regardless of how much they cost because true rich for them price is not an issue. But they have an issue with grace, and with grace, I mean, that products must have a gracious price attached to them, because if they actually learn that the Company makes a preposterous profit, well maybe in future we might encounter some difficulty. And I think that it is already a very strongly perceived issue.

Social networks are really brimming with all these impressions and remarks. So personally, as Cucinelli Group, we have to really take care of this, you know, to be credible and true of whatever. So I'd like to really focus on this next week, but please be aware that our EBITDA is around 18% of revenues that this is really typical of industry apparel. In this case, I like to refer to Zegna, Armani and [indiscernible] and Loro Piana, that is, those who basically deal in apparel.

So we are very satisfied with this EBITDA rate, and our work for the future must really focus on innovation and the modernity of products, and also the grace…the way in which products…people manufacture these products. And by grace, I mean the place where we work must be gracious, how we basically interact with the community, what kinds of community we will be passing onto our children. May be this is more difficult to understand, but there is a lot of focus on this. I receive emails from very, very rich, I would like to say, extremely rich and affluent people. And they really point to specific details, I am fascinated by because bottom line at the end of the day they all say that everything must be fair and gracious.

So what I would do now, I'd like to draw some conclusions on this first quarter results. And I'd like to say; as a conclusion, that we are very, very satisfied, personally I am very pleased with Italy. I am, very, very pleased with what the Financial Times published today because over the last two, three months when I released interviews and another top journalist came to see me the other day, while this topic is very, very strongly felt.

So we wait for you, we will be looking forward to seeing you all next week. My dear investors and friends or maybe potential investors, we would like to change nothing in our strategy, trust me. We really believe in absolute luxury where quality and distribution exclusivity are the key guidelines. Then we would like to be very strong researchers in terms of style, lifestyle, but really great importance attached to that, a very selective distribution.

And then, at the end of the day, after following three important years at the end of 2014 we will reach three important years after the…listing the IPO, three important investment years. We can say that today, after holding the general assembly the other day, vis-à-vis the recent assembly that we hold every two months with all staff. I don't know whether we can really call them assembly, since I am the only one speaking, I am the only speaker there. But anyway before the assembly we do tackle a few topics.

Well, I think that I can really say that we have a Company with very, very robust roots. And when you come, we will also talk about our approach to the internet. You know, we have hired a 40 year old person, that we called our Internet CEO, and we think, he is a very high quality professional, but also because he was able to combine the human values in work, the typical ambience and atmosphere that we want to convey with the modernity and speed with which we have to come to terms with. So I'd like to thank you very, very much and now we open the floor for questions, really if some more of you want to come to visit next week, you are all welcome. We…so the works are nearly completed, the Company is nearly finished, just a few details are missing. So we would really like to share it with you. Hopefully you like it, hopefully you like the work environment we have here, but we think it's something really worth seeing.

Thank you really from the depth of my heart for all that you've given us investors, in the last couple of years and an immense thank you to analysts because they really used adjectives to define our Company and that honor us and fascinate us. Thank you very much.