Brunello Cucinelli, S.p.A.

"First Nine Months 2012 Results Call"

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MODERATORS: **MR. BRUNELLO CUCINELLI, PRESIDENT AND CHIEF EXECUTIVE OFFICER**
MR. MORENO CIARAPICA, CHIEF FINANCIAL OFFICER
MR. PIETRO ARNABOLDI, HEAD OF INVESTOR RELATIONS

OPERATOR: Welcome to the presentation of First Nine Months 2012 Results of Brunello Cucinelli. Welcome everybody. I remind you all that all participants are in a listen only mode. After the initial presentation, you will have a chance to ask some questions. In order to receive any support from an operator during conference call, please press "*" followed by "0." Speakers will be Mr. Brunello Cucinelli, CEO of the Company and then CFO, Moreno Ciarapica, and Pietro Arnaboldi, Investor Relations Manager.

Now, I would like to give the floor to the President and CEO of the Group, Mr. Brunello Cucinelli. The floor is yours.

BRUNELLO CUCINELLI: Thank you. Good morning and good afternoon ladies and gentlemen.

So as for the fundamentals of the company, they are the following. One single brand on a worldwide level, so we have no intention whatsoever to perform any acquisitions. We are placed in absolute luxury and we would like to stay at the top of this luxury pyramid. We would also like you to consider us as industrialists plus even more than that, global artisans of this made-in-Italy we are so keen on. And made-in-Italy that I believe can definitely make a difference that we are craftsman, that we have this manufacturing heritage.

We are in apparel, ready to wear luxury company, ready to wear the made Italy go down in history. We also have our accessories, offering of accessories, they will account for 14% of the end of the year, but we would like you to consider us and identify us as luxury ready to wear company, which today is 67% in women's collection and 33% for men's.

Then…so this is the company, we have 782 direct employees, on average, this staff is 37 years of age. The important thing is that the average age of the 15 top management is 39 years of age. And the last important thing I'd like to convey to you, we have never had any foreign companies. We do have foreign companies, but only to manage our monobrand stores in the area, in the local area. So this is a 100% Italian company. So I would like to start to…with some results, some data.

We have net revenues, so net revenue is €220 million with a 15.2% growth rate. Then we have normalized net income of €21.3 million growing by 25% approximately obviously net of extraordinary IPO costs. We also have a normalized EBITDA which is close to €40 million with a 19.7% growth rate in this case to normalize without IPO costs.

We really like…we are really satisfied with this EBITDA because somehow we are really pursuing the root that we have mentioned with you many, many times. And this year, we are able to achieve a rising EBITDA, which also stems from a little operating leverage and the product mix, the channel mix. Then sales, they have increased in all different channels. We are quite pleased with it, and particularly retail growth slightly over 43% and monobrand wholesale 36%, as for revenues in the multibrand channel 4.5%. As for turnover, well, foreign markets are very, very important to us. These markets account for nearly 73% for us, it is growing by 25% approximately. And then there is small decline in Italy by 5.4% in Italy, but in very shortly, I'd like to go back again to talk about our magnificent Italy, the place where we work and live.

So what about markets, how did they grow. The North America market growth by 28%, the European market by 17.8%, then Greater China over 30% growth, and the rest of the world 45.6%. Well, about this, I'd like to tell you what revenues of our company is on these markets. 32% more or less Europe, I am saying more or less at the end of the year, but today is the November 12th, so we are very close to this figure. So 32% in Europe, 31% US, 25% Italy, 4% China and 8% in rest of the world.

Obviously, when we talk about Chinese sales or Russian sales accounting for 4% directly, we also imagine and envisage that there is a further 5% that has to do with Russian clients buying abroad, shopping abroad. We did the same thing for China where we estimated roughly that 1.5% this year, this further 1.5% comes from our esteemed Chinese customers buying and shopping worldwide.

As for debt, we are particularly glad with our net debt situation, €14 million more or less, and important, by the end of the year, we should close with € 5-6 million in net financial positioning.

Another important thing are also investments. Capex, the first nine months of the year, they were just over €16 million and this is part of the great investment plan project that we had starting from 2011 and going till 2015. So we believe in this company, we believe in these investments.

Let's now talk about monobrands. As of today, we have 74 stores, monobrand stores, end of the year then we will have 81 stores. So three new stores are about to be opened, beautiful prestigious stores in about a month in Aspen Colorado, a very important location, and Reno and Venice. And then at the end of the year we should reach 81 monobrand stores.

And now, I'd like to read a couple of sentences that I said to the press n the press release to comment these results, because as I was saying before, please consider that we are November the 12th, So we can sort of consider this year nearly closed, we are approaching the end of the year. So, we…I said we are satisfied with the…how the company has been performing in the first nine months of the year, both in terms of revenues and of margins. Since, we are approaching year end, everything seems to point to 2012 closing in a very, very special way for our company. So, IPO year…so a very special year also from the view point of image of collections, but maybe I can talk about this later when mentioning what…plans we have for 2013.

The great investment plan 2011/2015 that's aimed at making our company grow on a worldwide level. In this sector, we very much believe in absolute made-in-Italy luxury, we are bearing…this kind of investment plan is bearing fruits. And also our collections for 2013 Spring/Summer has been appreciated very much from by our buyers worldwide, and thereby this is a source of inspiration for our work, and we can already envisage good results for next year.

And then I took the liberty to thank the national and international press, which over the years has definitely supported us. And we are not at all hiding our awareness and our full gratitude towards national and international press, which over the year has been supporting, and we think also appreciating the way we live and the way we work with utmost regard for man's human and economic dignity.

And now, I'd like to speak briefly about Italy where as I was saying, we had a 5.4% decline, but in sales a limited decline in sales, but I believe that Italy is going through a very, very bad patch, its worst patch. We believe, we imagine that in 2013, Italy can reap good results, but we are not just talking about our company, we are saying that generally speaking, in Italy next year we could achieve 0.1%, which means that we should be very optimistic. This year was quite a relevant year for new tourists and by that I mean tourists coming from new countries. And I can guess that in the next two, three, four years, we will be definitely flooded, allow me to say in positive term and flooded by these new peoples.

And another important thing is that our collection is very much appreciated also by Italian customers, European American customers. So our collection must be appreciated especially in those markets. So, Italy for us is a very important market. We are Italian, we want to manufacture in Italy, we live in Italy, and we want to be very optimistic about Italy.

There is a difference in Italy between major cities and tourist resorts and the beautiful, but maybe tiny stores in the province. This year generally speaking, we have welcomed many new tourists and I…by that I mean tourists coming from new regions like India, China, and South America, and I think that in the next few years we will still be welcoming important numbers of tourists.

We forecast…and I'd like to say two things, I mean the forecast that we have for Italy, and then for our company. For Italy, we believe that for…in 2013, it will be growth year. We might…we say 0.1%, it doesn't matter whether it is 0.1% or 0.5%, but we hope we can achieve a plus sign. And speaking with some important major colleague industrialists operating worldwide exporting and speaking with good trade people, this is the impression I got, a positive outlook for Italy and also for our company, a slightly better situation.

So we have 61% coming from multibrands, 61% of our revenues and 39% of our revenues coming from monobrands…the monobrand channels and 75 as of today, 81 at the end of the year, out of this 39%, 12% from franchised stores.

Where do we opt for the franchise formula? Well, we maybe do that in areas that are maybe not as interesting or maybe slightly more emerging markets. For example, the last franchise that we opened is in Bucharest, because in a market like that, it is trickier, so we don't really feel comfortable in opening a DOS store.

So I would say the following then. These are the results that we envisage for end year, so we are particularly pleased with these results. We are also particularly pleased with the way our collections were perceived for Spring/Summer 2013. You know, we believe very much in the multibrand channel too and we imagine that the multibrands that we have today accounted for 61%, maybe this revenue should made up 50% by multibrand, and 50% by our own stores. But the value of multibrands is very, very high because as we have always maintained, these multibrands are strict judges and they give us a very harsh feedback on the collection.

So, having collected all this from multibrands and having received positive feedback from these major buyers, well this really makes us think about a rosy future for 2013. We are obviously very interested in the judgments expressed by our monobrand stores managers, but they are not so strict and so harsh as multibrand managers are. So we consider our multibrands the real guardians of our brands, those who really whether you like it or not, they focus…they force you to be contemporary and modern.

So, what do we envisage for 2013? We envisage around 20 new openings a year or less in the following areas, 3 or 4 US DOS stores, obviously 3, 4 in Europe, DOS stores, 3, 4 in China DOS stores, and then Moreno Ciarapica will talk to you about the operation we accomplished in China. Then 3, 4 stores in the new world, and a couple of stores in our Italy.

So, we envisage that the revenues of the year should be 55% coming from multibrand and 45% from monobrand channel. And out of that 55% multibrand, they are always the very same 1,000 accounts that we've had for many, many years. This is very, very important because in some department stores, we have nearly 80 hard shops and you know how important, how relevant a hard shop is within a department store.

With some of you we actually said or talked about the fact that maybe having a corner store and how its being seen, being visited by millions of visitors a year. So it always, always hosts an enormous value. Then in the company you know, we hold a meeting every two, two and a half months. It is…it's not really a meeting because it's only me speaking for about 30 minutes, but we do speak about how we can improve things, how we can improve life conditions, work conditions and also what we think about the world. And I have to say that the September meeting that we held at the end of the collection has been very, very useful also from the human view point, why am I saying this? Because we are very, very glad with the ambiance in this company, with the mood that really you can breath in this company. There is a very serene climate in the company. Therefore, the creativity rate is higher, but now I would like to focus your attention on the following.

The other day, the G8 met and they defined growth for the next five years a modest growth 4%, 5%, moderate growth. Well, we want to tell you that in our company, we do not use this moderate word. We use the word normal because according to the way we work, a 4%, 5% growth worldwide should be very, very interesting. And we do not want to see our children, our kids being scared and frightened because they hear people at the G8 saying that the world is going not so well, whereas we actually said to each other the other day, why do we have to be so negative about the world, when as a matter of fact for people like me and our grandparents who were actually involved all the time and my father worked in a factory and he was stopped (Ph). And I come from the countryside and I do not think that today's world is so difficult in the way they depicted.

So we do not want to call this a limited modest growth, but rather a normal growth and based upon that, we plan our growth for 2013. We are about to finish our plans for the next three years '13, '14, '15, where we would like to keep on growing with grace, with dignity, with respect, with this made-in-Italy, the extremely high quality and high craftsmanship made-in-Italy. And hopefully, also a highly creative made-in-Italy, otherwise we wouldn't be contemporary.

So with this modest growth that we call normal growth, it's something I really wanted to convey to you. And then I'd like to tackle another issue. I traveled a lot in the last week; I was in Russia last week, and then the week before I was in Japan and Korea. And I have to say that I have been speaking with journalists and what I was mostly impressed by was the fact that they all asked me, why there is a lot of price difference between one country and the other. And I answered as follows. You must know that our prices that our industrial margin is the very same in all the countries worldwide, because we believe in what we do, because we think that these new young people already know everything. And therefore, we have our markup and we have this price level that only varies due to customs duty. And I want to add about that that you should imagine that an item of cloth and that cost €1,000 in Europe, in US retail price is 1,100, in China it's 1,200, and in Japan it's around €1,300. This is more or less the proportion. So China and U.S. differential is more or less 18 points.

So this is the end of my internal (ph) contribution. I just want to mention that we have a higher than 10% like-for-like rate, but we think that in our plans like always, we envisage that a like-for-like in the range between 6% and 8% can be a healthy like-for-like for a company that has no new products or does not want to widen its services (ph).

So thank you very, very much. We are very glad and pleased and thank you for believing in our company. I give the floor to our CFO and then a Q&A session, but we are always available, come to see us, email us, we are always available for you.

MORENO CIARAPICA: Very briefly on the presentation we sent you, let's start from Slide or Page 4, in which there is presentation to analyze the results of the first nine months of 2012. As of 30, September 2012, Brunello already said that we had net revenues of €220.2 million with an increase by 15.2% at current exchange rates and 13.6% at constant exchange rates.

The adoption of the international accounting criterion called hedging account and a fixed hedging policy against FOREX risk that we adopt when drafting a price list, protects us from any impact on our income statement coming from FOREX developments. But international markets grew by 25.3% and their weight amounts to 73% of revenues vis-à-vis the previous 67%.

If we analyze the pie chart in the bottom of the slide, you can see that the relative weight of the North American market increased as well as the rest of the world. So thanks to Japan and Korea mainly and also rest of Europe. Then China climbs up from 3.9% to 4.4%, and Italy went up from 33%...went down from 33% to 27%.

On Page 5, I'd like to provide you with some indication on the main ten (ph) of our drivers, Brunello already talked about Italy extensively. In Europe, our Group is enjoying performances above average, both in

Russia and in Eastern countries, both in monobrand stores but also in premium luxury boutiques and specialty stores that are really on the rise in this region. As for the rest of the world, over a third of revenues is achieved in Germany and German speaking countries, and fourth is the weight of Eastern European countries Russia included.

As for United States, they continued to be an extremely growing market for our brand since they benefit from performances of our direct stores and also they benefit from an increasingly higher penetration in the main luxury department stores. So we are reporting good results from the recent opening of the Chicago stores and by the end of the year, we will have a new shop opening in Aspen, a premium resort location. And then there is a significant growth achieved in the Chinese market and in the other Asian markets. A brief remark as far as the Chinese market is concerned where as of September the 30, we only had wholesale monobrand and multibrand stores with a performance of 31% vis-à-vis the 30, June 2012 there was 51%.

This performance was increased…was influenced by the timing in Italy versus 2012 vis-à-vis the same time as of previous year. And as you know, and when the base line for comparison is still…is small as it is for us in China, one single delivery can definitely impact the performance and the growth.

In China, Brunello was saying there was this conversion, the shift on October the 1st, of our agreement with our Chinese partners whereby we…our shops were converted to retail DOS stores as of October the 1st. In the fourth quarter 2012, the part of revenues that had been invoiced are selling in these stores in the fourth quarter will be missing and will then be recovered in the first quarter 2013, as sell-out turnover of the same stores.

Then on Page 6, there is the increase in weight of monobrand stores both DOS and franchise stores that kept on or continued to grow and now accounts for 36% of the overall revenues of the Group vis-à-vis the 29% of last year. Brunello already said that we will reach 39% in this segment. And now going to Page 7, we see that the drivers of growth for the retail channel plus 43.4% are led by the 11 new net openings as the important like-for-like growth in our stores which was still a double digit growth, 10.1% in the time between January the 1st 2012 and November the 4th, 2012. And also the wholesale monobrand channel enjoyed a significant growth, plus 36% and whereby the network grew by 5 stores, following 5…7 new openings and 2 shifts, conversion of stores to DOS stores.

Then Slide 8 and 9 offer the synthesis of the stores. The total monobrand network of stores today entails 75 stores and they should become 81, these new openings by the end of the year, 47 of which will be DOS, thanks to the opening of 6 new DOS stores, which are already secured. And then we will have the conversion from franchised (Ph) store to DOS store of the Macau. And then in 2013, we have already secured 12 contracts for new stores as of today, whereas other agreements are about to be signed pursuant to our annual plan envisaging 18, 20 store openings a year, we have always told you about.

And then on Page 10, we see the performance of the wholesale channel. Now, are very pleased with the great appreciation the brand enjoyed in all the major department stores and luxury multibrand stores.

And then to conclude on revenues, we would like to highlight once again how relevant seasonal cyclical performance is for our company, and we'd like to point out that as of 30 of September 2011, we had already achieved four fifths (ph) of our total annual sales in 2011, and this year 2012 we are in line with this figure.

Let's now move onto Page 11 to comment on the main income statement, net of the IPO extraordinary costs, equal to €6.2 millions. In the first nine months of 2012 revenues growth went hand in hand with margins growth with an increase of the first margin of 100 basis points from 54.3% to 55.3%. EBITDA also grew by 50 basis points and the net income grew by 25.3% reaching €21.3 million net of the IPO costs.

And then on Page 12, there we analyze the main income statement drivers focusing mainly on the EBITDA change. The EBITDA growth was led…was driven by the increase of our first margin which benefited particularly from a better channel mix following the new retail openings and the excellent like-for-like growth. The evolution of the channel mix has impacted personal costs whose weight on revenues is in line with the previous years 14.1%, and obviously, with costs for the central structure that are decreasing in percentage and also the cost for monobrand stores personnel that is increasing because we needed more staff to staff our stores. So the 14.1% is the result of these combined effects.

And then opening of new stores also impacts on the cost of rents going up from 3% to 4% on total revenues, and we can also say that the fees that we pay to agents in the multibrand network are decreasing thereby offsetting rents.

As for A&P expenditure, we see that this expenditure is between 5.4% vis-à-vis 4.9% last year, and as usual, this amount in our view is quite important, and we keep on seeing that the return on international press of our brand is very, very high compared to the actual investments we make. As for investments borne (ph) in terms of corporate structure will lead to good result in the next few years in terms of operating leverages in SG&A as we already started seeing the sign during the third quarter.

In the bottom part of the income statement I'd like to point out that tax rate was 37.8% the first nine months 2012 and went down in line with the expectations vis-à-vis the 39.3% of the 36 months. So, for end year we expect 37% tax rate, linked to the globalization (ph) process.

As for the balance sheet, I would like to move directly to Slide 14, by commenting on the increase of the net working capital in the time concerned, which is absolutely inline with our expectation and with the end of the year expectations. As for the first nine months, the inventories increase was basically impacted by the important growth of the retail channel and on top of that there was a decrease of trade payables mainly linked to payments for the IPO, an extraordinary process.

As we anticipated during last August conference call, as of June the 30th, we had higher purchases of raw materials and productive increases in order to increase rapidly raising the third quarter 2012. As a matter of fact, if we compare the inventory data of September 30th, 2012 with 30th of June 2012, there is a decrease of €12.2 million. As of 30/9/2011, the reduction was €4.9 million vis-à-vis 30th of June 2011. And which was partially impacted also thanks to seasonality.

Then moving on to Page 15, the net financial position improved significantly after the IPO, which impacted positively the company by €52 million, net of IPO. The net financial position thereby reaches €14.4 million vis-à-vis €59.6 million at the end of December 2011, which…and it factors in the important investments of the end…which factors in major investments as you can see in the following slide. We expect a further improvement of net financial position from here to the end of the year in line with our expectation due to seasonality and relative dynamics of our business.