Brunello Cucinelli, S.p.A.

"Full Year 2012 Results Conference 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

BRUNELLO CUCINELLI: In about a month, we will be celebrating a year from our IPO. Of course, we are extremely satisfied with it, but we are not only satisfied, but you see my dear friends, analysts and partners, we are not just satisfied for how the stock is doing, but we are satisfied because we were expecting the IPO to give us more visibility worldwide. We were expecting the opportunity to listen to partners, investors, analysts, who may be do not always see eye-to-eye with us, therefore being so courageous as to listen to you and this really, really happened.

Everything is particularly interesting and special because my hope was that this IPO would lead our Company to be more international, more audited, more modern, more contemporary and may be allow me to say so, also the opportunity for this Company to last and survive for the next 20, 50 or 100 years, because as you are all aware, this is what I have always wanted from this Company. I have very much enjoyed the relationship that we have built with you investors and analysts over the last 12 months because together we shared this way of making business that we define as gracious and sustainable. And this has given us a lot of serenity. I am not hiding…I don't want to conceal from you that I really liked this way of making business, it's been contemporary and modern in my view.

And I also hope that, in the future the industrial world, that the financial world can walk all along hand-in-hand as it is currently happening with mutual respect to everybody's role. So a very important year 2012 for our IPO for us going public, an extraordinarily important year for the image of our Company, and do you know why? Because, what I am really pleased with about this Company is that no one doubt the fact that we manufacture in Italy. I really like the fact that we are being identified as Italian artisans, industrial artisans. We are being considered a healthy Italian ordinary Company and industry; basically what I would like the world to consider us, and what I would like us Italians to be seen in the world. But I will go back to this later talking about the time that Italy is going through at the moment, the splendid Italy.

Well, I am very happy because from the image viewpoint this Company has been faring in a very, very special way last year. So I am not just talking about value on the Stock Exchange, but the value of this enterprise world wide of this luxury, sporty, chic look of this luxury residual style, while the value world wide has been very extraordinary, I have to say.

Now, I'd like to give you some interesting data and then Moreno, the CFO will complete the picture. So in terms of net revenues, €279.3 million, that is plus 15.1%. Then, as far as the net income is concerned, normalized figure €26.5 million, that is plus 26.2%, then €49.1 million EBITDA, with 22.3%, without the IPO costs, then well, a very strong growth in international sales, up 25.5%. And as of today, it accounted for 75% of Group's net revenues; I am talking about international market.

Then as far as Italy is concerned, there was an 8.2% reduction, a limited one, but I'll go back to this later on because I am particularly happy with the years to come in Italy, because since I've just come back from all the international trade fairs in Milan, in Pitti and in the US, well, we have all comeback saying that Italy in 2013 is bound to produce a plus sign, but may be I will be talking about this shortly.

Well, results are very, very interesting in all channels, retail monobrand, plus 42.9%. Then wholesale monobrand franchisee, plus 20.3% and very, very important channel, the multibrand channel, plus 5%, so a very interesting result for us. As you all know, I have always had a lot of consideration for multibrands, because I consider them to be the real custodians and guardians of our brands. And we are very, very pleased with this because whenever they come to Milan, to Pitti**,** Florence you know, to preview the collection, since they have viewed 200 other collections before seeing us, of course, the feedback they give to us is extremely true and important.

The net debt is close to €1 million, very close to zero, €1 million. And as you know, we have planned for more or less €5 million, but the beginning, the construction of the new factory has been postponed by two months, because you know, there is the superior office of the beautiful arts, that needs to be…that we need to report too, so unfortunately, they haven't given us all the necessary authorization. So the investment had been postponed by a couple of months. And you know, I am very glad with this, because I have always been frightened of that. So a robust investment plan…investments plan, €27.3 million CapEx in 2012, focusing especially on monobrand stores. As of today, we have 81 monobrand stores world wide.

And another and the important project has started whereby we are doubling the size of our headquarters in Solomeo of the factory and this factory work should finish in…around May/June 2014 and 16,000 square meters in the end, so really doubling the size, thanks to which we will be able to work with serenity until 2018, 2019 no matter about…no doubt about it. So we are very happy with this. And of course, 2013 will be the year when we will be having the peak of the CapEx and parts of 2014 too.

So we have decided to pay out 25%. We had always talked together with you, we have always discussed with you the fact that we can probably pay out 25%, 30% a year, which means may be remunerating investors, then also enjoying a very robust Company without debt, but also it means investing very, very much because we think that the time is very favorable to this, very special for true luxury. And I would like to highlight this very, very much.

Of course, I am talking about absolute luxury here and you know that these new markets, but also the same US and European markets stay really focused and pay a lot of attention to true luxury, do not want a distributed luxury. As far as our collection is concerned, usually 32% menswear and 68% women's wear, so more or less the same figures last year too. But we have seen that if over time, if men and women enter our stores, women tend to spend double compared to men and this is the way it is.

As far as accessories are concerned, 12% last year and this year 14%, this is what accessories account for our revenues, but as we have always said to you, we would like to be considered and identified as an Italian luxury ready to wear Company. So accessories are important for the look, for the taste, but they will always remain a marginal part of the Company because we want to be still identified as an apparel Company.

As far as stores and stores network is concerned, I apologize for my voice, but a coarse voice, but it's been raining in the last few days Mr. Cucinelli said, so as usual we have 750 multibrand stores in…multibrand stores in the world Neiman Marcus, Saks, Barneys Harrods and they account for 1,000 DOS, so 750 special clients and 1,000 DOS. As of 31st of December, 81 DOS stores…sorry monobrand stores, 46 of which are DOS stores and 35 are franchised stores. Franchise stores as you all know, generally speaking we tend to opt for this formula in development countries like the former Soviet Union, Eastern European countries where we do not feel very confident of going directly.

As far as turnover and sales is concerned, 61% came from multibrand, 12% from the franchised stores…through franchised stores wholesale, and

27% thanks to our DOS. At the moment, we export to 59 countries. This is an interesting figure. So following these very important figures before giving the floor to Moreno, I'd like to close by saying that it has been a very, very special year especially from the taste view point, a special year for the luxury ready-to-wear that has made Italy go down in history in the 90s and with which…and with this product we were able to identify Italy as a special country. And especially this a sporty chic look for daywear you know, done well, then for women there is a lot of demand for daywear and it has been a pleasure that in the last few…in the last fashion week in Milan, we have had many important guests in the European and American press, and also Ms. Wintour came to see us and also the person in charge of the Financial Times, they all came to see us and with them we discussed the great important value of daywear and the shortage of this kind of supply.

So first of all, I'd like to thank you all very, very much and I'd like to really share with you the fact that we were happy with the year that just closed. So a special year from our view point. Now, I'd like to give the floor to Moreno, to the CFO, and then I'll be back with you to talk about the outlook for the next few years. Thank you.

MORENO CIARAPICA: Thank you, Brunello and good evening ladies and gentlemen. I'd like to start very briefly maybe you want to follow my words on the presentation. So we can now move onto Page 4 to analyze the detailed results of full year 2012. In 2012, the Company have had net revenues for €279 million with a 15.1% increase at current exchange rate, and 13.3% at constant exchange rate. And about exchange rates, we said to you many, many times that we do a coverage of exchange risk systematically when…so when price list are put together, at the moment we have 32% of our sales in foreign currency to be hedged for. So we have to say that the effect of FOREX is not huge in terms of sales and most of all, there is no impact on margins because that hedging that we do when price list are put together actually does not impact margins.

Now, moving onto Page 5 of our Slide, it is important to highlight the geographical analysis of our growth. So North America has become our main individual market with a 28.4% growth and it has reached a weight on the overall sales of 32%, thanks to the excellent performances of our like-for-like in our stores, and thanks to an increase in penetration in the main luxury department stores.

As far as European markets are concerned, they have grown by 20.4%. They benefited from the development of the monobrand network and the excellent performances of some countries, in particular Russia and Eastern European countries reaching 7% of our sales. And I'd like to add here that on top of this very important 7% figure, we have to add all the purchases that are being made by rich Russians worldwide and according to our estimates, we think that 5% of sales made worldwide on top of what is made in Russia is really provided by the Russians, the traveling Russians and this is a very important piece of information.

As far as sales in Greater China, they have been on the rise by 21%. They have reached 4% of consolidated sales; this performance was influenced and impacted by the conversion of six stores as of October the 1^{st}, 2012 from the wholesale channel to the DOS channel. This conversion operation on October the 1^{st} has given way to an impact on sales and I'd like to give you a very clear explanation on this.

You see the deliveries in the second half of 2011 has contributed to sales of the second half 2011 as it was considered a sell-in sales. The same, the very same deliveries in the second half of 2012 following the conversion of these stores will instead contribute mainly to the results…the revenues of the first half 2013 because these become sell-out sales. Therefore, there was this impact on the fourth quarter 2012.

BRUNELLO CUCINELLI: I am Brunello speaking now. I wanted to add that what we are saying about China more or less is what we said in the past about Russia. You see, we are now going…approaching China with a very same culture that…with which we approached Europe and other countries, we estimated that nearly 2% that we make worldwide is by Chinese people making their purchases worldwide. So 4% yes, but plus 2% of purchases made by Chinese people worldwide.

MORENO CIARAPICA: So, now moving onto the analysis of the breakdown; geographic breakdowns of our sales. Rest of the world, a very important growth amounting to 40%, and 7% of the Group sales rest of the world, we can say that the two countries representing most of these revenues were Japan and Korea, but we are very positively consolidating in other rest of the world markets too. And I can quote Mexico for example or the Middle East countries. So we can say that our internationalization is on the rise and then a brief comment on Italy, then Mr. Cucinelli was already saying and hinting at, Italy is showing a two-track performance, in main cities and resort cities, sales have kept on showing good growth rates so also supported by sales to the foreign customers whereas in minor smaller cities in provincial cities there was a reduction in consumption that was mainly linked to consumption habits whereby people tend to buy more in large cities and metropolis rather than in provincial cities.

BRUNELLO CUCINELLI: Yes, Brunello says, I would like to go back to Italy now, because I spent a few days in Milan and Florence after the end of this campaign where I met many, many…I spoke with many Italians and I have to report that the atmosphere, the mood is definitely not negative with many of them, we discussed what we can do in order to improve our shop windows, in order to organize special events, our visual merchandizing, that's why I can say that at the end of the day after having very important order inflows for Fall/Winter, I think that the work is over for Italy.

MORENO CIARAPICA: Then moving on to Page 7, you see the increase monobrand stores, both DOS stores and franchise stores they keep on growing thanks to the strong developments of the retail channel 43% growth there which benefited from new openings and also like-for-like growth.

As a matter of fact moving on to Page 8 of the presentation, in 2012, 23 new openings were performed in 2012 and including 9 conversions from wholesale monobrand network, whereas the like-for-like growth that is to say the growth…sales growth in-stores since 1st of January 2011 in 2012 it was 9%. In the first two months of 2013, there was a like-for-like growth of 12.8%.

And on this…I would like reconfirm what we have always being saying in the previous conference calls. We think that a the like-for-like of a store is 8%, this is the basis on which we put together our budgets, because we perceive that this is a healthy growth rate since there is no increase in the product range or any other kind of expansion…of extension, so we think that a very healthy like-for-like is the percentage that I said before.

In the Page 9, 10 slides you see a summary of the stores network. In the first two months of 2013, the Group has increased its retail network by 4 DOS, two new openings in Barcelona and Shanghai and two conversions important major conversions of the two London stores.

As a matter of fact, we agreed with our English partner, that had been managing our stores in London with the franchise formula, we decided to anticipate by buying these boutiques back to 2013, therefore the direct presence of the…the Company is now present in the main cities and London. This is extraordinary operation…it's extraordinary vis-à-vis the plan we had envisaged in the past, it represents an investment…an extraordinary investment of more or less €5 million and it has been forecast for the following period.

As far as the monobrand stores network from now to the next 12 months, we can say that we have already secured 15 new openings so before the next 12 months.

So, as far as the wholesale multibrand channel is concerned in Page 11, we try to give you some information, we are very, very happy with a strong appreciation enjoyed by the brand in the department stores and in the luxury multibrand stores, we enjoyed the 5% growth here. And I would like to highlight that the fourth quarter was particularly positive and impacted also by the important delivery timing that we were able to comply with to satisfy to meet the needs of our multibrand clients.

Let's now talk about the main income statement lines. Net…without the IPO cost €6.2 million, since these were extraordinary items we tried to provide you the figures…net of these figures. In 2012, the sales growth was also accompanied by a robust growth in terms of margins both operating margins and net margins.

At Page 13, as you can see from the chart on top, the EBITDA growth was led by the first margin increase that benefited particularly from the better distribution channel mix following the retail openings it has been supported by the like-for-like growth and there was also a positive impact from price mix.

As for the personnel cost, well personnel cost increased inline with the sales growth. Personnel cost accounts for 15.1% of sales, 15.5% last year and the development the retail network also affected the personnel cost partly-by-partly also some other cost items, for example rents, because rents went up from 3.3% to 4.6% of sales and then some other costs like commissions and fees for credit cards and then insurance security costs and so on and so forth. And then A&P costs and their weight on sales, well these costs have been in line with what we had said for the nine months '12 and they account for 5.5% of sales against 5.2% last year.

We'd also like to say that the tax rate 2012 has been 34.1%, positively impacted against our previous expectation, thanks to the positive effect of "Decreto Monti", which decreased the incidence of IRAP the regional tax. So therefore it was possible to recover some IRAP on the previous five years we think that in the virtue of all the fiscal and tax related novelties and thinking that our profit is made especially in Italy we think that our tax rate will be stable and flat around 34%.

I would like to say something Mr. Cucinelli says, I am sure you are already familiar with it, we do not have any Company abroad, we only have operating companies to manage monobrand stores, so only operating companies, I am always interested in highlighting this.

And now very briefly on the balance sheet, I would like to analyze Slide 15, the net working capital increase in line with expectations and 20.4% of our sales against 19% in 2011. So this was basically linked to the physiological increase of the inventory due to the growth of the retail channel. And I would like to give you 28.4% against 26% this is the incidence of inventory on sales following the development of the direct retail channel. We think that this level is quite fair and healthy also for the next few years also considering that in the previous years, inventory has always accounted for 25%, 26%.

And Brunello, I would like to say that the following. We think…I think that inventory in apparel sector should be considered absolute all the time. You know, that we think there are no evergreen products in our collection because even if a product might seem or might look particularly basic. For example, the neckline, neckline might be longer or shorter so we are always very, very careful in the way we manage our inventory. Over the years we had a constant thought of rate of 25%, 26%, without retail now we are around 28%, and we think that this is the right and fair percentage for the years to come.

As for the net financial position of investments, Brunello said something about this before and I'd like to give the floor to Brunello for the outlook of our Company on the strategy.

MORENO CIARAPICA: Now, I'd like to tell you a couple of things about 2013 and then something about the three-year project '13, '14, '15. So about 2013, as you know, we have finished the wholesale collection inflow this week for Fall/Winter 2013 and it has gone very, very well. The collection has been judged and considered modern and contemporary and you know, in our sector this is what matters the most. So these figures, these orders that we already have in our hands really make us envisage a very, very special 2013 in terms of sales, in terms of profit and very much so in terms of image. Because we already know that in our top stores in our multibrand stores, for Fall/Winter we will be displaying goods and products that has been judged very positively during older acquisitions in February and March.

Therefore, we are quite serene about this and the like-for-like rate Brunello was…and Moreno was saying that it's doing very, very well in the first couple of months, but you should know that for us a healthy like-for-like is 7%, 8%. So our budgets always rely upon these figures…stem from these figures. What I like the most about this Company is the very clear image of a luxury ready-to-wear, an Italian apparel Company with a very high level of craftsmanship, very topnotch quality and hopefully, a creative and contemporary Company.

Well, you know darn well that we believe and trust in a one single brand, so in the next three years you should never expect any brand acquisition from us, one single brand exporting to 59 countries worldwide with the very same collection everywhere. Of course, since we are speaking of a apparel collection, we have heavier kinds of warmer pullovers and sweaters in North Germany and maybe lighter sweaters in Los Angeles, but the taste of the collection is always the same.

Then as far as product is concerned, the next three years we would not like to change anything, but at the same time, we would like to remain contemporary and this is something more tricky. We must be so brave as to listen to the market, listen to the multibrand advice, and also listen to what we disagree with. And I always say that when you take part in these important prime trade fairs like Pitti or Milan, well, we usually go there with 40 staff. Once you come home from these exhibitions and if you really have the courage to discuss also your mistakes, well, this is the best thing to do because you also need to have the courage to change things when they do not work properly.

As I was saying before, we wouldn't like to change anything in the accessories. So now we are doing 14% in accessories, maybe the next three years we might reach 18% revenues from accessories, but please continue considering us a menswear, women's wear, daywear kind of an apparel Company. So we do not want to change, we want to still be classic through a made in Italy. We want to manufacture everything ourselves through our production structures that you are very…already familiar, with 230 manufacturers that work for our Company.

Another important thing is visual merchandising. You see and we spoke about it in the Company meeting too. I think that if for women visual merchandising is very important, for menswear it is absolutely essential because men, they need to be more modern in the way they look, they need to be more appealing in the way they look and you can achieve this objective through a spot-on suitable visual merchandising. We have invested very much in this.

In the multibrand stores you have to actually see that this product really represents Italian taste, Italian color combination and then manual work craftsmanship with which we try and work. And I'd like to talk briefly about the topic of exclusivity. I am pretty confident that as far as this absolute luxury is concerned, the value of exclusivity is extremely high. You see I feel this traveling worldwide and listening to people and many clients say if you open too many stores, we will stop buying. And this is something we really need to be very careful about. We should really attempt and try to manage and govern exclusivity of our products.

In the next three years, as far as distribution is concerned, well, at the moment…well, in 2012, 61% of our revenues stand for wholesale, this year 2013, we should be 55% wholesale multibrand channel, 10% of franchisee…franchised formula and 35% more or less retail channel.

Currently, we export to 59 countries as of December 31st and hopefully in the next three year period, this figure might go up to 65, 70 countries. We are focusing especially on India. Obviously, this will not translate into profit in the short term, but we are trying to use the same approach we used in Russia a few years ago. We are about to close a joint venture with quite a serious Company and we are very confident in the future.

We are working very, very hard on South America too. So we are trying to focus on the years to come and work for the years to come, and we envisage in the next three years sales and revenues should be 48% to 50% coming from multibrand 50%, 52% from monobrand channel. But an important remark to make this 48%, 50% of multibrand, 30% of it will be coming from hard-shop inside within these beautiful department stores like Harrods in London or Neiman Marcus in America where we are given the opportunity to do a merchandise, visual merchandising ourselves to our own taste and we can really enjoy good opportunity for the future.

As far as investments…CapEx is concerned for the next three years, well, we have had made large investments in 2012, 2011, in 2012 we invested just over €26 million. So in the next three year, we will still again have a very major investment, €70 million more or less out of which €47 million , €48 million for commercial investments to open new DOS stores or franchise stores, but beware we want to open top 16, 17 stores per year worldwide. And where will we be opening our stores? Well, two in the US, two, three in Europe, two, three in China and then in the rest of the world.

So out of this €70 million investment spread over three years, there is this major investment of doubling the size of our headquarters. So €21 million for that and thanks to this new headquarters factory and structure, we will be strong enough and well structured for the next six, seven years. In term…in financial terms, the peak of this investment will be in 2013 and part in 2014. But the important thing, I'd like to convey to you is that although we have €70 million investment to be made in the future, we…and bearing in mind that I am very frightened by debt. We envisage that at the end of three-year, our net financial position should be a positive one, at the end of the three-year period.

Also offering this constant dividend, so what about the next three years? We would like to payout the same dividends as we paid this year, as a token of esteem, of consideration for you and we would like to grow if possible. We have many opportunities to grow, but with care, with sustainability, avoiding excessive distribution.

And I'd like to convey to you also the EBITDA, as you know, we have never had fluctuations in exchange rates over the years, because we established and fixed our exchange rates. And as far as the dollar is concerned, the exchange rate was 1.30 last year and this year it will be more or less the same, so no changes in that field.

We started from a 16.5% EBITDA in 2012, this year 17.5%, 16.5% in 2011, and this year 2012, 17.5%, therefore, we imagine that the next three years we would reach…we will reach what we call a healthy fair EBITDA for an apparel Company, which should be around 18%, 19% of revenues. This is more or less in terms of EBITDA.

So before coming to a close, before giving you the chance to ask any questions, you deem necessary, a couple of words about our splendid Italy and about Europe. I believe very much in Europe, in the United States of Europe, and I believe that our European high quality products can definitely have a stellar future. And talking to these new tourists affluence, rich tourists coming to Italy, obviously they are fascinated by a Swiss watch, by French champagne, a German car, so I am very, very confident in Europe.

And then 30 seconds on Italy. And to many of you, very esteemed investors, the day after the election I said to you, please don't forget that we believe in Italy very, very much. I think this time is particularly interesting, because the seed of economic, civil, moral, human renewal is sprouting. There is no way back now. I have always claimed and maintained that Italy is made up of millions of respectable people who work with passion, with sacrifices, with dedication. And please be aware and know that we believe in Italy. We believe in the extremely high quality craftsmanship Italian product. And we would like to grow and at the same time, respect mankind. We would like to not to damage and hurt the human being and the mankind.

So I'd like to convey huge positiveness to you and also a huge love for my country, for Italy. And I'd also like to convey to you that for 2013, for the Brunello Cucinelli Company, it could be a very, very important year, as much as 2012 has been. So I'd like to convey serenity to you.