Brunello Cucinelli, S.p.A.

"First Half 2012 Results Call"

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OPERATOR: Welcome to the presentation of the First Half 2012 Results Presentation of the Brunello Cucinelli Group. After the initial presentation, you will have the chance to ask some questions. Speakers will be Mr. Brunello Cucinelli, CEO and President of Brunello Cucinelli Group. Moreno Ciarapica, CFO and Pietro Arnaboldi, Investor Relations Manager. The conference will last for an hour approximately.

I'd now like to give the floor to the President and CEO of the Brunello Cucinelli Group, Mr. Brunello Cucinelli. The floor is yours.

BRUNELLO CUCINELLI: Good evening, ladies and gentlemen. We are…we have been waiting for rains here in Solomeo for a couple of months; we are a bit hot here in our hamlet. So for us, this is the second conference call after our IPO. And unfortunately, we still have to tell you that we have to stop our road show midway, because of the issues you are all familiar with, but complying with my…compliance with my agreements. In the next two-and-a-half months, I will be spending some time in the United States and in Europe just to thank you for your kindness. So thank you once again.

So I propose you to do the following, for the next 15 minutes, I would say, I would tell you who we are…I would give you some figures and then I'll give the floor to Mr. Ciarapica, the CFO, who will give you some further details. Since this is just the second call, I'd like to go back to fundamentals, the fundamentals of our Company, just for a couple of minutes.

So as you are all aware of, we have always believed and we have always held the following dream in our life time, that is working for human dignity, working, imagining that we damage human beings as less…as totally as possible because believe me, the very same fact that you work for only €1,000 a month, plying a very repetitive work like the artisans work, the craftsman’s work, it is not very, very dignifying. So we would like to contribute to give back more an economic dignity to the handmade work.

And when we say moral dignity, we would like to do what Lorenzo the Magnificent was doing, when he was saying that the artisans were always great artists. I would also like to give them economic dignity because in Italy, we think that the wages of our very distinguished workers is still very, very low.

As we were saying before, I’ll try and work giving dignity to profit because we are firmly convinced that profit has its own dignity. We do want to reap and make profit, but we want to make profits earnestly, seriously without harming anyone with dignity in a word, in a nutshell. And this was also the choice that we have made when we opted for a better…more better places, better working places…work places. I think that many of you have spent some time here in our hamlets and those of you if you haven’t yet been at the hamlets; we really hope to see you very soon.

So our idea was that of letting our workers work in better conditions by translating into practice this very important and dear concept to us, the concept of guardianship. We feel like we are guardians and not owners. We’ve always thought that if you feel like you know, a guardian of something, it becomes eternal. Now, we are speaking out of a 14th century castle at the moment. So you might imagine that the people who actually developed this castle, built this castle were actually thinking and envisaging generations ahead of them. So these are the fundamentals of our Company. We believe in capitalism, but we would like to believe in a capitalism endowed with dignity, in a humanistic capitalism

What about the products. We have always believed in a product that was very, very high craftsmanship product and very high quality products. And hopefully, also good creativity goes hand-in-hand with it. And therefore, our products should be contemporary, otherwise you know, it would be difficult to carry on.

We have always had very deep faith in an Italian product, a product manufactured here in Italy, a product that was able to convey the way in which we work, our lifestyle, the belief of our people, because I have always believed that there is…in my view, there is a great attraction to whatever is European. And we want to defend Europe too here.

I think that in Europe, very high quality products are manufactured in Europe. When you want a great watch, u have to go to Switzerland, if you want a great Champagne, u have to go to France, and so on and so forth. So made in Italy to us plays a very important role, it's very high value attached to it.

And we believe in this chic luxury sporty style, this is the main definition of it. And I think that the major multibrands and department stores have actually devoted a lot of attention to this kind of style, of this luxury chic sporty and also a kind of day apparel. And it's a very important thing that I'd like to highlight that it really pleases us.

The other day, I was speaking to the major managers of Neiman Marcus when they came to take a look at the collection in New York and once again they were hammering on the great importance of the value of apparel. And once again, they said to us that they have a very large supply of accessories or it maybe exceeds the need, either it's a very limited supply in offer in apparels. Therefore, this should be a good sign for us. Obviously we believe in that great ready-to-wear apparel that really made

Italy go down in history in the 90s, with very important designers, and very important turnovers because those companies were really doing a great job with apparel.

We believe in single brands that must obviously be positioned at the very tip of the pyramid…of the luxury pyramid and it was to the very utmost pleasure that been actually placed at the very tip of that luxury pyramid, so one single brand positioned very high up and with quite a high exclusivity rate in terms of distribution. I have always imagined and we are still imagining and thinking that a too widely distributed, a too widely commoditized product might become less interesting as the years go by. So we believe in creativity by holding exclusivity in terms of distribution.

As for our turnover, our sales is usually 67% women's wear and 33% men's wear. And you know, that well that women tend to spend on average double the amounts of money men spends. Out of this turnover, 73% international and 27% in Italy, in 54 countries, but it is true that we are present in 54 countries, but honestly speaking, America and Europe to us are a domestic market.

We actually approach this market with the same simplicity and ease, whereas it's true the other markets among whom China, India and South America are perceived as really different markets. So 61% wholesale of our revenues and 39% of our revenues in monobrand stores. But the important thing is that 61% of our revenues in multibrand stores, well, much of this is made in 75 shops that are being placed in large American or Japanese Department Stores, which actually mirror and reflects our taste.

So on the one hand, this 1,000 multibrands which actually represents 61% so far of our revenues, and on the other hand, we have this 72 monobrand stores so far accounting for 39% of our sales.

Our Company, today we are in Solomeo, 760 employees approximately, average age…we are pleased to say so it's gone down even more in the last year, more or less 36 years and a half, this is the average age. The average age of our management is 39 years. If I was to call myself obviously I am 59 and Moreno Ciarapica who is fit I would say at 37.8, it would be the average of our management. So we are very pleased with it. Honestly speaking there is a very low average age in our Company.

We have quite strict work rules and these are actually parts of our culture. If you allow me, we draw our inspiration from Benedict rules, when St. Benedict says you should be strict and sweet, demanding a master and teacher and loving father. Maybe I am boring you now because I keep repeating these expressions, but I am really fond of it, and I think it's very, very interesting and inspiring.

As you all know, we all walk into our factory at 8 o'clock in the morning, no one clocks in or clocks out, everybody leaves the factory at 6 o'clock PM because everybody needs to have a rest afterward, because St. Benedict says you should look after your mind with study, your soul with prayer and then your body would work. I've always thought that if you can have the possibility to go back home not in an unearthly hour, you can spend some more time with your family and be more creative especially in the morning after if you have rested down well.

Why have you gone public you might ask us. Well I have led this Company for…run this Company for 33 years as a single owner, so a real Company in my own name, but we have decided to go public to be even more international even more open in our approach in order to have you shareholders, investors, new guardians for the next hopefully 50 years.

There are some economies worldwide and I think that I always respect everybody else's work and they claim that a listed company is bound to live longer. And if I was to convey to you the experience that of us with you investors and analyst was this experience of how the last year has been very, very interesting. But one condition there, we must be so great as to listen to others; we have gone public to be more robust financially.

It's true we did not carry that much debt, €48 million debt last year as of €243 million sales. So just slightly over a year of EBITDA, but we decided to list our Company envisaging that you do not inherit your Company. I am 59 years of age, I have to do this. And I have always believed that my daughters could actually do whatever other work they would like to. Today they hold 63% stake in the Company, my stake. So maybe one day, they will be able to run the Company flanked by young mangers coming from all over the world. So this was one of the great…of the important purposes behind our IPO.

And today, four months after going public, if you were to ask me what has changed in the meantime, well what I would like to answer is, well, virtually nothing, because I am still doing the work that I was doing beforehand. And this is essential to be 70% of my type work and is still devoted to products and clients and the remaining 30% is devoted, is focused on Company management.

Today, I can tell you that I can still split my time between 70% products and 15% of my time is actually devoted to our very distinguished analysts and shareholders and investors.

Well in the last…I would say during the eight months that we have had our road show, because I have to tell you during this experience, the two banks who flanked (Ph) us Mediobanca and Merrill Lynch have really respected our desires and wishes, when we asked them to meet the new investors here at the Hamlets many months beforehand in order to have a chance to meet, so that you could have a chance to assess us, well, maybe we made things slightly easier, because now when I come to you, well, and you and you already know me, you already know what made these things are slightly easier.

I am very glad with the IPO, we are all glad with the IPO, especially because today, you investors and analysts somehow has acknowledged this positioning that was very, very dear to us and we were very found of. We have very often mentioned this pyramid to you.

We have very often mentioned this difference between accessible and absolute luxury. And I think that especially in the last 12 months, clients and consumers generally speaking actually perceive the great difference between absolute and accessible and observational luxury. So thanks once again for positioning us, for placing us at the tip of the pyramid.

Well to be honest, now I would like to give you a very brief overview, then Moreno will give you some further details, but I would like to give you some details.

So, revenues, the revenues in the first half was plus 16.1%, EBITDA 23.5% higher and net earnings…net income 35.1%. So we are particularly pleased with these results. As for United States and Canada, they have been growing by 23%, our distinguished esteemed Europe at plus 17%, our wonderful Italy went down by 2.8%, but honestly speaking, this is a pleasing result for us because I would like really to spend a couple of words to defend our marvelous nation. Then the great greater China plus 50% and plus 50% of rest of the world too.

Obviously, this 50% must be assessed starting from not very high figures. We believe in this so to speak a gracious growth, a constant, sustainable strict growth, not an excessive growth. And an important thing, in the last 11 years from 2000 and 2011, we grew on average by 15.6%. And I think that even a gracious controlled managed growth is really healthy for a Company. It is true, you are…here you are faced with a man who have always been freighted by debts**,** but those of you who know me, they know me that I come from the country side, so economic-wise our life was not very, very easy financially-wise. So it is quite natural for me to be scared of debts.

And today, having this Company with an indebtedness that is virtually equal to zero, thanks to roughly €50 million net proceedings from the IPO.

And I think that we are actually worldwide, we are reaping the fruits of our belief in a quite a special taste, high quality taste, Italian taste, sportive taste that really represents our culture, where simplicity, creativity and rapidity must always be the key issues, the key topics for our Company.

We would like to say that in this 2012 we think that there will be an improvement because our revenues will go up by double, there will be a double-digit growth, there will be a growth in the EBITDA, the net income will also go up, and that net debt, net indebtedness basically, indebtedness disappears but what I really want to highlight is that the current image of the Brunello Cucinelli brand on the market is very high, and we are very, very pleased with this.

As for stores that were opened…that was opened in very special locations. And I have to confess that we do not have…that it is somehow difficult to find beautiful locations. As you know, they are quite expensive, but since we are basically focusing on apparel with everybody, it's quite pleasing to place us close to the other great brands.

It is not that we want to be sort of to neglect accessories because we will have 14% thanks to accessories, so 11.8% last year. So we believe in accessories, but what we would like to convey is the following message. We are an apparel focused company, this is very important.

So this year, we imagine that we will have a special year ahead, so we at the end of June, the Spring/Summer collection 2013, men's collection came out, we are now collecting orders and then women's collection came out on July the 26th. So we are halfway through. Collections seem to be quiet special, both our collections. So they lead us to think they our 2013 Spring/Summer could be a beautiful season because it is true, we cannot possibly forecast or foresee how the world will fare, but the fact that we know that in our monobrand and multibrand stores, we have displayed the products that have had stirred up the appreciation of multibrands and of our own store managers. Well, this really is quite comforting for us.

I forgot to mention something important, we still believe a lot in multi brands. And why is that, as I was saying before, so far 61% of our revenues lies in multibrands and then half of this will be reached over the next three year long plans, but actually multibrands are the real guardians of the brands. When the whole Newman Marcus stuff come to us to see our collection, 12 people came to Milan last time. And when they come to take a look at the collection and then they pass their judgments. Well, if you so great as to listen to their advice, somehow you are forced into being innovative all the time, and modern all the time. So this is the great, great value attached to multibrand stores for us.

And I would like to wrap up by saying that we are quite serene, we are quite pleased and happy of the way the IPO went. We are happy all the way, but we would like to repeat once again, that we believe in one single brand placed at a very high tip of the pyramid, we believe in product exclusivity. And we wouldn't not like to change anything, we have no acquisition plans for the future, but these brands can grow in the world without any problem smoothly if we only…if we are able to be innovative maybe we might reach 70 80 countries. And you know, presence-wise not just 54, which is our current presence.

So…but we have…we see quite a gracious growth ahead of us, if we are able to listen to you, so what we ask a few investors is to support us imagining and visiting however, a Company that should behave properly and envisaging to work with decent people. So for now, thank you very much and I will give the floor to Moreno Ciarapica, our CFO, who will be going a bit more into financial details, but I was really keen on giving you a couple of figures on the Company.

MORENO CIARAPICA: Thank you Brunello and a very warm greeting to all the participants in the call. I will try and be as quick as possible, so that you can have enough time for your questions. I think you have all received our presentation. So I will try and walk through it quite quickly so that I can finish my presentation.

Starting from Page 3 of my presentation, we analyze the developments of the revenues, in the first-half 2012, the Brunello Cucinelli Group made net revenues equal to €135.2 million, with an increase by 16.1% at constant…at current exchange rates, and plus 15.1% constant exchange rates. As for international markets, the weight (Ph) has kept on growing as Brunello was saying before, the end of June they represented 73% of net revenues vis-à-vis, 68% of the first half 2011.

If we now analyze the price, in the bottom part of the slide, we can see that the relative weight of the North American market has increased and also Greater China, rest of the world. Thanks to the development in Japan and Korea, especially whereas the weight of Europe has stayed the same unchanged. So quite an important significant growth trends like the average of our business.

Now moving on to Page 4, we can see that in Italy the €36.6 millions in the first half a slight decrease vis-à-vis the first half 2011. Two factors influence this, a positive performance of our monobrand stores of our network, which kept on growing, despite the Italian macroeconomic situation, which was not very fortunate. And then the multibrand Italian channel, which recorded a slight decrease, because it was affected by the exclusivity approach of our strategy stores wide.

In this first half, the European market grew by 17%, the rest of Europe favored by the contribution offered by Russia and eastern countries, which with total revenues equal to on average 20% of the whole European continent, they show more or less 40% positive growth, and this positive growth was also enjoyed in other important continental markets of our Old Europe.

In North America, our brand grew steadily too…this market is being quite well…very significantly appreciated by exclusive clients. In the first half, the Group exceeded €35 million sales and increased by 23.3%, with double-digit increases, both in the retail channel with like-for-like performances, they were particularly positive, and also in the wholesale channel. Let's not forget that the different delivery curves in 2012, favored first quarter performance that was better than the second one. But there was then a balancing of then…in the months, and then there was significant growth in the Chinese markets and also in other Asian markets, which enjoys an over 50% increase despite on a low smaller base.

Now, moving on to Page 5, let's analyze channel by…revenues by distribution channels. Now, we see that monobrand stores weight, which is given by the sum of retailer franchising. In the first half 2012, growth was a close to 50% in both channels, and it reached 39% of total revenues vis-à-vis, it's 30% in the first half 2011.

Another positive performance was booked in the multibrand wholesale channel, including the major department stores in multibrand luxury worldwide stores in this half. The multibrand store grew by 2.2%, despite the macroeconomic situation, which was not very, very easy in the domestic market, and some uncertainties was also recorded in the European market.

Let's now move on to Page 6, and let's analyze the growth drivers of the retail channel. And I'd like to remind you that this also includes our online revenues. The 49.4% increase of the retail channel was led both by the 9 new opening, 9 DOS net openings between the 1st July 2011, 30th of June 2012 and was also driven by the major like-for-like growth of our stores, which was equal to 12.9% in the…between the 1st January 2012 and 19th of August 2012. So our like-for-like figure is calculated as a world wide average of constant exchange rate, this is an important factor. Sales growth reported by DOS opens as of January the 1st, 2011.

In order to be a uniform with the practice that is consolidated in the sector. We have changed the like-for-like growth in our retail, vis-à-vis what happened in the first quarter. Because we thought that this could be…could make the analyst's job easier by using uniform systems. It is important to say that by adopting the old methodology, whereby the retail growth was analyzed at the end of the same period of the previous year; in this case you would have been 30th of July 2011. This like-for-like figure would have been higher vis-à-vis was reported, thanks to this new methodology. And so much so, with a slight acceleration in the second quarter compared to the first quarter, we can also ask that in…from July to today, we have recorded like-for-like performances in line with April, May and June.

In other significant growth was recorded at the monobrand franchising channel, just to further confirm the strength of the brand, whereby its network is growing by a six stores, bearing in mind considering 8 new openings and 2 conversions of franchise stores into DOS.

In the following page, Page # 7, you can see a clear breakdown and development of DOS and franchised stores. So as you can see at the end of a period, the 30th of June, 2012, 30 DOS and 40 franchised stores were recorded.

Then Page 8, you see a very brief comment in…for the multibrand channel. The wholesale channel and we like to show you these photos in the presentation, which basically represents how our product has a very strong identification, in this multibrand channel with a strong identification of our lifestyle. We have over 300 corner stores and 70 hard shops…70 of which are hard shops. As you can see, our product is displayed in a complete way and it is very similar to all the displays that you can see in the whole monobrand network.

And then last but not least, it is important to say that based upon what our major clients are saying. The Spring/Summer 2012 sell out was very, very interesting to them in line with the 2011 periods, and also the first sell out figures of the Winter season in the resort areas and in Northern Europe and United States well, these figures were quite interesting and thereby confirming our expectations for the…for 2012.

Let's now move on to Page 9, let's now comment on our income statement below revenues, the part below revenues. It is important to see that the result of the first half of this year was, they were affected by extraordinary costs they had to do with the IPO, and these costs were equal to €6,002,000. Since these IPO costs are non-recurring costs, we thought it was useful to analyze results net of these costs. Therefore, we called these results normalized results net of these extraordinary costs, so net of the IPO cost. In the first half, we reported a revenues growth that went hand-in-hand with a very important growth in terms of margins, with an increase in the first margin of 240 basis points going from 52.2 to 54.6.

Let's not forget that the first half 2012 revenues, and the average operating income also had the…included €1 million**,** that's what we show as a one source rent contract that had generated €1 million, because we had repositions also in the flagship store…in the larger flagship store. Even if we exclude this contract, the first margin would have increased significantly anyway, reaching 54.3% with an increase by 210 basis points vis-à-vis the same period last year.

Very briefly, as we already mentioned, our first margin includes the raw materials procurements and also third party manufacture, but it also includes research and development costs, and therefore it is lower than a normal gross margin by a couple of points.

In the third half 2012 net of IPL costs, EBITDA grew by 23.5% with an incidence on sales of 16%, and then the improvement was 90 basis points vis-à-vis the same time last year, the €19.7 million of EBIT, 14.4% of revenues, with an improvement of 70 basis points, net income €11.9 million, 8.7% of turnover with an increase of margins of plus 120 basis points vis-à-vis the previous year.

Then on Page 10, an analysis of the key income statement results and we focus basically on the EBITDA change. We see that this change was definitely led by the important increase in terms of first margin, which benefited particularly from a more favorable channel mix, after following the retail openings of the good like-for-like growth.

Also the cost structure was impacted by the channel mix development and in particular by the growth of the retail channel. In the first half the most significant increase of course, was given by the change in terms of personnel cost with this item increased by 3.5 million, going from 14.7% up to 15%.

And this also includes, in particular the staffing of new DOS stores, so new opening turns into…translated into new personnel thereby contributing higher personnel costs. And other part of cost increase was to do with the strengthening of the corporate structure, which basically updated to the expected future development, and we think that this corporate structure is ideal for the next 3 years of our operating plan…of our business plan. So we think that the next 3 years we will be able to reap good result in terms of operating leverage on the central structure costs.

And another important cost item is to do with the retail cost and is to do with the increase in rents. In the first half 2012, these rents were equal to

€5.5 million, equal to a 4% of sale vis-à-vis €3.5 million, in the first half of 2011, that is to say 3% of turnover last year. And as we have always maintained in road shows, this item will grow hand-in-hand with the number of openings of DOS openings.

On the other hand, the cost of fees to…cost of agent fees will have a different…completely different development, because vis-à-vis the retail increases fees diminish in term of A&P, we see that this item is going up from 4% of revenues in first half of 2011 to up to 4.7% of revenues in the first half 2012, reaching that figure of 5%, that was last year final figure, and this is basically a standard figure for this period. This is what we expected.

In the bottom part of the Slide 10, we would like to highlight financial charges, going down from 0.95% to 0.67% of sales, thanks to the diminishing of the net financial position. So, we think that in the full year, we will have a further benefit to be reaped here, also thanks to rates that are still quite low. And the tax rate for the first half of 2012 was equal to 39.3%. And as for this, we would like to highlight that 4 point out of this 39%, 40% are due to taxes on previous years. So the normalized tax rate, the weighted tax rate should be revised to 35.5% of sales, so more or less the same as 2011.

And the impact we are expecting for the next…the end of the year for the dilution effect of the extraordinary item will be a reduction by 2 points. So we imagine an ordinary tax rate of 35.3%, going up to 37% due to the extra ordinary items.

Let's now move on to Page 11, and here it is important to stress that the net…total shareholders equity was 102.3 vis-à-vis the €38 million, of 31 December 2011 because we included €57 million of the capital increase, the proceedings of the IPO basically. As for the next invested capital €116 million vis-à-vis €86 million at the end of December 2011.

And now Page 12, we see that the increase in the networking capital in this period is basically due to the growth in inventories, which is basically absolutely in line with our expectation. This was affected by the retail channel growth. So the new openings we were mentioning before, and it was affected by advanced procurements of raw material, because as we have always said to you, year-by-year we always try to earn, so to speak, 3, 4 days each season in terms of production and manufacturing times because we know that soon, the early we deliver items to the stores, the earlier they can be sold. Thereby the sell out can be longer, so that performances can be higher. This has always been our philosophy and now we are trying to focus on it even further.

And now moving on to Page 13, net financial position, as of 30th June 2011, €58.4 million and now €14.2 million as of 30th of June 2012, and this decrease is to be…is to be a…was contributed by the positive effect of the IPO…the extraordinary item of the IPO.

And then on Page 14, you see the analysis of CapEx breakdown in the semester, €6.5 million for the commercial network, €1.2 million for the enlarging our headquarters, and then €1.5 million for the maintenance CapEx, so basically equipments, computers, machinery and everything that has to do with our ordinary business. Then in July we opened two further stores, and on top of that we have already secured 10 further locations, which will be opened by 2012, and we would like to mention that [indiscernible] shop this was not part of our initial plan, but we thought it would be a strategic choice to secure this location, because it is a very strategic location, there is a very high arrival of international tourists in that cities.

We…you now have the floor for questions. Please, just one question each, so that everybody can take part in this discussion. Brunello Cucinelli back on the mike, just too…that we would like to tell you about this very important project we have in China. We have setup this Company, to where we hold the 51% stake, and the Chinese government approved off this project, which means that now 15 days more, 15 days less, we can say that around the end of October, we will have our own Company. So China will be a retail market for us. Thank you.