Brunello Cucinelli S.p.A.

"First Half 2013 Results Conference Call"

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OPERATOR: Good afternoon, ladies and gentlemen. This is the Chorus Call operator speaking. Welcome to the presentation of First Half 2013 Results of the Brunello Cucinelli Group. I'd like to remind you that all participants are in the listening-only mode. After the beginning, the initial presentation, there will be a chance to ask questions. In order to receive support during the conference call, please press "*" followed by "0." As to the speakers, Brunello Cucinelli, President and CEO, Moreno Ciarapica, CFO, and Pietro Arnaboldi, Investor Relations Manager.

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

BRUNELLO CUCINELLI: Good evening, ladies and gentlemen, and welcome back from your holidays. My esteemed analysts and investors, I am very glad to hold this call for you. As you might all know, we always provide you with the revenues and sales around mid July. And the reason for that is that since we came out with the women's collection around 20, 25th of July, and since I meet many, many journalists, I always somehow struggle because I'd like at least to report on the revenues increase. So this make things easier for us instead of saying how things are just going vaguely, but without having the possibility to report any precise data, whereas this conference call is in order to report all the other data. So I would do the following.

I would like to provide you the data for this first half, then I'd like to tell you what our opinion is on this year because somehow to us, it's already drawing to it's close, then I'd like to give the floor to Moreno Ciarapica providing you with the details of the first half results. And then I would get the floor back and I would like to talk to you about our 2014, 2015 plan, and also I'd like to dwell on this new project suits, men's suits, and I'll be talking about this quite in detail later on.

So we have enjoyed quite a good semester. I'd only like to read a couple of lines in the…that I always publish in my press release, that I know that you have before you arrived, but I'd like to re-read them to you. So we do not want to conceal to you the great satisfaction with the performance of our Company in this first semester. The results have been really special. Therefore, we envisage a very important 2013 with a sustainable double-digit growth in terms both of revenues and profits.

As to the men's collections, they have already finished and then women's collections spring summer 2014, they all went very, very well. Therefore, we are looking at 2014 with a great deal of positivity too. And we have the impression that the brands allure is very, very strong and respectful. Therefore, we would like to really warmly thank our esteemed co-workers, clients and investors.

And I'd like also to remind you that we try and work on a daily basis, while respecting human dignity, respecting our surroundings, the community, and our beautiful Italy. So thank you very much.

So therefore, we had enjoyed quite an important semester, first half, where the revenues increased at current exchange rate, so at 16.5%, EBITDA grew by 19.7%. As for the countries, the geographies, Europe very, very important, it grew by 24.5%, North America by 32.3%, China by 16.8%, but then we will go back to China because still for us it is quite a restricted, limited market, but very important from the image view point. And then we have rest of the world, where there was minus 3%, but the amount here is so tiny that one delivery less, if that is not withdrawn on that specific time is sufficient to change the turnover.

I'd now like to dwell a little bit on our splendid Italy because I think we have…we have been able to enjoy great result, only minus 1.2% only. And this is very, very interesting, very interesting because while I was talking discussing with my clients at the latest Pitti (Ph) trade fair, I saw that they were quite constructive in their attitude. So we discussed then on how it is possible to set up a new shop window, how to organize new events. So I can say that there was some new stimuli about. So we really have said that Italy has held up extremely well. Well, of course, we see many new customers coming from new world coming to shop in Italy because of course; it's much more chic to buy in London, Paris and New York and Milan rather than in their original countries. So I am very, very pleased with our splendid magnificent Italy. So this is what I wanted to say as to the first half.

I'd now like to talk to you about the second half of the year, first of all, because we are in August already. And secondly, because you see for us we are already drawing to a close year-wise. We have made some very interesting Winter deliveries in terms of percentage, 96.4% to multibrands and especially in terms of times. So we were able to have the shop windows set up very, very early in the season of the best multibrands in the world, so great news from the Italy, whereas the current like-for-like as of 20th of August is 10.6%, so very, very interesting for us. And although you know that in our calculation on average, we usually factor in 7%, 8% because we believe that 7%, 8% like-for-like for us is the very…is the interesting figures.

As of the end of the year, at the end of the year, we envisage a double-digit growth in terms of turnover and both…and also for EBITDA. We envisage a net financial position around €17 million, €18 million with a 3…€3, 4 million growth basically because our plan is being completed, it is nearly being completed in order to finish our factory. We thought we would move in July next year, whereas we can say with certainty that we will be moving into the new facilities in March, so that we can work you know, three more months with more space, more comfortable. So we spent €3 million, €4 million more this year, but of course, that will be deducted from 2014 CAPEX.

So at the end of the year, more or less the situation will be the following, a double-digit revenues growth, and a double-digit growth also for EBITDA. And as for the commercial side of things, we have 700 multibrand accounts worldwide, and you know them already down well Harrods, Neiman Marcus, Saks, Barneys, Le Bon Marché, these major important significant names and we believe in them very, very much. You know that because as you know, we believe that they are the real custodians, the real guardians of the brand because when they come and view our collections, their feedback really is what the real market thinks about your garments.

So we have these 700 multibrands and we will have 97 monobrand stores. Out of this 97, 58 will be DOS and 39 franchisee stores. As you know, we opened franchised stores exclusively and only in countries that are still somehow developing countries, maybe [indiscernible] Bucharest, Kiev, these cities whereas in strong countries, international countries, of course, we opened DOS stores.

This year, we have performed two major commercial operations. We have brought back the London, the three London stores, sorry, two London stores quite important to us in terms of image and of course, in terms of revenues too. And the other important thing is large investment in the Munich store which is due to open on September 21, we had been…September 21 we had been awaiting this location for four years. It is a very important store though for the image and for the business, because you know, we are performing quite well in the German market.

Towards the end of the year, we will have the following breakdown in terms of revenues, 55% multibrand and 45% monobrand channel, and then more or less approximately we will have 1,020 staff. And as for our revenues, it will be broken down geographically as follows; 33% USA…North America, 32.5% Europe, 20.5% Italy, 9% Rest of the World, 4.5% China, this will be somehow the geographical breakdown. So we are particularly glad for the time being, there is a great allure, atmosphere around the brands, and also highlighting craftsmanship and quality, but maybe it's worthwhile talking about this in the second half after, Mr. Moreno Ciarapica has gone into detail of the financial data.

MORENO CIARAPICA: Good evening ladies and gentlemen, and thank you Brunello, Moreno Ciarapica speaking. Since we have already presented the preliminary data revenues last July 18 they have been confirmed by the final reported data, and also considering that this data has already been specifically summarized by Brunello.

I would go straight on to analyze Slide 11, the income statement. So only briefly, I would like to point out the influence of seasonality on our quarterly results that's typical of our business, both in terms of revenues and margins, and also in terms of balance sheet and financial statements, and about this since the wholesale revenues weighed 55% in total business as of 30 June, 2013, we would like to point out the impact of deliveries on quarterly results. And in particular, that of deliveries for the Fall/Winter collection, which as usual have been shipped out very, very early in the year, in order to meet the needs of our clients who wanted to present the novelties starting from June/July in their shop windows with positive impact on the sell-out results.

Let's now move on to Slide 11, commenting on the main items of the income statements, for first half 2013, comparing values with a normalized 2013…2012 first semester. Having excluded non-recurring charges €6.2 million that we had borne for the IPO in the first six months of last year.

Results reported basically confirm quality trends of the first quarter. We would like to point out the following; a significant increase of over 300 basis points in First Margin, because due to higher margins in the retail channel vis-à-vis the wholesale channels and then the 300 basis points increase of SG&A mainly made-up of items that are linked to the business development and channel mix. And then higher amortization from €3.0 million in the first semester 2012 to €5.3 million first half 2013, linked to investments for the new shop openings.

These results are driven as we said before by the development of the retail channel, whose weight went from 23% of first semester 2012 to 32% of first semester 2013. So then against these drivers EBITDA margins increased by 50 basis points from 16.6% to 17.1%, and the margin of the operating result is equal to 13.7% versus 14.4% of the first half 2012, against depreciation increase by 120 basis points.

As of the end of the year 2013, we confirm the expectation of the First Margin increase lower than 360 basis points of this semester, since the retail channel developments as it has happened in the second half 2012, there will go back to normal in the second half of 2013.

At the end of the year, as a matter of fact, the weight of the retail channel is expected to be around 35% vis-à-vis 28% in 2012. So there is an increase of the channel lower than what happened in the first semester. As far as the SG&A performance is concerned, in the next two quarters, it is reasonable to expect an increase in the relative weight on the revenues, but lower than the 310 basis points of the first semester.

Then moving on to Page 12; we analyze in detail, the change is driving the EBITDA increase from €22.7 million to €27.1 million, and we highlight in the box the cost items linked to the business developments and channel mix.

Considering the importance attached to these costs; we would like to analyze more in detail these costs in Slide 13. Of course, the increase of G&A weight on overall sales plus 310 basis points, well this is driven by the cost increase to support the network developments. And they increased by 300 basis points due to setup costs and management costs of the new DOS stores, plus 24 units in the last 12 months, 15 new openings and 9 conversions meaning from the franchise store to the direct DOS store.

And in terms of staff personnel costs, it is clear the cost increased due to the increase in staff of the DOS networks, already included in these stores, employees and office staff, increasing from 366.4 to 559.1 unit's full time equivalent. And the weight of the personnel cost increases therefore from 15% to 15.5%, rents go from 4% to 5.8%, A&P increase from 4.7% to 5.1%, transport and duties go up from 4.0% to 4.5%, whereas credit card agent fees went down from 4.0% to 3.8%, due to the channel mix that is gradually changing.

Let's now move on to the balance sheet, Slide 15. The absorption of €10.1 million is basically linked…this absorption of net working capital is linked to the €13.1 million increase of the inventory following the growth of the retail channel, because boutiques went from 30 to 54 as of

July…June the 30, 2013. The careful management of inventory enables us to maintain its weight on revenues unchanged 29.9% as of 30/6/13, vis-à-vis 29.5% as of 30/6/12.

The management of trade receivables and trade payables enables an improvement of restricted net working capital weight on the rolling sales, from 31.5% to 29.6%, whereas the value of other credits and debts goes from minus €16 million to minus €13 million. Therefore, the net working capital weight on revenues is basically unchanged, and it's equal to 25.4%.

In particular, we would like to point out trade receivables going to €60.1 million as 30 June, 2013, from €61.3 million in 30 June, 2012, and this really testifies to our good management. We would also like to remind you of the seasonality of net working capital and the end of the year expectations, whereby, at the end of the year, we would have a lower weight on revenues, vis-à-vis, the weight reported at 30/6/2013. The same phenomena as in 2013, when the weight at the end of the year with 20.5 against 20.4 as of 30 June, 2012.

Now, moving on to Slide 16 and 17, we analyze here the performance of net financial position and investments. The growth of net financial debts as of 30 of June, €32.2 million against €14.2 million as of 30/6/2012, is basically linked to higher investments in the first half 2013, €27 million against €8.8 million in the first half 2012. So the performance expected in the second half 2013 is in line with the seasonality effect that we also reported about in the second half of last year. The net financial position reaches its peak between 30th of June and 30th of September, the same as it happened last year. And then it goes back down as of December the 31st. And in terms of investments we made significant investments in the first half. They were in line with our expectations and forecast. As of 30th of June, we have made we would say, we have already made two thirds of the total expected investments. So in the first half, we have already performed the bulk of our investments.

And then I would like to point out the impact of the 70% stake acquisition in the company that was previously managed by our English partner in order to important…to manage the two important monobrand stores that Brunello had already mentioned previously. So this single operation impacted by the investments by €9 million. And this impacted net financial position by €6 million, €1.5 million of which is the exercise of the put option. And this net financial position is different than the CAPEX due to the fact that in the net financial position, we do not factor in the balance of existing fixed assets of the company we acquired. And we do not record and take into account the tax related effects of this operation.

I'd now like to give the floor back to Brunello for…to draw conclusions and some important, no, no, not conclusions important information.

BRUNELLO CUCINELLI: Yes, now, well Brunello speaking. We are going back to the most important part because this was basically what was happening yesterday. So maybe I'd like to devote 10, 15 minutes in order to explain to you what our vision is for 2014/2015 and if you need, if possible, ask us any questions about the middle and long-term because these are very helpful to us.

So now, I'll be talking [technical difficulty] January 1, 2014 or maybe 30 March, 2014. So when the Fall/Winter collection, when the orders have already been taken in. So first of all, I devote 70% of my time to the Company, meaning to the product. And you know, it is…I'm very, very happy and this is the joke that always make, very happy that I don't receive any calls on mobile phone because many people think that after the…following the IPO, I have so many problems to solve, so they stopped calling me on my mobile phone. And I am happy about that.

So the average age in the Company of the employee is 35 years, the average age of the 15 top managers is around 40 years, but if Brunello, if myself, if I step back and I'll be 60 next week, and then Brunello and then the CFO then the average age goes even further down. And we are very pleased that we have a young Company. So what about now, what would we like?

As you know, we believe in one single brand, a brand that is positioned in the high end of the market where we…you see us being here. And we believe very much in apparel because you know, last week I had discussion with very important names, Neiman Marcus, Saks, Goodman, all the major department stores in America and also with Harrods in the UK. And there is a great really request for luxury prêt-à-porter ready to wear because that is what made the markets and the Italian markets blossom at the end of the 90s. You see now some of these companies have shifted towards accessories, so there is a lot of need for this kind of product.

So I think that both for our Company and for Italy, there is room for luxury prêt-à-porter, ready to wear both for men and for women because in…there are no productions as such in other countries in the world. So we would like to be identified as an apparel company which will do 15% in accessories in 2013, well, of course, maybe would might reach 17% in two, three years. But we would like to be seen, considered and identified as a real Italian apparel company with very high craftsmanship and then with a very high quality. And we hope also with a very gracious distribution, because we think that this really makes the difference. But then we will be dwelling about on the product distribution, so in 2014, '15 well, we will be moving to the new factory, the new facilities, thanks to these facilities, we will be quite comfortable until 2019, 2020. And as you know, I really like to have long-term plans and I also like it when you basically consider us global industrial artisans and thank you for that.

So we will be moving into our new factory, then we have an opening plan which accounts for more or less 15 stores per year. We envisage a healthy growth and I'd like to repeat this objective, gracious growth, double-digit also in 2014 and '15, both in terms of revenues and EBITDA. In this case you know that we are moving close to our objective of having 18% EBITDA because we think that a healthy apparel company should have an EBITDA of 18%, 18.5%, 19%, but I'd like to point out something here. You see there is a very strong feeling that a product should have also a reasonable, fair EBITDA, because young people know everything. They gather information, and if they know that your EBITDA is not fair, and then your product must be…could be impacted. But you see this is my opinion following interviews with many young people. So in this couple of years, we envisage an EBITDA that might go up from 18% to around 19%, thanks to slight operating leverage in 2014 and '15, and also thanks to the retail channel growth.

And on the one hand, we are pleased with this retail performance that must be balanced also with our very esteemed multibrand channel, because believe me, I trust multibrands very much because they are the real custodian of the modernity of the brand itself. So at the end of 2015, we should have 50% monobrand and 50% multibrand.

And then the net financial position should be slightly better then zero, so positive, although, despite the fact that 2014, 2015 will see major investments linked to the opening of new stores. So at the end of the day, this three-year period, '13, '14, '15 should have €75 million, €76 million,

€77 million investments, but that can be borne and supported mostly by what the Company makes in terms of earnings. So this should be what our Company should be like in the next two years. But around March/April 2014 in our road shows or during conference calls, we will be providing you with this new three-year plan for '15, '16, '17 and we are already working on it, because you know that well that I really like working with 3 fixed (Ph) year horizon in front of me.

So…and now I'd like to talk a little bit about the collections and also about our new project. So Summer collections, men's wear were closed 20 days ago, and they performed…they went very, very well. And we are very pleased with this, because we are considered contemporary, fresh, useful, easy product and can be worn by a 25 year old guy or a 60 year old gentlemen. Around 22, 23 of July, we came out with the women's collection and now it is the full selling season for the most multibrand and DOS and the feedback is very special, allow me to say. So which means at this moment in time, the allure around the brands by the press, by the multibrand, by the DOS, is quite special, and we are happy. Although, I always say to my staff, let's try and use maybe respectful and gracious objectives, because maybe it is not fair to be over excited about things. So this is how the summer collections performed.

And now, I'd like to talk about the strong…very strong value. That in the last year and half, I saw in the trade fairs worldwide, the value of Italian craftsmanship, it is something very, very special. So we must maintain extremely high rate of craftsmanship and extremely top-notch quality rate, and hopefully also an innovation rate will also behave accordingly, and we must have a very high rate of exclusivity in terms of distribution, very healthy, very fair, very special.

And then I am sure you are…maybe you could read this article published in China Daily few days ago, that coverage an article, that says, "less is better", and do you know, what the Chinese say. And I would like to comment this statements with you, these important Chinese men, you know, people they say, we want to feed special, we do not want to be seen simply as the new rich people. We want to show that we have taste, and having taste means that I do not want to wear the same things that you are wearing, I do not want to walk in the streets and see that everybody is wearing the same things that I have bought myself.

So I have always maintained this about China, and I am very pleased. You see, that once again, I have received confirmation of the fact, that the Chinese market is very important, it is very important that in these markets, goods are displaced extremely well really to perfection. The beautiful visual merchandising, but you see these new affluent people; they are more fascinated by shopping in Milan, New York, London than in their homeland. So we must be very, very good at all what we do. And from our path, you should expect a very careful growth in China, because we want to definitely look after the point of sales, but also with a very, very limited number of points of sale. Currently we have 12, next year 2014 we are projecting a beautiful opening in Beijing, beautiful for the image, and then a couple of conversions in some cities because some cities they are developing brilliantly and you see maybe it's important to expand that.

But I believe very much in a distribution that is performed….carried out with a lot of attention. And no one will make me change my mind on this. We must be very smart, we must be special, we should not over distribute, and we still believe that a gracious growth where you can have maybe 4%, 5% in terms of price increase, 6%, 7%, 8% increase in the number of SKUs. Well, this can enable you to grow in a sustainable way to grow your company, in-house, then your managers grow, the craftsmanship rate also grows. And I will keep repeating this statement over and over again, because I am not [indiscernible] person, but I never buy anything that is too distributed. And we feel this especially in the last year, even the trip that we took to America a few days ago also testified to this. I don't know whether we are wrong, but we definitely believe in a very, very well mannered distribution.

And now maybe a couple of minutes devoted to this new project. Very important to us, we have decided to start focusing very much on men's suits. We think that there is a huge room in men's wear, it is true that the markets is currently run basically by the…by Italians, but we think that for men suits need to be renovated. So we have decided to present new suit, it is not that we did not have suits in our men's collection, we had some of course whereas now we will be going to Pitti and you know, this is really a prime trade fair for this business worldwide. And we will be presenting a collection of suits, and a collections tailor made suits, extremely high quality suits, and with extremely high level of craftsmanship.

As always confirming the fact that we want to; you know, I would like to tell you something…something interesting. Someone flew from Russia here in the private jet, and they said have a very strange size, and I can't find anything, he would have liked to buy maybe suit, but he couldn't, and now we are making everything tailor made for him. You know, his friend had come the previous week, with…in the private jet to [indiscernible] and his friend has said, I would like to show…you to show me all the 52 size that we have and he bought 100 items, 52 size, he just you know, I wanted to exaggerate, but really I believe in exclusivity of the product.

So we are…we have already started building, constructing a collection of suits. They have maybe nothing extraordinary about them, but maybe the fit is more useful, it’s more fitting, because even if we were able to conquer 1% of this market, we can make a great business. And who asks that, well you see all the Americans, all the…which means that there is a need to renovate this kind of garments, and we want to transfer now this culture of the hunt made, tailor made suits, and due esteemed investors or analysts whenever you need…well whenever you might like sorry to have a tailor made suit, please you should know that we can really make it for you tailor made.

Let’s now open the floor to discussion; of course, we are very pleased with how things are going very, very pleased. And I like the fact, that we have a healthy profile brand wise. I’d like you investors to invest massively in Italy, because I hugely believe that we have turned the corner, and now we are reconstructing ourselves. So please come and invest in Italy, support Italy, because our manufactured goods are really special. And I am forced to leave…travelling around the world, many months of the year.

Well, I can say to you, that there is a high value attached to Italian products. And if we can keep the allure very high, the allure around these products, around the way in which it is made. And mind you, people who buy expensive items they also want to gather information on where the product is made, what kind of production system is employed, whether the rules are respected. So there is a lot of attention on this. So I really, strongly believe, in a gracious EBITDA, gracious profit, gracious growth, whilst respecting the territory, the community, the surrounding, in this case, respecting our Italy.

And I would like to conclude by saying that you know, that this country attempts to abide by, the rules, the regulations, and the law in our state. As you know, we have not setup any foreign countries for tax reasons, in order to save taxes, not at all. And I would say that at the end of the day, we would have a 34% tax rate, so it's not bad at all, we are happy with it. So what I wanted to convey was this, but I also wanted to convey positivity also for an Italian product with a lots of art in it. So we need very high quality artisans, we are training them, we have a daily training inside the Company, on a daily basis 60, 70 young people in…we train them in a different departments, visuals and so on and so forth.

And over the years, all the young people who came in with a training, apprenticeship contract, they were…nearly 95 of them were then hired indefinitely by the Company. So I would like to convey some positivity to you, and I would like to thank you immensely and warmly for the esteem that you bestowed upon us. Because since when we met, I have to say that no single investor has ever asked for anything different, no single analyst required anything different from what we do. And I think that this concept of Company, of business has been well received in all its different values. So thank you very much. Let's now open the floor for discussions. I'm sorry if I have been too long. So if you need 10 minutes more for your questions, we are available. We do not have any time constraints. Thank you very much.